



山東航空股份有限公司
SHANDONG AIRLINES CO.,LTD

Semi-Annual Report 2017

August 2017

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Section I. Important Notice and Paraphrase

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

Sun Xiujiang , person in charge of the Company, Xu Guojian, person in charge of accounting works as well as person in charge of accounting institution (accounting officer) Zhou Shoubin hereby confirm the accuracy, truthfulness and completeness of the Financial Report in the Semi-annual Report 2017.

All directors have attended the Board Meeting for Report Deliberation.

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

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

Paraphrases

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

Section II Company Profile and Main Financial Indexes

I. Company profile

Short form of the stock	SHANHANG B	Stock code	200152
Listing stock exchange	Shenzhen Stock Exchange		
Legal Chinese name of the Company	山东航空股份有限公司		
Abbr. of legal Chinese name of the Company (if applicable)	山东航空		
Legal English Name of the Company (if applicable)	SHANDONG AIRLINES CO.,LTD.		
Abbr. of legal English name of the Company (if applicable)	SDA		
Legal Representative	Sun Xiujiang		

II. Way/person to contact

	Secretary of the Board	Rep. of security affairs
Name	Dong Qiantang	Fan Peng
Contact adds.	1/F Office Building, SDA, Yaoqiang International Airport Licheng District Jinan	3/F Office Building, SDA, Yaoqiang International Airport Licheng District Jinan
Tel.	0531-82085939	0531-82085586
Fax.	0531-85698034	0531-85698034
E-mail	dongqt@shandongair.com.cn	fanp@shandongair.com.cn

III. Others

1. Way to contact the Company

Register address, office address and code, Company website as well as the email of the Company have no changed in reporting period, more details please found in the Annual Report of 2016.

2. Information disclosure and preparation place

Newspaper appointed for information disclosure, website for annual report publish appointed by CSRC and preparation place for semi-annual report have no change in reporting period, more details please found in the Annual Report of 2016.

IV. Main accounting data and financial indexes

Whether it has retroactive adjustment or re-statement on previous accounting data or not

☐ Yes ☒ No

	Current Period	Same period of last year	Increase/decrease over same period of last year
Operating revenue (RMB)	7,550,794,741.92	6,309,749,290.22	19.67%
Net profit attributable to shareholders of the listed company (RMB)	90,093,090.83	283,689,488.65	-68.24%
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses (RMB)	31,207,526.00	202,463,168.92	-84.59%
Net cash flow arising from operating activities (RMB)	649,153,844.96	1,024,495,732.22	-36.64%
Basic earnings per share (RMB/Share)	0.23	0.71	-67.61%
Diluted earnings per share (RMB/Share)	0.23	0.71	-67.61%
Weighted average ROE (%)	2.32%	8.09%	5.77 percentage points decrease
	End of current Period	End of period of last year	Increase/decrease over same period-end of last year
Total assets (RMB)	13,054,887,048.33	12,741,974,788.53	2.46%
Net assets attributable to shareholder of listed company (RMB)	3,858,916,125.15	3,836,172,828.06	0.59%

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

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

The Company has no condition of difference of the net profit and net assets disclosed in financial report, under both IAS (International Accounting Standards) and Chinese GAAP (Generally Accepted Accounting Principles) in the reporting period.

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

The Company has no condition of difference of the net profit and net assets disclosed in financial report, under both foreign accounting rules and Chinese GAAP (Generally Accepted Accounting Principles) in the reporting period.

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

☒ Applicable ☐ Not applicable

In RMB

Item	Amount	Note
Gains/losses from the disposal of non-current asset (including the write-off parts that accrued for impairment of assets)	-812,548.20	
Governmental subsidy reckoned into current gains/losses (not including the subsidy enjoyed in quota or ration according to national standards, which are closely relevant to enterprise's business)	60,164,960.18	
Losses/gains from changes of fair values occurred in holding transaction financial assets and transaction financial liabilities, and investment income obtaining from the disposal of transaction financial assets and transaction financial liabilities and financial assets available for sales, excluded effective hedging business relevant with normal operations of the Company	-1,076,318.24	
Other non-operating income and expenditure except for the aforementioned items	20,268,766.06	
Less: Impact on income tax	19,659,294.97	
Total	58,885,564.83	--

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

Section III Summary of Company Business

I. Main businesses of the Company in the reporting period

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

For more than two decades, the Company has always been giving first priority to "ensure safety, pay close attention to efficiency, and strive to punctuality and quality service". As of June 2017, the company has 109 airplanes like Boeing B737 series, and has set up branches and flight bases in Jinan, Qingdao, Yantai, Xiamen, Chongqing, Beijing, Urumqi, Guiyang, and other places, built the triangle airline network among Shandong, Xiamen, and Chongqing; and opened Taiwan air route and the international routes to South Korea, Japan, Thailand, Cambodia, India and so on. The company elaborately created the "honest and kind" brand characteristics, which was increasingly blending in the enterprise blood along with the growth of fleet size and airline network.

II. Major changes in main assets

1. Major changes in main assets

Major assets	Note of major changes
Monetary fund	Ending balance of monetary fund declined because the debt due are paid in the period
Accounts receivable	The receivable wet leases amount are not settled in the period and receivable notes increased
Dividend receivable	The bonus for year of 2016 received from Sichuan Airline are recognized in the period
Other current assets	The input tax to be certified are increase sharply in the period

2. Main overseas assets

☐ Applicable ☒ Not applicable

III. Core Competitiveness Analysis

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

Section IV Discussion and Analysis of the Operation

I. Introduction

In the first half of 2017, the company has basically completed the intended targets in various works of production and management.

- **The security situation remained stable.** Ensured security flight of total 191,100 hours and 91,000 vehicles, a respective increase of 14.26% and 13.95% on a year-on-year basis; no transporting aviation incidents and above insecurity incidents occurred due to the company.

- **The flight ran normally.** The transportation main business totally organized and ensured the flights of 91808 flights, the flight punctuality rate was 70.44%, a decrease of 10.12% on a year-on-year basis;

- **Maintained profitability.** The total turnover of transportation reached 1.519 billion ton-kilometers, passenger traffic volume reached 10,878,700 person-time, cargo and mail transport volume reached 79,100 tons, an increase of 23.15%, 23.95% and 7.35% on a year-on-year basis; achieved operating income of 7.55 billion Yuan, the total profit of 109.14 million Yuan; passenger load factor of 82.28%, an increase of 6.04% on a year-on-year basis, cargo and mail load factor of 39.11%, a decrease of 0.36% on a year-on-year basis.

- **Quality of service was stable.** Passenger satisfaction achieved 96.46 scores, risen by 0.64 score on a year-on-year basis. Effective complaint rate reached 0.152 piece/ thousands of person-time, a decrease of 0.014 piece/ thousands of person-time on a year-on-year basis, and the civil aviation media service ranked number four. The company has been awarded as China Top 500 Most Valuable Brand for ten consecutive years, ranking No. 100 with the brand value of 34.645 billion Yuan.

The Company mainly carried out the following work:

(i) Continue to reinforce the quality foundation of safe operation

First is to feasibly practice the safe development concept. Adhere to the concept of “safety first”, and plan the reform, development, efficiency, stability and other works. Second is to improve the safety management mechanism. Establish and issue the Control Program for Annual Security Work, define the key links and key factors, and implement the precision control. Third is to strengthen the risk prevention and control of operation. Establish the safety performance indicators monitoring system, and implement the special control to key indicators; strengthen the prevention and management according to the safe production situation in stages to enhance the systematicness and pertinence of risk control. Fourth is to deeply promote the qualification construction of key teams, implement the construction requirements of “three basics” (basic level, basis, basic skill) of Civil Aviation Authority, and reinforce the foundation of safety quality.

(ii) Vigorously promote the work of increasing revenue and reducing expenditure

First is to actively seek the time resources. Increase the transport capacity investment in main bases to continue to consolidate the control of main base; increase the transport capacity investment in the western markets, and constantly optimize the network structure. Second is to strengthen the revenue control. Take use of the revenue

management system to improve the market research and judgment and the refinement level of freight space control; actively develop the additional income products, enrich the contents of class upgrading products, promote the experience, and the sales of “Cixiang” product greatly increase. Third is to enhance the efficiency of resource allocation and production organization. In the premise of meeting the requirements of the council, scientifically compress the air routes and the station-crossing time; continue to improve the coordination linkage mechanism of production, marketing, flight control and finance departments. Fourth is to vigorously implement the cost control. Establish the efficiency management points and cost control measures, establish the regular traffic control mechanism; actively promote the energy conservation and emission reduction work, monitor the insurance costs of major production, and vigorously reduce the administrative costs. Five is to actively seek the synergies. Pay attention to give play to the synergetic advantages of Air China, and achieve the synergy income through the aircraft wet lease, frequent traveler cooperation, code sharing, and maintenance support and so on.

(iii) Continue to enhance the service control level

First is to optimize the service control mechanism. Carry out the application for national quality award, and promote the further optimization of service processes, standards and contents. Second is to actively implement the service innovation. Actively promote the function development and process optimization of “Lu Yan housekeeper” platform, carry out the first-class lounge sales, passenger paying for meal selection and other businesses; vigorously promote the self-service businesses, and actively develop the self-service baggage check-in, and self-help ticket changing business and so on. Third is to promote the “honest and kind” service culture to take root. Vigorously carry out the internal propaganda and implementation of “honest and kind” service, center on the flight supplies, first-class lounge and other service terminals, develop the embodiment scheme of “honest and kind” service and promote the implementation; cooperate with China Confucius Foundation and establish the first “Air Confucius School”, which further enrich the service culture connotation.

(iv) Smoothly promote the basic management work

The first is that the organizational structure and fleet structure adjustments are progressing smoothly. The organizational structure, job responsibilities and post preparation of flight department, engineering technology company, marketing commission and other departments are optimized and adjusted, the regional control functions are further intensified and the management power is strengthened by straightening out the management responsibility and shortening the management chain. The second is that the base construction is steadily implemented. Actively promote the Shandong Air Base construction at Qingdao new airport, define the organizational structure and manning quotas of project headquarters, and straighten out the job responsibilities; focus on the base layout optimization, and actively promote the Urumqi base construction work.

Operation data summary:

Index	Jan.-Jun.2017	Jan.-Jun.2016	Changes
Total t-km load rate (10 thousand t-km)	15.19	12.33	23.15%
Volume of passenger traffic (10 thousand passengers)	1087.87	877.67	23.95%
Cargo & mail traffic volume (10 thousand tons)	7.91	7.36	7.35%

Flying km (one million km)	114.74	100.24	14.47%
Flying hours(10 thousand hours)	19.11	16.73	14.26%
Number of flight (10 thousand times)	9.10	7.99	13.95%
PLF(passenger load factor)	82.28%	76.24%	6.04 percentage points increase
Cargo&Mail OLF (overall load factor)	39.11%	39.47%	0.36 percentage points decrease

In the Period, totally ten B737-800 aircrafts are introduced by the Company and five B737-300 aircrafts are out of services. Up to 30 June 2017, the Company operates 109 aircrafts in total and the fleet distribution below:

Model	Numbers	Average service age (Year)
737-700	3	4.7-year
737-800	104	
CRJ-700	2	

II. Main business analysis

Summary

Item of balance sheet	2017.6.30	2016.12.31	+, -	Reasons
Monetary funds	443,328,925.09	791,255,686.65	-43.97%	The balance of monetary funds at period-end declined due to the repayments in the Period for loans due
Account receivable	492,297,472.32	322,774,169.85	52.52%	The receivable wet leases amount are not settled in the period and receivable notes increased
Dividend receivable	19,278,420.00	-		The bonus for year of 2016 received from Sichuan Airline are recognized in the period
Other current assets	83,459,901.34	59,685,735.09	39.83%	The input tax to be certified are increase sharply in the period
Short-term loans	400,000,000.00	-		New short-term debt of honor increased in the period
Financial liability measured by fair value and with variation reckoned into current gains/losses	1,753,048.20	1,155,815.80	51.67%	Change of the fair value of interest rate swap held in the period
Dividend payable	120,011,940.00	11,940.00	1005025.13%	Bonus for shareholders of 2016 are payable in the period
Deferred tax liability	63,430,089.33	45,880,020.58	38.25%	Soaring fair value of the financial assets available for sale at period-end makes the correspondingly recognized deferred income liability increased
Other comprehensive income	184,530,268.02	131,880,061.76	39.92%	Soaring fair value of the financial assets available for sale at period-end makes the correspondingly

				recognized other comprehensive income increased
Profit statement	Jan.- June. 2017	Jan.- June. 2016	+, -	Reasons
Taxes and surcharges	11,049,353.32	24,266,018.24	-54.47%	Impact by the replacing business tax with VAT expanding circumference in May 2016
Financial expenses	9,333,133.79	114,208,514.18	-91.83%	Exchange income arising by RMB appreciated against the U.S. dollar, while there was an exchange loss at same period of last year
Assets impairment loss	2,258,019.93	441,974.60	410.89%	Accrual bad debt provision in line with the bad debt policy of the Company
Income from changes in fair value	-597,232.40	-3,926,637.22	84.79%	Change of the fair value of interest rate swap held in the period
Investment income	19,365,345.43	-850,513.68	2376.90 %	The bonus for year of 2016 from Sichuan Airline are recognized in the Period
Other income	60,164,960.18	-		Impact on financial statement for accounting policy change
Non-operating revenue	20,407,892.43	115,697,616.85	-82.36%	Impact on financial statement for accounting policy change
Non-operating expenditure	951,674.57	2,579,552.24	-63.11%	The net loss of fixed assets disposal recognized in the period decreased
Cash flow statement	Jan.- June. 2017	Jan.- June. 2016	+, -	Reasons
Cash received with other operation activities concerned	93,832,179.82	161,074,121.88	-41.75%	The route subsidy in the period are decreased over same period of last year
Cash paid for purchasing commodities and receiving labor service	5,644,642,190.50	4,217,304,381.84	33.84%	Correspondingly operation costs increased for the growth of production scale and volume, and costs as price of aviation fuel and landing fee standards rapidly raised
Cash received from investment income	566,011.27	4,381,903.47	-87.08%	The bonus received from invested unit decreased over that of last period
Other cash paid concerning investing activities	214,526.52	421,533.02	-49.11%	The delivery expenditure of tradable financial assets held in the period decreased from last period
Cash received from loans	400,000,000.00	296,000,000.00	35.14%	The loans received from financing activities increased in the Period
Cash received concerning other financing activities	430,793,362.96	195,845,614.80	119.97%	The price of original purchasing right (transfer as leasing aircraft) received in the period increased over that of last period
Cash paid for settling debts	628,730,526.71	1,183,487,265.46	-46.87%	The loans paid to the bank decreased over that of last period
Impact on cash and cash equivalent from foreign	-5,305,321.08	12,768,432.70	-141.55 %	Changes of the RMB against foreign currencies

exchange rate change				
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Y-o-y changes of main financial data

In RMB

	Current period	Same period of last year	Y-o-y increase/decrease	Reasons for changes
Operating revenue	7,550,794,741.92	6,309,749,290.22	19.67%	
Operating cost	7,010,777,442.45	5,423,567,853.72	29.27%	
Sale expenses	344,504,290.18	329,309,482.29	4.61%	
Management expenses	162,126,382.55	148,238,372.25	9.37%	
Financial expenses	9,333,133.79	114,208,514.18	-91.83%	Exchange income arising by RMB appreciated against the U.S. dollar, while there was an exchange loss at same period of last year
Income tax expenses	19,042,319.94	94,368,500.00	-79.82%	
Net cash flow arising from operating activities	649,153,844.96	1,024,495,732.22	-36.64%	
Net cash flow arising from investment activities	-1,059,136,288.83	-1,026,531,557.25	3.18%	
Net cash flows arising from financing activities	67,361,003.39	-833,776,740.29	108.08%	
Net increase of cash and cash equivalent	-347,926,761.56	-823,044,132.62	-57.73%	

No major changes on profit composition or profit resources in reporting period.

Constitution of main business

In RMB

	Operating revenue	Operating cost	Gross profit	Increase/decrease of operating revenue over same period the year before	Increase/decrease of operating cost over same period the year before	Increase/decrease of gross profit over same period the year before
According to industries						
Aviation transportation service	7,325,032,164.28	6,984,554,599.42	4.65%	19.62%	29.65%	-7.37
Logistics transportation service	14,834,024.73	9,081,016.88	38.78%	-19.50%	-23.92%	3.56

Hotel and food service	13,717,691.70	11,338,647.59	17.34%	-35.55%	-39.11%	4.84
Training Services	8,071,728.36	4,800,314.79	40.53%	-26.78%	-3.51%	-14.34
According to region						
Domestic	6,668,878,390.41	6,185,933,319.96	7.24%	19.69%	29.81%	-7.23
Overseas	598,540,470.72	737,968,311.80	-23.29%	21.65%	29.12%	-7.13
Region	94,236,747.94	85,872,946.92	8.88%	-14.66%	0.07%	-13.41

III. Analysis of the non-main business

☐ Applicable ☒ Not applicable

IV. Assets and liability

1. Major changes of assets composition

In RMB

	End of the Period		End of same period of last year		Ratio changes	Notes of major changes
	Amount	Ratio in total assets	Amount	Ratio in total assets		
Monetary fund	443,328,925.09	3.40%	791,255,686.65	6.21%	-2.81%	Ending balance of monetary fund declined because the debt due are paid in the period
Account receivable	492,297,472.32	3.77%	322,774,169.85	2.53%	1.24%	The receivable wet leases amount are not settled in the period and receivable notes increased
Inventory	111,796,414.69	0.86%	120,965,243.56	0.95%	-0.09%	
Fix assets	6,828,691,206.33	52.31%	7,093,233,151.79	55.67%	-3.36%	
Construction in process	2,703,359,625.93	20.71%	2,250,500,462.35	17.66%	3.05%	
Short-term loans	400,000,000.00	3.06%		0.00%	3.06%	New short-term debt of honor increased in the period
Long-term loans	1,342,589,872.59	10.28%	1,799,601,767.54	14.12%	-3.84%	Part of the long-term loan's principal are paid in the period

2. Assets and liability measured by fair value

√Applicable □Not applicable

In RMB

Item	Opening amount	Gains/losses of changes in fair value	Accumulative changes in fair value reckoned into equity	Impairment accrual in this period	Amount purchased in this period	Sale amount	Closing amount
Financial assets							
3.Available-for-sale financial assets	190,210,082.34	70,200,275.01	253,720,357.35				260,410,357.35
Subtotal of financial assets	190,210,082.34	70,200,275.01	253,720,357.35				260,410,357.35
The above total	190,210,082.34	70,200,275.01	253,720,357.35				260,410,357.35
Financial liability	1,155,815.80	597,232.40					1,753,048.20

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

□ Yes √No

3. Assets rights restricted till end of the period

Nil

V. Investment**1. Overall situation**

□ Applicable √ Not applicable

2. The major equity investment obtained in the reporting period

□ Applicable √ Not applicable

3. The major non-equity investment doing in the reporting period

□ Applicable √ Not applicable

4. Financial assets investment**(1) Securities investment**

The Company had no securities investment in the reporting period.

(2) Derivative investment

The Company has no derivatives investment in the reporting period.

VI. Sales of major assets and equity**1. Sales of major assets**

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

2. Sales of major equity

☐ Applicable ☒ Not applicable

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

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

In RMB

Company name	Type	Main business	Industries	Register capital	Total assets	Net Assets	Operating revenue	Operating profit	Net profit
Shandong Airlines Logistic Co., Ltd.	Subsidiary	Agency service of land service for the air cargo station, storage of goods and ground distribution service etc.	Transportation, warehouse and mail business	30,000,000.00	128,270,223.94	58,164,352.27	24,449,081.15	4,126,242.05	3,106,636.39
Qingdao Feisheng International Aviation Technology Development Training Co., Ltd.	Subsidiary	Pilot training and relevant business and consulting services etc.	Education	51,545,500.00	71,868,549.58	69,817,346.55	2,199,777.38	-958,849.10	-712,390.98
Shandong Rainbow Corporate Aircraft Co., Ltd.	Stock-jointly company	Offshore oil services, medical assistance, aerial prospecting and business flying etc.	Transportation, warehouse and mail business	50,000,000.00	1,844,824.50	-165,920,988.83		-1,813.17	-1,813.17

Particular about subsidiaries obtained or disposed in report period

☐ Applicable ☒ Not applicable

VIII. Structured entity controlled by the Company

☐ Applicable ☒ Not applicable

IX. Prediction of business performance from January – September 2017

Estimation on accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation on reason

☐ Applicable ☒ Not applicable

X. Risks and countermeasures

Risks: The first is that the fluctuations of oil prices and exchange rate become the important factors affecting the effectiveness of the company. The second is that the future development of high-speed rail will involve more areas and build more intensive high-speed rail networks, the highly overlap of airline network mainly covering the East China with high-speed rail network brings greater pressure of alternative competition to the company. The third is that the regional imbalance of China's economic development leads to higher concentration of air transport market, the concentration of passengers causes the scarcity of hub market, hot spots and other high-quality resources, which further increases the difficulties to obtain the high-quality resources.

Countermeasures: The company should adhere to taking the development concept of “innovation, coordination, green, open, sharing” as the guideline, properly handle the dialectical relationship between development scale and speed, size and benefit, speed and quality, safety and benefit, actively implement innovation-driven, structural optimization, quality and efficiency improving and collaboration, create the relatively competitive advantages, and achieve sustainable and healthy development of enterprises. To focus on grasping the following key issues: first is to firmly establish the bottom line awareness of “safety first”, and consolidate the development of new foundations; second is to spare no effort to increase revenue and improve quality and efficiency, create new advantages of development; third is to scientifically optimize the control mechanisms and stimulate new vitality for development; fourth is to deeply explore customer value and expand new space for development.

Section V Important Events

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

1. Shareholders' General Meeting in the report period

Session of meeting	Type	Ratio of investor participation	Date	Date of disclosure	Index of disclosure
Annual General Meeting of 2016	AGM	67.18%	2017-06-15	2017-06-16	2017-09

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

☐ Applicable ☒ Not applicable

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

The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either for the semi-annual year.

III. Commitments that actual controller, shareholder, related parties, buyer and committed party as the Company etc. have fulfilled during the reporting period and have not yet fulfilled by the end of reporting period

Commitments	Promise	Type of commitments	Content of commitments	Commitment date	Commitment term	Implementation
Commitments for share merger reform						
Commitments in report of acquisition or equity change	Air China	Commitment of horizontal competition, related transaction and capital occupying	In February 2004, China National Aviation Holding Company (CNAHC) entered into a equity transfer agreement with SDA , that is promise “to avoiding horizontal competition with the Company through reasonable business arrangement”; in December, being approved, the equity assignee was replaced by Air China, and all rights and obligations under the agreement	2004-12-06	Long-term effective	Strictly implement timely

			was transfer to Air China as the party who implemented the commitments			
Commitments for reorganization of assets						
Commitments make in initial public offering or re-financing	SDA	Commitment of horizontal competition, related transaction and capital occupying	Controlling shareholder—SDA provide a commitment letter of avoiding horizontal competition to the Company in year of 2000 when the Company initial public offering shares	2000-09-12	Long-term effective	Strictly implement timely
Equity incentive commitment						
Other commitments for medium and small shareholders						
Completed on time (Y/N)	Y					

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

Semi-annual report of the Company has not been audited.

V. Explanation from Board of Directors and Supervisory Committee for “Qualified Opinion” that issued by CPA

☐ Applicable ☒ Not applicable

VI. Explanation from the Board for “Qualified Opinion” of last year’s

☐ Applicable ☒ Not applicable

VII. Bankruptcy reorganization

No bankruptcy reorganization for the Company in the reporting period.

VIII. Lawsuits

During the reporting period, the company has no major litigation or arbitration matter.

IX. Penalty and rectification

No penalty or rectification for the Company in the reporting period.

X. Integrity of the Company and its controlling shareholders and actual controllers

☐ Applicable ☒ Not applicable

XI. Implementation of the Company's stock incentive plan, employee stock ownership plan or other employee incentives

The Company has no equity incentive plan, employee stock ownership plans or other employee incentives in the reporting period.

XII. Major related transaction

1. Related transaction with routine operation concerned

Related transaction parties	Related relationship	Related transaction type	Related transaction content	Pricing principle	Dealing price	Trading amount (in 10 thousand Yuan)	Proportion in the amount of the same transaction	Approved transaction amount (in 10 thousand Yuan)	Whether to exceed the approved amount	Means of payments	Market price of similar transaction available	Date of disclosure	Index of disclosure
Air China	2nd largest shareholder	Labor service received	Ground service expenses	Market price	7,888,336.36	788.83	0.78%	4,020	No	Cash settlement	7,888,336.36	2017-03-29	2017-05
	2nd largest shareholder	Labor service received	Purchasing/leasing air material expenditure	Market price	186,711.99	18.67	37.00%	21	No	Cash settlement	186,711.99	2017-03-29	2017-05
	2nd largest shareholder	Labor service received	Agency commission revenue	Market price	5,458,596.51	545.86	62.64%	1,600	No	Cash settlement	5,458,596.51	2017-03-29	2017-05
	2nd largest shareholder	Labor service received	Irregular flight and group expenditure	Market price	4,647,528.32	464.75	24.91%	2,000	No	Cash settlement	4,647,528.32	2017-03-29	2017-05

Air China	2nd largest shareholder	Provide labor service	Ground services revenue	Market price	939,820.29	93.98	76.00%	398.9	No	Cash settlement	939,820.29	2017-03-29	2017-05
	2nd largest shareholder	Provide labor service	Simulator maintenance/hold use leasing revenue	Market price	2,242,714.29	224.27	100.00%	514.57	No	Cash settlement	4,485,428.57	2017-03-29	2017-05
	2nd largest shareholder	Provide labor service	Sales/lease of air material revenue	Market price	12,906.84	1.29	0.36%	77	No	Cash settlement	12,906.84	2017-03-29	2017-05
	2nd largest shareholder	Provide labor service	Non-routine maintenance service revenue	Market price	37,220.00	3.72	18.00%	21.7	No	Cash settlement	37,220.00	2017-03-29	2017-05
	2nd largest shareholder	Provide labor service	Agency commission revenue	Market price	2,425,297.00	242.53	53.17%	890	No	Cash settlement	2,425,297.00	2017-03-29	2017-05
Air China	2nd largest shareholder	Other related transaction	Wet lease	Agreement price	93,266,177.00	9,326.62	100.00%	20,000	No	Cash settlement	93,266,177.00	2017-03-29	2017-05
	2nd largest shareholder	Other related transaction	Frequent passenger cooperation	Agreement price	36,000,000.00	3,600	100.00%	7,000	No	Cash settlement	36,000,000.00	2017-03-29	2017-05
Total				--	--	15310.52	--	36543.17	--	--	--	--	--
Details of return of sales in significant amount				N/A									

Report the actual implementation of the normal related transactions which were projected about their total amount by types during the reporting period (if any)	Implemented by the agreement, no amount exceed the budget approved in shareholders' general meeting
Reasons for major difference between trading price and market reference price (if applicable)	N/A

2. Related transactions of assets/equity acquisition and sold

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

3. Main related transactions of mutual investment outside

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

4. Contact of related credit and debt

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

5. Other related transactions

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

XIII. Non-business capital occupying by controlling shareholders and its related parties

No non-business capital occupied by controlling shareholders and its related parties in the reporting period.

XIV. Significant contract and implementations

1. Trusteeship, contract and leasing

(1) Trusteeship

No trusteeship for the Company in the reporting period.

(2) Contract

No contract for the Company in the reporting period.

(3) Leasing

No leasing for the Company in the reporting period.

2. Major guarantees

No guarantees for the Company in the reporting period.

3. Other material contracts

No other material contracts for the Company in the reporting period.

XV. Social responsibility**1. Fulfill the social responsibility of target poverty alleviation**

The Company has no target poverty alleviation temporary in the year and no subsequent program either.

2. Major environmental protection

The listed Company and its subsidiary whether belongs to the key sewage units released from environmental protection department

No

XVI. Other major events

No other major events of the Company that need to be explained in the reporting period.

XVII. Major event of the subsidiaries

☐ Applicable ☒ Not applicable

Section VI. Changes in Shares and Particulars about Shareholders

I. Changes in Share Capital

1. Changes in Share Capital

In Share

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

Reasons for share changed

☐ Applicable ☒ Not applicable

Approval of share changed

☐ Applicable ☒ Not applicable

Ownership transfer of share changes

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

2. Changes of restricted shares

☐ Applicable ☒ Not applicable

II. Securities issuance and listing

☐ Applicable ☒ Not applicable

III. Number of shares and shares held

In Share

Total common stock shareholders in reporting period-end	15,887			Total preference shareholders with voting rights recovered at end of reporting period (if applicable) (found in note8)		0		
Particulars about shares held above 5% by shareholders or top ten shareholders								
Shareholders	Nature of shareholder	Proportion of shares held	Total common shares hold at the end of report period	Changes in report period	Amount of un-listed common shares held	Amount of listed common shares held	Number of shares pledged/frozen	
							State of share	Amount
Shandong Aviation Group	State-owned legal person	42.00%	168,004,000	0	168,004,000	0		
Air China Limited	State-owned legal person	22.80%	91,200,000	0	91,200,000	0		
NORGES BANK	Foreign legal person	0.87%	3,498,479	977679.00	0	3,498,479		
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.74%	2,960,917	0	0	2,960,917		
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.62%	2,490,000	0	0	2,490,000		
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.43%	1,735,020	152300.00	0	1,735,020		
Hou Chunhu	Domestic nature	0.41%	1,651,345	0	0	1,651,345		

	person							
Chen Jingjian	Domestic nature person	0.38%	1,519,400	0	0	1,519,400		
ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.36%	1,420,300	622000.00	0	1,420,300		
Yao Ming	Domestic nature person	0.31%	1,248,003	-51997.00	0	1,248,003		
Explanation on related relationship or concerted action among the abovementioned shareholders		1. Shandong Aviation Group(SDA) is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares; 2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares; 3. Among the above top ten shareholders, Air China Limited is the first largest shareholder of the SDA, and there exists no associated relationship between SDA and Air China and the other shareholders, and they don't belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders.						
Shareholding of top 10 circulated shareholders								
Shareholders		Amount of listed shares held at end of the Period			Type of shares			
					Type		Amount	
NORGES BANK		3,498,479			Domestically listed foreign shares		3,498,479	
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND		2,960,917			Domestically listed foreign shares		2,960,917	
WANXIANG INTERNATIONAL INVESTMENT CORPORATION		2,490,000			Domestically listed foreign shares		2,490,000	
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND		1,735,020			Domestically listed foreign shares		1,735,020	
Hou Chunhu		1,651,345			Domestically listed foreign shares		1,651,345	
Chen Jingjian		1,519,400			Domestically listed foreign shares		1,519,400	

ISHARES CORE MSCI EMERGING MARKETS ETF	1,420,300	Domestically listed foreign shares	1,420,300
Yao Ming	1,248,003	Domestically listed foreign shares	1,248,003
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	1,199,155	Domestically listed foreign shares	1,199,155
Ye Qufa	1,180,169	Domestically listed foreign shares	1,180,169
Expiation on associated relationship or consistent actors within the top 10 un-restrict shareholders and between top 10 un-restrict shareholders and top 10 common stock shareholders	The Company is not aware of their associated relationship among the top 10 shareholders of circulation share, and is unknown whether other circulation shareholders belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.		

Top ten common shareholders or top ten common shareholders with un-restrict shares not held have a buy-back agreement dealing in reporting period.

IV. Changes of controlling shareholders or actual controller

The controlling shareholder of the Company has no changed in reporting period.

The actual controller of the Company has no changed in reporting period.

Section VII Preferred Stock

The Company had no preferred stock in the reporting.

Section VIII Directors, Supervisors and Senior Executives

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

Shares held by directors, supervisors and senior executives have no changes in reporting period, found more details in Annual Report 2016.

II. Resignation and dismissal of directors, supervisors and senior executives

Name	Title	Type	Date	Reason
Liu Zhaolei	Chief engineer	Appointment	2017-03-28	Work accommodation
Wu Chaopeng	Independent director	Leave the office	2017-06-15	Personal work reasons
Xu Xiangyi	Independent director	Election	2017-06-15	
Hu Yuanmu	Independent director	Election	2017-06-15	

Section IX Corporate Bonds

Whether the Company has corporate bonds that issuance publicly and listed on stock exchange and without due on the date when semi-annual report approved for released or fail to cash in full on due

No

Section X. Financial Report

I. Audit report

The semi-annual financial report has not been audited.

II. Financial Statement

Statement in Financial Notes are carried in RMB/CNY

1. Consolidated Balance Sheet

Prepared by Shandong Airlines Co., Ltd

2017-06-30

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	443,328,925.09	791,255,686.65
Settlement provisions		
Capital lent		
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable	123,974.00	
Accounts receivable	492,297,472.32	322,774,169.85
Accounts paid in advance	310,136,319.12	249,136,244.95
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Interest receivable		
Dividend receivable	19,278,420.00	
Other receivables	400,802,651.37	351,000,324.78
Purchase restituted finance asset		
Inventories	111,796,414.69	120,965,243.56
Divided into assets held for sale		

Non-current asset due within one year		
Other current assets	83,459,901.34	59,685,735.09
Total current assets	1,861,224,077.93	1,894,817,404.88
Non-current assets:		
Loans and payments on behalf		
Finance asset available for sales	342,072,457.35	271,872,182.34
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment property		
Fixed assets	6,828,691,206.33	7,093,233,151.79
Construction in progress	2,703,359,625.93	2,250,500,462.35
Engineering material		
Disposal of fixed asset		
Productive biological asset		
Oil and gas asset		
Intangible assets	117,640,196.61	114,203,753.20
Expense on Research and Development		
Goodwill		
Long-term expenses to be apportioned	464,743,301.05	475,562,660.08
Deferred income tax asset	737,156,183.13	641,785,173.89
Other non-current asset		
Total non-current asset	11,193,662,970.40	10,847,157,383.65
Total assets	13,054,887,048.33	12,741,974,788.53
Current liabilities:		
Short-term loans	400,000,000.00	
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	1,753,048.20	1,155,815.80
Derivative financial liability		
Notes payable		

Accounts payable	2,187,147,851.44	1,688,094,861.09
Accounts received in advance	548,336,285.84	699,319,553.05
Selling financial asset of repurchase		
Commission charge and commission payable		
Wage payable	319,557,453.50	454,375,029.19
Taxes payable	167,930,652.95	138,661,805.16
Interest payable	2,404,528.96	2,430,456.90
Dividend payable	120,011,940.00	11,940.00
Other accounts payable	421,568,704.08	401,854,436.21
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Divided into liability held for sale		
Non-current liabilities due within 1 year	770,976,124.33	987,644,012.02
Other current liabilities		
Total current liabilities	4,939,686,589.30	4,373,547,909.42
Non-current liabilities:		
Long-term loans	1,342,589,872.59	1,799,601,767.54
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	2,683,579,549.89	2,534,202,090.26
Long-term wages payable	92,166,751.43	94,130,651.51
Special accounts payable		
Projected liabilities		
Deferred income	74,518,070.64	58,439,521.16
Deferred income tax liabilities	63,430,089.33	45,880,020.58
Other non-current liabilities		
Total non-current liabilities	4,256,284,333.88	4,532,254,051.05
Total liabilities	9,195,970,923.18	8,905,801,960.47
Owner's equity:		
Share capital	400,000,000.00	400,000,000.00

Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	75,410,363.70	75,410,363.70
Less: Inventory shares		
Other comprehensive income	184,530,268.02	131,880,061.76
Reasonable reserve		
Surplus public reserve	423,424,327.64	423,424,327.64
Provision of general risk		
Retained profit	2,775,551,165.79	2,805,458,074.96
Total owner's equity attributable to parent company	3,858,916,125.15	3,836,172,828.06
Minority interests		
Total owner's equity	3,858,916,125.15	3,836,172,828.06
Total liabilities and owner's equity	13,054,887,048.33	12,741,974,788.53

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

2. Balance Sheet of Parent Company

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	426,574,300.69	761,645,065.66
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable		
Accounts receivable	490,564,582.95	322,884,254.40
Account paid in advance	309,503,265.74	248,747,945.46
Interest receivable		
Dividends receivable	19,278,420.00	
Other receivables	446,331,461.99	394,481,947.14
Inventories	111,796,414.69	120,965,243.56

Divided into assets held for sale		
Non-current assets maturing within one year		
Other current assets	83,201,194.72	59,685,735.09
Total current assets	1,887,249,640.78	1,908,410,191.31
Non-current assets:		
Available-for-sale financial assets	342,072,457.35	271,872,182.34
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	106,000,685.43	106,000,685.43
Investment property		
Fixed assets	6,740,329,988.24	7,000,694,540.06
Construction in progress	2,703,283,625.93	2,250,424,462.35
Project materials		
Disposal of fixed assets		
Productive biological assets		
Oil and natural gas assets		
Intangible assets	103,891,799.36	100,261,260.93
Research and development costs		
Goodwill		
Long-term deferred expenses	464,743,301.05	475,562,660.08
Deferred income tax assets	736,409,722.40	641,017,982.18
Other non-current assets		
Total non-current assets	11,196,731,579.76	10,845,833,773.37
Total assets	13,083,981,220.54	12,754,243,964.68
Current liabilities:		
Short-term borrowings	400,000,000.00	
Financial liability measured by fair value and with variation reckoned into current gains/losses	1,753,048.20	1,155,815.80
Derivative financial liability		
Notes payable		
Accounts payable	2,209,149,062.81	1,702,743,063.11
Accounts received in advance	544,728,969.44	693,918,823.76
Wage payable	317,495,495.44	450,079,741.59

Taxes payable	166,590,454.75	137,221,799.65
Interest payable	2,404,528.96	2,430,456.90
Dividend payable	120,011,940.00	11,940.00
Other accounts payable	453,817,718.01	425,862,312.50
Divided into liability held for sale		
Non-current liabilities due within 1 year	770,976,124.33	987,644,012.02
Other current liabilities		
Total current liabilities	4,986,927,341.94	4,401,067,965.33
Non-current liabilities:		
Long-term loans	1,342,589,872.59	1,799,601,767.54
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	2,683,579,549.89	2,534,202,090.26
Long-term wages payable	92,166,751.43	94,130,651.51
Special accounts payable		
Projected liabilities		
Deferred income	74,518,070.64	58,439,521.16
Deferred income tax liabilities		
Other non-current liabilities	63,430,089.33	45,880,020.58
Total non-current liabilities	4,256,284,333.88	4,532,254,051.05
Total liabilities	9,243,211,675.82	8,933,322,016.38
Owners' equity:		
Share capita	400,000,000.00	400,000,000.00
Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	86,911,168.71	86,911,168.71
Less: Inventory shares		
Other comprehensive income	184,530,268.02	131,880,061.76
Reasonable reserve		
Surplus reserve	422,763,623.11	422,763,623.11

Retained profit	2,746,564,484.88	2,779,367,094.72
Total owner's equity	3,840,769,544.72	3,820,921,948.30
Total liabilities and owner's equity	13,083,981,220.54	12,754,243,964.68

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

3. Consolidated Profit Statement

In RMB

Item	Current Period	Last Period
I. Total operating income	7,550,794,741.92	6,309,749,290.22
Including: Operating income	7,550,794,741.92	6,309,749,290.22
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	7,540,048,622.22	6,040,032,215.28
Including: Operating cost	7,010,777,442.45	5,423,567,853.72
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	11,049,353.32	24,266,018.24
Sales expenses	344,504,290.18	329,309,482.29
Administration expenses	162,126,382.55	148,238,372.25
Financial expenses	9,333,133.79	114,208,514.18
Losses of devaluation of asset	2,258,019.93	441,974.60
Add: Changing income of fair value (Loss is listed with "-")	-597,232.40	-3,926,637.22
Investment income (Loss is listed	19,365,345.43	-850,513.68

with “-”)		
Including: Investment income on affiliated company and joint venture		
Exchange income (Loss is listed with “-”)		
Other income	60,164,960.18	
III. Operating profit (Loss is listed with “-”)	89,679,192.91	264,939,924.04
Add: Non-operating income	20,407,892.43	115,697,616.85
Including: Disposal gains of non-current asset	24,408.34	38,150.95
Less: Non-operating expense	951,674.57	2,579,552.24
Including: Disposal loss of non-current asset	836,956.54	1,994,829.83
IV. Total Profit (Loss is listed with “-”)	109,135,410.77	378,057,988.65
Less: Income tax expense	19,042,319.94	94,368,500.00
V. Net profit (Net loss is listed with “-”)	90,093,090.83	283,689,488.65
Net profit attributable to owner’s of parent company	90,093,090.83	283,689,488.65
Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income	52,650,206.26	20,005,619.95
Net after-tax of other comprehensive income attributable to owners of parent company	52,650,206.26	20,005,619.95
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss		
1. Changes as a result of re-measurement of net defined benefit plan liability or asset		
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified	52,650,206.26	20,005,619.95

subsequently to profit or loss		
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets	52,650,206.26	20,005,619.95
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	142,743,297.09	303,695,108.60
Total comprehensive income attributable to owners of parent Company	142,743,297.09	303,695,108.60
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	0.23	0.71
(ii) Diluted earnings per share	0.23	0.71

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

4. Profit Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Operating income	7,540,226,678.64	6,293,688,379.45

Less: Operating cost	7,008,945,672.14	5,418,293,516.30
Operating tax and extras	10,105,304.57	24,123,637.71
Sales expenses	344,504,290.18	329,309,482.29
Administration expenses	157,885,828.66	143,672,314.98
Financial expenses	9,367,754.57	114,199,663.35
Losses of devaluation of asset	2,340,943.85	773,252.30
Add: Changing income of fair value(Loss is listed with “-”)	-597,232.40	-3,926,637.22
Investment income (Loss is listed with “-”)	19,365,345.43	-850,513.68
Including: Investment income on affiliated company and joint venture		
Other income		
II. Operating profit (Loss is listed with “-”)	25,844,997.70	258,539,361.62
Add: Non-operating income	80,572,767.61	115,693,629.15
Including: Disposal gains of non-current asset		
Less: Non-operating expense	951,674.57	2,575,514.24
Including: Disposal loss of non-current asset	836,956.54	1,990,791.83
III. Total Profit (Loss is listed with “-”)	105,466,090.74	371,657,476.53
Less: Income tax expense	18,268,700.58	92,885,355.21
IV. Net profit (Net loss is listed with “-”)	87,197,390.16	278,772,121.32
V. Net after-tax of other comprehensive income	52,650,206.26	20,005,619.95
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss		
1. Changes as a result of re-measurement of net defined benefit plan liability or asset		
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified		

subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss	52,650,206.26	20,005,619.95
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets	52,650,206.26	20,005,619.95
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	139,847,596.42	298,777,741.27
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

5. Consolidated Cash Flow Statement

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	7,972,457,319.63	6,717,200,924.09
Net increase of customer deposit		

and interbank deposit		
Net increase of loan from central bank		
Net increase of capital borrowed from other financial institution		
Cash received from original insurance contract fee		
Net cash received from reinsurance business		
Net increase of insured savings and investment		
Net increase of amount from disposal financial assets that measured by fair value and with variation reckoned into current gains/losses		
Cash received from interest, commission charge and commission		
Net increase of capital borrowed		
Net increase of returned business capital		
Write-back of tax received		
Other cash received concerning operating activities	93,832,179.82	161,074,121.88
Subtotal of cash inflow arising from operating activities	8,066,289,499.45	6,878,275,045.97
Cash paid for purchasing commodities and receiving labor service	5,644,642,190.50	4,217,304,381.84
Net increase of customer loans and advances		
Net increase of deposits in central bank and interbank		
Cash paid for original insurance contract compensation		
Cash paid for interest, commission charge and commission		
Cash paid for bonus of guarantee slip		
Cash paid to/for staff and workers	1,436,820,991.02	1,215,874,548.17

Taxes paid	244,682,396.26	341,409,771.76
Other cash paid concerning operating activities	90,990,076.71	79,190,611.98
Subtotal of cash outflow arising from operating activities	7,417,135,654.49	5,853,779,313.75
Net cash flows arising from operating activities	649,153,844.96	1,024,495,732.22
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	566,011.27	4,381,903.47
Net cash received from disposal of fixed, intangible and other long-term assets		
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	566,011.27	4,381,903.47
Cash paid for purchasing fixed, intangible and other long-term assets	1,059,487,773.58	1,030,491,927.70
Cash paid for investment		
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained		
Other cash paid concerning investing activities	214,526.52	421,533.02
Subtotal of cash outflow from investing activities	1,059,702,300.10	1,030,913,460.72
Net cash flows arising from investing activities	-1,059,136,288.83	-1,026,531,557.25
III. Cash flows arising from financing activities		
Cash received from absorbing investment		

Including: Cash received from absorbing minority shareholders' investment by subsidiaries		
Cash received from loans	400,000,000.00	296,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	430,793,362.96	195,845,614.80
Subtotal of cash inflow from financing activities	830,793,362.96	491,845,614.80
Cash paid for settling debts	628,730,526.71	1,183,487,265.46
Cash paid for dividend and profit distributing or interest paying	41,066,887.26	56,263,754.65
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	93,634,945.60	85,871,334.98
Subtotal of cash outflow from financing activities	763,432,359.57	1,325,622,355.09
Net cash flows arising from financing activities	67,361,003.39	-833,776,740.29
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-5,305,321.08	12,768,432.70
V. Net increase of cash and cash equivalents	-347,926,761.56	-823,044,132.62
Add: Balance of cash and cash equivalents at the period -begin	791,255,686.65	1,415,399,630.60
VI. Balance of cash and cash equivalents at the period -end	443,328,925.09	592,355,497.98

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

6. Cash Flow Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating		

activities:		
Cash received from selling commodities and providing labor services	7,965,655,251.76	6,704,250,463.84
Write-back of tax received		
Other cash received concerning operating activities	93,792,156.77	161,050,542.56
Subtotal of cash inflow arising from operating activities	8,059,447,408.53	6,865,301,006.40
Cash paid for purchasing commodities and receiving labor service	5,638,597,494.55	4,216,655,959.09
Cash paid to/for staff and workers	1,423,542,158.40	1,204,469,134.52
Taxes paid	242,626,945.20	338,480,357.99
Other cash paid concerning operating activities	92,973,776.76	85,634,144.49
Subtotal of cash outflow arising from operating activities	7,397,740,374.91	5,845,239,596.09
Net cash flows arising from operating activities	661,707,033.62	1,020,061,410.31
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	566,011.27	4,381,903.47
Net cash received from disposal of fixed, intangible and other long-term assets		
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	566,011.27	4,381,903.47
Cash paid for purchasing fixed, intangible and other long-term assets	1,059,184,965.65	1,030,388,040.86
Cash paid for investment		

Net cash received from subsidiaries and other units		
Other cash paid concerning investing activities	214,526.52	421,533.02
Subtotal of cash outflow from investing activities	1,059,399,492.17	1,030,809,573.88
Net cash flows arising from investing activities	-1,058,833,480.90	-1,026,427,670.41
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	400,000,000.00	296,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	430,793,362.96	195,845,614.80
Subtotal of cash inflow from financing activities	830,793,362.96	491,845,614.80
Cash paid for settling debts	628,730,526.71	1,183,487,265.46
Cash paid for dividend and profit distributing or interest paying	41,066,887.26	56,263,754.65
Other cash paid concerning financing activities	93,634,945.60	85,871,334.98
Subtotal of cash outflow from financing activities	763,432,359.57	1,325,622,355.09
Net cash flows arising from financing activities	67,361,003.39	-833,776,740.29
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-5,305,321.08	12,768,432.70
V. Net increase of cash and cash equivalents	-335,070,764.97	-827,374,567.69
Add: Balance of cash and cash equivalents at the period -begin	761,645,065.66	1,401,853,786.39
VI. Balance of cash and cash equivalents at the period -end	426,574,300.69	574,479,218.70

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

This Period

In RMB

Item	This Period												
	Owners' equity attributable to parent company										Minorit y interests	Total owners' equity	
	Share capital	Other equity instrument			Capital reserve	Less: Invento ry shares	Other compre hensive income	Reason able reserve	Surplus reserve	Provisio n of general risk			Retaine d profit
		Prefer red stock	Perpet ual capita l securi ties	Other									
I. Balance at the end of the last year	400,00 0,000. 00				75,410, 363.70		131,880 ,061.76		423,424 ,327.64		2,805,4 58,074. 96		3,836,1 72,828. 06
Add: Changes of accounting policy													
Error correction of the last period													
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	400,00 0,000. 00				75,410, 363.70		131,880 ,061.76		423,424 ,327.64		2,805,4 58,074. 96		3,836,1 72,828. 06
III. Increase/ Decrease in this year (Decrease is listed with “-”)							52,650, 206.26				-29,906, 909.17		22,743, 297.09
(i) Total comprehensive income							52,650, 206.26				90,093, 090.83		142,743 ,297.09
(ii) Owners' devoted and decreased capital													
1.Common shares invested by shareholders													
2. Capital invested by holders of other equity instruments													

3. Amount reckoned into owners equity with share-based payment													
4. Other													
(III) Profit distribution											-120,000,000.00		-120,000,000.00
1. Withdrawal of surplus reserves													
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)											-120,000,000.00		-120,000,000.00
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves converted to capital (share capital)													
2. Surplus reserves converted to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI) Others													
IV. Balance at the end of the report period	400,000,000.00				75,410,363.70		184,530,268.02		423,424,327.64		2,775,551,165.79		3,858,916,125.15

Last Period

In RMB

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

4 Other													
(III) Profit distribution								52,443,232.24		-152,443,232.24		-100,000,000.00	
1. Withdrawal of surplus reserves								52,443,232.24		-52,443,232.24			
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)										-100,000,000.00		-100,000,000.00	
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves converted to capital (share capital)													
2. Surplus reserves converted to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI) Others													
IV. Balance at the end of the report period	400,000,000.00				75,410,363.70		131,880,061.76	423,424,327.64		2,805,458,074.96		3,836,172,828.06	

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

This Period

In RMB

Item	This Period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30
Add: Changes of accounting policy											
Error correction of the last period											
Other											
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30
III. Increase/Decrease in this year (Decrease is listed with "-")							52,650,206.26			-32,802,609.84	19,847,596.42
(i) Total comprehensive income							52,650,206.26			87,197,390.16	139,847,596.42
(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										-120,000,000.00	-120,000,000.00
1. Withdrawal of surplus reserves											
2. Distribution for owners (or shareholders)										-120,000,000.00	-120,000,000.00
3. Other											
(IV) Carrying forward internal owners' equity											
1. Capital reserves converted to capital (share capital)											
2. Surplus reserves converted to capital (share capital)											
3. Remedying loss with surplus reserve											
4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI) Others											
IV. Balance at the end of the report period	400,000,000.00				86,911,168.71		184,530,268.02		422,763,623.11	2,746,564,484.88	3,840,769,544.72

Last period

In RMB

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

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

owners' equity											
1. Capital reserves conversed to capital (share capital)											
2. Surplus reserves conversed to capital (share capital)											
3. Remedying loss with surplus reserve											
4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI) Others											
IV. Balance at the end of the report period	400,000, 000.00				86,911,16 8.71		131,880,0 61.76		422,763,6 23.11	2,779,3 67,094. 72	3,820,921 ,948.30

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

Shandong Airlines Co., Ltd.**Notes to the Financial Statements****As at 30th June 2017****(All amounts are expressed in CNY unless otherwise stated)****Note 1 Corporation profile**

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

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

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

The Agreement of Share Transfer (《股份转让协议》) signed by SDA Group and China National Aviation Holding Company (hereafter, China Aviation Group) on February 28th, 2004 authorised the transfer of 91,200,000 shares of the Company, equal to 22.8% shareholding, from SDA Group to China Aviation Group. Immediately after the share transfer, SDA Group's shareholding in the Company was 42.00%. In November 2004, the Board of Directors of the Company, in accordance with the approval (GuoZiChanQuan[2004]No.956 (国资产权[2004]956 号:《关于中国航空集团公司将受让山东航空股份有限公司国有股的合同实施转让有关问题的批复》)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, authorised China Aviation Group to transfer the state-owned corporate shares received from SDA Group to Air China Co., Ltd. (hereafter, Air China). As so provided in GuoZiChanQuan[2004]No.956, the rights and obligation attributable to China Aviation Group as specified in the Agreement of Share Transfer shall be afforded by Air China. The change of share ownership was registered at the China Securities Depository and Clearing Corporation Limited Shenzhen Office by SDA Group and Air China on December 3rd, 2004; And, 91,200,000 shares of the Company then became held by Air China.

Legal representative of the Company: SUN, Xiujiang

Place of registration: Shandong Jinan Yaoqiang International Airport

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

The Company is permitted to undertake international and domestic passenger and cargo transportation, hotel and beverage related operation (limited to operation through branch); provision of aircraft maintenance, training of civil aviation pilots and air crew, insurance brokerage; inter-airline agenting, and principal operation related ground services; sales of airborne material and equipments, grocery, food, health food, art work, souvenir, etc.; retailing of tobacco products (limited to Qingdao Red-Crowned Crane Hotel); lease of airborne material and equipments; venue rental, private house rental, business services, hotel accommodation agents and ticket agents; conference services; transportation agency; air cargo storage; and aviation pilot provision (for other domestic airlines). (The operating activities listed herein does not involve operation related to commodity that are subject to State Administered Trading (国营贸易管理), but involve operation related to commodity that are subject to quotas, licence requirements, which are restricted to obtain permission before the operation)(the project that subjects to the approval in accordance with the law, can carry out business activities only after the approval of the relevant departments to carry out business activities).

No change of scope of consolidation from last year.

The Company operates in the industry of transportation.

Note 2 Basis for preparation of the financial statements

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

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

Note 3 Statement of Compliance with Enterprise Accounting Standards

The financial statements of the company are recognized and measured in accordance with the regulations in the Chinese Accounting Standards for Business Enterprises and they give a true and fair view of the financial position, business result and cash flow of the Company as at 30 June 2017. In addition, the financial statements of the company comply, in all material respects, with the revised disclosing requirements for financial statements and the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15—General Provisions on Financial Reports (2014 Revision) issued by China Securities Regulatory Commission (CSRC) in 2014.

Note 4 Important Accounting Principles and Accounting Estimates

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

estimates”.

4.1 Accounting period

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

4.2 Operating cycle

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

4.3 Monetary Unit

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

4.4 Business combination

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

4.4.1 Business combination involving entities under common control

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

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

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

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

4.4.2 Business combination involving entities not under common control

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

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

For a business combination not involving enterprise under common control, the combination cost including the sum of fair value, at the acquisition

date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services etc and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

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

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

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

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

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

For a business combination not involving enterprise under common control, which achieved in stages that involves multiple exchange transactions, according to "The notice of the Ministry of Finance on the issuance of Accounting Standards Interpretation No. 5" (CaiKuai [2012] No. 19) and Article 55 of "Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements" on the "package deal" criterion (see Note 4.5.2), to judge the multiple exchange transactions whether they are the "package deal". If it belong to the "package deal" in reference to the preceding paragraphs of this section and the Notes described in 4.13 "long-term investment" accounting treatment, if it does not belong to the "package deal" to distinguish the individual financial statements and the consolidated financial statements related to the accounting treatment:

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

In the combination financial statements, the equity interest in the acquiree previously held before the acquisition date re-assessed at the fair value

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

4.5 Preparation of the consolidated financial statements

4.5.1 The scope of consolidation

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

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

4.5.2 Preparation of the consolidated financial statements

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

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

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

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

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

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

as minority interest in the consolidated income statement below the net profit line item.

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

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

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

4.6 Joint arrangement

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

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

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

operation; (d) its share of the revenue from the sale of the output by the joint operation; and (e) its expenses, including its share of any expenses incurred jointly.

When the Company enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, the Company, prior to disposal of the assets to a third party by the joint operation, recognises gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation. When there is evidence of a reduction in the net realisable 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 recognised fully by the Company. When there is evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the Company shall recognise its share of those losses.

4.7 Cash equivalent

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

4.8 Foreign exchange

4.8.1 Translation in foreign exchange transactions

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

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

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

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

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

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

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

4.9 Financial instruments

4.9.1 Determination of financial assets and liabilities' fair value

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

For a financial instrument which does not have an active market, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties,

reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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

4.9.2 Classification, recognition and measurement of financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. On initial recognition, the Company's financial assets are classified into one of the four categories, including financial assets at fair value 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 personnels. Formal documentation regarding risk management or investment strategy has prepared.

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

2) Investment held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an

entity has the positive intention and ability to hold to maturity. Such kind of financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

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

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

3) Loans and receivables

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

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

4) Financial assets available-for-trade

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

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

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

4.9.3 Impairment of financial assets

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

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

The financial assets measured by cost or amortized cost write down their carrying value by the estimated present value of future cash flow. The difference is recorded as impairment loss. If there is objective evidence to indicate the recovery of value

of financial assets after impairment, and it is related with subsequent event after recognition of loss, the impairment loss recorded originally can be reversed. The carrying value of financial assets after impairment loss reversed shall not exceed the amortized cost of the financial assets without provisions of impairment loss on the reserving date.

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

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

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

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

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

4.9.4 Recognition and measurement of financial assets transfer

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

- 1) the rights to receive cash flows from the asset have expired;
- 2) the enterprise has transferred its rights to receive cash flows from the asset to a third party under a pass-through arrangement; or
- 3) the enterprise has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred 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
Categorisation by nature of receivables	Receivables not individually assessed for impairment are categorised on the basis of credit risk. Provision for bad debts for each category of receivables is recognised at the actual rate of loss for the previous year of the same or similar category bearing similar credit risk characteristics after adjustment for the current period circumstances.

B.Provision by credit risk characteristics

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

Provisions for difference portfolios:

Item	Provision
Categorisation by nature of receivables	Percentage of carrying amount

Portfolio 1 by Aging analysis

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

3) Provisions of bad debts that is individually insignificant.

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

4.10.3 The reversal of bad debts provision

If there is objective evidence of recovery in value of account receivables, and the recovery can be related to an event occurring after the impairment

was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. However, the reversal shall not result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.

4.11 Inventories

4.11.1 Classification of inventory

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

4.11.2 Valuation method of inventories upon delivery

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

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

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

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

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

4.11.4 The perpetual inventory system is maintained for stock system.

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

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

4.12 Held-for-sale assets

If the company takes back its book value mainly by selling (including the non-monetary assets exchange with commercial substance, the same as below) rather than noncontinuous use of a non-current asset or disposal group, it shall be divided into the held-for-sale category. The specific criteria are to meet the following conditions: a certain non-current asset or disposal group can be sold immediately under the current conditions based on the practice of selling such assets or disposal groups in similar transactions; the Company has made resolutions on the sale plan and has obtained decided purchase commitments; the sale is expected to be completed within one year. Thereinto, the disposal group refers to a set of assets that are disposed along with all the others as a whole by sale or other methods in a transaction and the liabilities that are directly related to those assets transferred in the transaction. The group of assets or asset groups to which the disposal group belongs share the goodwill achieved in

the business combination in accordance with the Accounting Standards for Business Enterprises No.8 – Impairment of Assets, the disposal group should include the goodwill assigned to the disposal group.

When the initial measurement or the remeasurement at the balance sheet date of the Company is divided into the non-current asset and disposal group held for sale, if the book value is higher than the net amount after subtracting the selling fees from the fair value, write down the book value to the net amount after subtracting the selling fees from the fair value, the write-down amount is recognized as asset impairment losses and is included in the current profits and losses, meanwhile making provisions for impairment of assets held for sale. For the disposal group, the recognized assets impairment losses firstly offset the book value of goodwill in the disposal group, then offset the book value of various non-current assets specified by the measurement applicable for Accounting Standards for Business Enterprises No. 42- Non-current Assets, Disposal Group, and Discontinued Operation Held for Sale (Hereinafter referred to as the Guidelines Held for Sale) in the disposal group. If the net amount after subtracting the selling fees from the fair value of the disposal group at the subsequent balance sheet date has an increase, the amount of the previous write-down should be restored and transferred back in the amount of assets impairment loss recognized by non-current assets and applicable for held-for-sale standards after being classified as the held-for-sale, the transferred amount should be included in the current profits and losses, and increase its book value in proportion according to the proportion of book value of various non-current assets applicable for the measurement and specification of held-for-sale standards in the disposal group except for the goodwill; the book value of which the goodwill has been offset and the assets impairment losses confirmed before the non-current assets applicable for the measurement and specification of held-for-sale standards being classified as available-for-sale assets cannot be transferred back.

The non-current assets held for sale or the non-current assets in the disposal group shall not be accrued for depreciation or amortization, continue to confirm the indebted interest and other expenses in the disposal group held for sale.

When the non-current assets or disposal groups no longer meet the requirements of held-for-sale categories, the Company shall not continue to classify them as the held-for-sale categories or remove the non-current assets from the held-for-sale disposal group, and measure according to the lower one of the following: (1) For the book value before being classified as held-for-sale category, the amount of the depreciation, amortization or impairment that should be confirmed when not being classified as held-for-sale category according to the assumption after being adjusted; (2) Recoverable amount.

4.13 Long-term equity investments

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

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

4.13.1 Determination of Investment cost

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

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

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

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

4.13.2 Subsequent Measurement

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

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

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

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

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

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

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

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

3) Acquisition of minority interest

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

4) Disposal of long-term equity investment

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

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

Where a long-term equity investment is measured at cost both before and after part disposal of the investment, cumulative other comprehensive income relevant to the investment recognised, as a result of accounting by equity method or recognition and measurement principles applicable to

financial instruments, prior to the Company's acquisition of control over the investee is treated in the same manner that the investee disposes the relevant assets or liabilities and recognised in profit or loss proportionate to the disposal. The investee's equity movement other than net profit, other comprehensive income and profit distribution, as a result of accounting by equity method, is recognised in profit or loss proportionate to the disposal.

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

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

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

4.14 Fixed assets

4.14.1 The conditions of recognition

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

4.14.2 The method for depreciation

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

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

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

4.14.3 Measurement and recognition of fixed assets

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

4.14.4 Fixed Assets under finance leases

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

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

4.14.5 Others

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

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

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

4.15 Construction in progress

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

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

4.16 Borrowing costs

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

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

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

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

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

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

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

4.17 Intangible assets

4.17.1 Intangible asset

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

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

Land use rights that are purchased by the Company are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Company, and relevant land use rights and buildings, are accounted for as intangible assets and fixed assets, respectively.

Payments for the land and buildings purchased are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

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

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

4.17.2 the expenditure of research and development

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

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

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

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

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

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

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

4.18 Deferred charges

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

4.19 Impairment of long-term assets

Non-financial assets with non-current nature include fixed assets, construction in progress, intangible assets with definite useful lives, investment properties measured by cost methods and long-term equity investment on subsidiaries, jointly operations. The Company assesses whether there are any indicators of impairment for all non-financial assets at the balance sheet date, and impairment test is carried out and recoverable value is estimated if such an indicator exists. Goodwill and intangible assets with indefinite useful lives, as well as intangible assets not ready for use, are

tested for impairment annually regardless of indicators of impairment.

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

Disposal expenses include expenses related to the legislation, taxes, transportations and the direct expense for the asset to be ready for sale.

When calculating the present value of expected future cash flows from an asset or asset Group, the management shall estimate the expected future cash flows from the asset or asset Group and choose a suitable discount rate in order to calculate the present value of those cash flows.

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

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

4.20 Employee Benefits

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

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

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

When the Company terminates the labor relationship with employees prior to the employment contracts, or encourages employees to accept voluntary redundancy compensation proposals in this company, a provision shall be recognised for the compensation arising from the termination of employment relationship with employees at the time when the Company can not unilaterally withdraw layoff proposal termination benefits provided due to termination of employment, or the company ensures the costs related to the payment for termination benefits related to the restructuring,

which one is early to confirm employee benefits liabilities, and recorded as profit or loss. However, if termination benefits can not be fully paid 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 recognised in profit or loss (termination benefits) when satisfying the requirements of a provision.

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

4.21 Revenue

4.21.1 Revenue from rendering of service

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

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

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

4.21.2 Royalty Revenue

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

4.21.3 Interest Income

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

4.22 Government Grants

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

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

For the government subsidy containing both asset-related parts and income-related parts at the same time, distinguish the different parts and make the accounting treatment, classify the parts which are difficult to be distinguished as the income-related government subsidy.

Then government subsidy related to the Company's daily activities is included in other incomes or offsets related costs in accordance with the essence of economic business; while the government subsidy unrelated to the Company's daily activities is included in non-operating income and expenditure.

When the recognized government subsidy needs to be refunded or has balance of related deferred income, offset the book balance of related deferred income, and include the excess parts in the current profits and losses; directly include these belong to other situations in the current profits and losses.

4.23 Deferred tax assets and deferred tax liabilities

4.23.1 Income tax for the current period

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

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

4.23.2 Deferred income tax assets and liabilities

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

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

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

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

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

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

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

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

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

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

4.23.3 Income tax expenses

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

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

4.23.4 Income tax offset

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

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

4.24 Leases

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

4.24.1 The Company as Lessee under operating Lease

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of

the related asset or charged to profit or loss for the current period. The contingent rents shall be recorded in the profit or loss of the period in which they actually arise.

4.24.2 The Company as Lessor under operating Lease

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

4.24.3 The Company as Lessee under financing Lease

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

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

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

4.24.4 In the case of the lessor of a financing lease

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

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

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

4.25 Regular repair and substantial repair

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

4.26 Changes in major accounting policies and accounting estimates

4.26.1 change of accounting policies

Changes in accounting policies caused by the implementation of new Accounting Standards for Business Enterprises.

On April 28, 2017, the Ministry of Finance issues the Accounting Standards for Business Enterprises No. 42- Non-current Assets, Disposal Group, and Discontinued Operation Held for Sale, which has been implemented in all enterprises that carry out the Accounting Standards for Business Enterprises from May 28, 2017. On May 10, 2017, the Ministry of Finance revised the Accounting Standards for Business Enterprises No. 16 – Government Subsidy, which has been implemented in all enterprises that carry out the Accounting Standards for Business Enterprises from June 12, 2017.

Approved by the resolution of the 3th interim meeting of the 6th Board of Directors on August 29th 2017, the Company has commenced the implementation of the aforesaid two accounting standards in accordance with the requirements of the Ministry of Finance and has adjusted financial data in accordance with the guidelines convergence requirements. The impact on the current and previous presentations of the financial statements and amounts is as follows:

Accounting standards	Changes in accounting policy and its impact on the Company	Impact on the relevant financial statements for the period from January to June 2017	
		Account Name	The amount affected Increase + / decrease -
Accounting Standards for Business Enterprises No. 16 - Government Subsidy (revised in 2017)	In accordance with the Accounting Standards for Business Enterprises No. 16 - Government Subsidy (Revised 2017), government subsidy related to the Company's daily activities is included in other incomes ; while the government subsidy unrelated to the Company's daily activities is included in non-operating income and expenditure. The Company adopts the future applicable method to carry out accounting treatment of this accounting policy change.	Other income	60,164,960.18
		Non-operating income	-60,164,960.18

4.26.2 change of accounting estimates

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

4.27 Correction of prior period errors

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

4.28 Significant account judgment and estimates

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

the assets or liabilities affected in the future.

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

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

4.28.1 Classification of lease

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

4.28.2 Allowance for bad debt

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

4.28.3 Impairment of inventories

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

4.28.4 The fair value of financial instruments

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

4.28.5 Impairment of non-financial, non-current assets

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

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

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

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

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

4.28.6 Depreciation and amortization

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

4.28.7 Deferred tax assets

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

4.28.8 Income tax

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

4.28.9 Aircraft operating lease and engine overhaul expenses

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

4.28.10 Defined benefit plan

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

Note 6.28.

Note 5 Taxation**5.1 Major taxes and tax rate**

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

Note 1: According to the provision of National Development and Reform Commission ([2014]15), the branch membership of our company in Western China can get a reduced rate of 15% to pay corporate income tax, when its international and domestic air passenger and cargo transport projects are in line with the " Catalogue of Encouraged Industries in Western Region"(《西部地区鼓励类产业目录》). All companies in mainland China are subject to a corporate income tax rate of 25%.

Note 2: Prior to 1 August 2013, revenue arising from air transportation was taxable for business tax at the rate of 3%. As from 1 August 2013, revenue arising from air transportation become VAT taxable per the Notice of Pilot Conversion of Sales-tax-to-VAT for the Transportation Sector and Certain Contemporary Service Sectors by the Ministry of Finance and

State Administration of Taxation (Caishui[2013]37). (《财政部、国家税务总局关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》(财税[2013]37号)).

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

5.2 Tax incentives

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

5.2.2. Per the Notice of Continuous Implementation of Transitional Business Tax Exemption Policy for Cross-boarder Lease Contracts of Equipment and Machinery(CaiShui[2011]No.48) (财税[2011]48号《关于跨境设备租赁合同继续实行过渡性营业税免税政策的通知》) jointly issued by the Ministry of Finance and the State Administration of Taxation on June 30, 2011 and approved by the State Council, the transitional operating tax exemption applicable to revenue received by overseas lessor(s) to lease contracts (applicable to both financing lease and operating lease) of machinery and equipment import leasing involving domestic lessee(s) and overseas lessor(s) entered into prior to and remaining in force as at December 31, 2008 continues to apply from January 1, 2010 to the expiry date of the relevant contract. The Ministry of Finance and the State Administration of Taxation, "the notice on the full implementation of pilot for replacing the business tax by VAT" (caishui[2016]36) (《关于全面推开营业税改征增值税试点的通知》(财税[2016]36号)). "(Appendix 3)The provision of Transitional Policy of pilot for replacing the business tax by VAT".(附件3《营业税改征增值税试点过渡政策的规定》). 6. The VAT preferential policies will be implemented during the pilot, expect the projects which have established deadlines and the fifth provision. If the pilot taxpayers have enjoyed the tax preferential policy of business tax before the day replacing business tax with VAT, during the remaining preferential tax policy term, they should enjoy the relevant vat preferential according to this provision.

Note 6 Notes to significant elements of the consolidated financial statements

Unless otherwise stated, the meaning of "B/f", "C/f", "Current period", "Prior period" in the following notes (incl. Notes to elements of the separate financial statements) is "1st January 2017", "30th June 2017", "the date ended June 30th 2017", and "the date ended June 30th 2016" respectively.

6.1 Monetary funds

Item	C/f	B/f
Cash at hand:	495,385.69	182,606.18
Bank deposit:	442,833,539.40	791,073,080.47

Item	C/f	B/f
Other monetary funds:		
Total	443,328,925.09	791,255,686.65
Including: the total amount of deposit abroad	1,797,236.77	1,604,517.22

6.2 Accounts receivables

6.2.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	311,885,320.15	60.92			311,885,320.15
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	176,917,861.12	34.56	8,845,893.06	5.00	168,071,968.06
Accounts receivable of individual insignificance but subject to individual impairment assessment	23,163,302.01	4.52	10,823,117.90	46.73	12,340,184.11
Total	511,966,483.28	100.00	19,669,010.96	3.84	492,297,472.32

(Continued)

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

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

Debtor	C/f
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	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Air China	167,803,828.21			No indication of impairment upon individual assessment
BSP-CHINA	79,126,159.53			No indication of impairment upon individual assessment
Accounting Center of China Aviation	64,955,332.41			No indication of impairment upon individual assessment
Total	311,885,320.15			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	176,917,861.12	8,845,893.06	5.00
Total	176,917,861.12	8,845,893.06	5.00

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	8,057,209.85	8,057,209.85	100.00	impairment upon individual assessment
BSP-others	8,476,009.77			No indication of impairment upon individual assessment
UATP	3,622,367.78			No indication of impairment upon individual assessment
Kun Peng Airlines Co., Ltd.	1,849,400.00	1,849,400.00	100.00	impairment upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	impairment upon individual assessment
ARC	241,806.56			No indication of impairment upon

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
				individual assessment
Total	23,163,302.01	10,823,117.90	46.73	

Note: BSP-others mainly for BSP accounts receivable of other countries or regions.

6.2.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the year is CNY4,241,964.92.

6.2.3 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarised by debtors as at the end of current period is CNY 377,401,526.80, accounting for 73.72% of the total accounts receivable as at the end of current period, the total corresponding allowance for bad debts is CNY3,275,810.33.

6.3 Prepayments

6.3.1 Disclosure by age

Age	C/f		B/f	
	Amount	%	Amount	%
Within 1 year	308,841,751.01	99.59	248,363,327.89	99.69
1 to 2 years	572,513.45	0.18	50,862.40	0.02
2 to 3 years	228,761.96	0.07	231,761.96	0.09
Over 3 years	493,292.70	0.16	490,292.70	0.20
Total	310,136,319.12	100.00	249,136,244.95	100.00

6.3.2 Details of top five prepayments

The total amount of top five prepayments as at the end of current period is CNY 123,853,023.17, accounting for 39.94% of the total advance to suppliers.

6.4 Dividends receivable

6.4.1 Disclosure by item

Item	C/f	B/f
Sichuan Airlines	19,278,420.00	
Total	19,278,420.00	

6.5 Other receivables

6.5.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	369,416,024.66	72.36	104,933,519.66	28.41	264,482,505.00
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	96,106,144.27	18.82	4,805,307.21	5.00	91,300,837.06
Other receivables of individual insignificance but subject to individual impairment assessment	45,019,309.31	8.82			45,019,309.31
Total	510,541,478.24	100.00	109,738,826.87	21.49	400,802,651.37

(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	353,220,633.95	76.34	108,431,670.15	30.70	244,788,963.80
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	65,822,034.03	14.22	3,291,101.71	5.00	62,530,932.32
Other receivables of individual insignificance but subject to individual impairment assessment	43,680,428.66	9.44			43,680,428.66
Total	462,723,096.64	100.00	111,722,771.86	24.14	351,000,324.78

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	200,228,266.83			No indication of impairment upon individual assessment
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	impairment upon individual assessment
Debtor #2	38,447,080.54	1,922,354.03	5.00	impairment assessment by portfolio
Debtor #3	29,188,959.64	1,459,447.98	5.00	impairment assessment by portfolio
Total	369,416,024.66	104,933,519.66	28.41	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	96,106,144.27	4,805,307.21	5.00
Total	96,106,144.27	4,805,307.21	5.00

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	17,300,360.00			No indication of impairment upon individual assessment
Debtor #2	4,238,588.20			No indication of impairment upon individual assessment
Debtor #3	2,067,420.00			No indication of impairment upon individual assessment
Debtor #4	2,062,200.00			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #5	4,457,873.01			No indication of impairment upon individual assessment
Debtor #6	773,050.73			No indication of impairment upon individual assessment
Debtor #7	895,684.40			No indication of impairment upon individual assessment
Air China	5,615,980.16			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	7,127,044.28			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	58,736.75			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	72,746.00			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	349,625.78			No indication of impairment upon individual assessment
Total	45,019,309.31			

6.5.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the current period is CNY -1,983,944.99.

6.5.3 Disclosure by nature

Category	C/f	B/f
Deposits	232,027,493.17	151,888,719.29
Others	278,513,985.07	310,834,377.35
Total	510,541,478.24	462,723,096.64

6.5.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
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Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	200,228,266.83	Within 1 year	39.22	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 4 years	19.89	101,551,717.65
Debtor #2	Others	38,447,080.54	Within 2 years	7.53	1,922,354.03
Debtor #3	Others	29,188,959.64	Within 3 years	5.72	1,459,447.98
Debtor #4	Others	17,517,616.25	Within 1 year	3.43	875,880.81
Total		386,933,640.91		75.79	105,809,400.47

6.6 Inventories

Type	C/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipments	107,521,997.55		107,521,997.55
Low-value consumables	3,241,190.16		3,241,190.16
Materials	1,033,226.98		1,033,226.98
Total	111,796,414.69		111,796,414.69

(Continued)

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

6.7 Other current assets

Type	C/f	B/f
VAT deductible	83,459,901.34	59,685,735.09
Total	83,459,901.34	59,685,735.09

6.8 Financial assets available for sale

6.8.1 General information

Category	C/f			B/f		
	Carrying amount	Impairment	Net carrying amount	Carrying amount	Impairment	Net carrying amount
Available for sale equity instruments						
Including: measured by fair value	260,410,357.35		260,410,357.35	190,210,082.34		190,210,082.34
measured by cost	81,662,100.00		81,662,100.00	81,662,100.00		81,662,100.00
Total	342,072,457.35		342,072,457.35	271,872,182.34		271,872,182.34

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

Category	Available for sale equity instruments	Total
Cost of equity instruments	6,690,000.00	6,690,000.00
Fair value	260,410,357.35	260,410,357.35
Accumulated changes in the fair value recognised into other comprehensive income	253,720,357.35	253,720,357.35
Impairment amount		

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

Investee	Carrying amounts as at 30/06/2017				Impairment				Shareholding in investee(%)	Cash Dividend for current year
	B/f	Increase in current period	Decrease in current period	C/f	B/f	Increase in current period	Decrease in current period	C/f		
Sichuan Airlines	35,000,000.00			35,000,000.00					10.00	19,278,420.00
Jinan International Airport	46,662,100.00			46,662,100.00					2.53	566,011.27
Total	81,662,100.00			81,662,100.00						19,844,431.27

6.9 Long-term equity investments

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

(Continued)

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

6.10 Fixed assets

6.10.1 General information

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at 31/12/2016	359,270,176.86	10,490,391,354.44	718,326,376.78	68,932,416.61	190,971,693.13	11,827,892,017.82
1.2 Increased in current period		106,306,575.52	42,369,764.41	838,088.81	10,707,237.35	160,221,666.09
(1) Purchase		106,306,575.52	42,369,764.41	838,088.81	10,707,237.35	160,221,666.09
(2) Transferred from construction in-progress						

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(3) Transferred from merger and acquisitions						
(4) Others						
1.3 Decreased in current period		56,230,000.00	83,703,150.46	1,901,676.63	8,040,296.18	149,875,123.27
(1) Disposal or scrap		56,230,000.00	83,703,150.46	1,901,676.63	8,040,296.18	149,875,123.27
(2) Others						
1.4 Balance as at 30/06/2017	359,270,176.86	10,540,467,929.96	676,992,990.73	67,868,828.79	193,638,634.30	11,838,238,560.64
2. Accumulated Depreciation						
2.1 Balance as at 31/12/2016	81,895,705.86	4,216,709,384.42	282,875,021.63	38,349,151.75	102,004,728.85	4,721,833,992.51
2.2 Increased in current period	5,829,448.98	368,943,705.30	19,667,430.65	2,471,744.81	9,736,455.25	406,648,784.99
(1) Accrual	5,829,448.98	368,943,705.30	19,667,430.65	2,471,744.81	9,736,455.25	406,648,784.99
2.3 Decreased in current period		56,230,000.00	56,652,653.37	1,441,552.57	7,180,299.10	121,504,505.04
(1) Disposal or scrap		56,230,000.00	56,652,653.37	1,441,552.57	7,180,299.10	121,504,505.04
(2) Others						
2.4. Balance as at 30/06/2017	87,725,154.84	4,529,423,089.72	245,889,798.91	39,379,343.99	104,560,885.00	5,006,978,272.46
3. Impairment allowance						
3.1 Balance as at 31/12/2016			12,824,873.52			12,824,873.52
3.2 Increased in current period						
(1) Accrual						
3.3 Decreased in current period			10,255,791.67			10,255,791.67
(1) Disposal or scrap			10,255,791.67			10,255,791.67
(2) Others						
3.4 Balance as at 30/06/2017			2,569,081.85			2,569,081.85

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
4. Carrying amount						
4.1 Carrying amount as at 30/06/2017	271,545,022.02	6,011,044,840.24	428,534,109.97	28,489,484.80	89,077,749.30	6,828,691,206.33
4.2 Carrying amount as at 31/12/2016	277,374,471.00	6,273,681,970.02	422,626,481.63	30,583,264.86	88,966,964.28	7,093,233,151.79

6.10.2 Fixed assets acquired under financial leases

Category	Cost	Accumulated Depreciation	Impairment allowance	Carrying amount
Aircrafts and engines	2,135,798,272.75	1,066,081,208.64		1,069,717,064.11
Total	2,135,798,272.75	1,066,081,208.64		1,069,717,064.11

6.10.3 Fixed assets pending ownership registration

Item	Carrying amount	Reason for pending
Operational support building of Yantai Chaoshui International Airport	59,038,005.78	Ownership registration in process
Jinan cargo arrival and departure warehouses	12,622,668.74	Land rented from Jinan Air Control, not eligible for ownership registration

Impairment allowance of fixed assets is CNY 2,569,081.85 as at 30/06/2017, with no additional amount of allowance for fixed assets impairment recognised during the period.

6.11 Construction in progress

6.11.1 General information

Items	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Factory building project	149,257,517.66		149,257,517.66	137,792,677.66		137,792,677.66
Prepayment for aircrafts	2,552,509,147.46		2,552,509,147.46	2,110,159,957.73		2,110,159,957.73
Construction of information system	1,592,960.81		1,592,960.81	2,547,826.96		2,547,826.96
Total	2,703,359,625.93		2,703,359,625.93	2,250,500,462.35		2,250,500,462.35

6.11.2 Significant projects

Project	Budget	B/f	Current period increase	Transferred to fixed assets in current period	Other decrease	C/f
Administrative office of Xiamen branch	195,000,000.00	136,606,996.49	11,464,840.00			148,071,836.49
Aircraft asset introduction project	15,004,922,602.00	2,110,159,957.73	861,035,587.26		418,686,397.53	2,552,509,147.46
Total	15,199,922,602.00	2,246,766,954.22	872,500,427.26		418,686,397.53	2,700,580,983.95

(Continued)

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative interests capitalised	Including: Transferred into leaseback assets during the current period	Including: Transferred into fixed assets during the current period	Including: interests capitalized during the current period	Capitalisation rate applicable to the current period	Source of finance
Administrative office of Xiamen branch	75.93%	Not completed						current assets
Aircraft asset introduction project	17.01%	Not applicable	58,795,066.01	18,871,410.16		320,814.88	3.4177-3.5260	Loans from Finance Institutions and current assets
Total			58,795,066.01	18,871,410.16		320,814.88		

Note: The cumulative amount of interests capitalized as at 31/12/2016 is 77,345,661.29, the amount of current period is 320,814.88, including 0 transferred into fixed assets and 18,871,410.16 transferred into leaseback assets during the current period, the cumulative amount of interests capitalized as at 30/06/2017 is 58,795,066.01.

6.11.3 Recognition of impairment allowance for construction in progress

No sign of construction in progress impairment occurred as at 30/06/2017, no impairment provision shall be recognised.

6.12 Intangible assets

6.12.1 General information

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31/12/2016	108,347,341.13	28,857,996.52	137,205,337.65
1.2 Increased in current period		6,527,535.90	6,527,535.90
(1) Purchase			
(2) Diversion of construction		6,527,535.90	6,527,535.90
(3) Increased from business combination			
1.3 Decreased in current period			
(1) Disposal			
1.4 Balance as at 30/06/2017	108,347,341.13	35,385,532.42	143,732,873.55
2. Accumulated amortization			
2.1 Balance as at 31/12/2016	13,584,809.57	9,416,774.88	23,001,584.45
2.2 Increased in current period	1,201,791.44	1,889,301.05	3,091,092.49
(1) Accrual	1,201,791.44	1,889,301.05	3,091,092.49
2.3 Decreased in current period			
(1) Disposal			
2.4 Balance as at 30/06/2017	14,786,601.01	11,306,075.93	26,092,676.94
3. Impairment allowance			
3.1 Balance as at 31/12/2016			
3.2 Increased in current period			
(1) Accrual			
3.3 Decreased in current period			
(1) Disposal			
3.4 Balance as at 30/06/2017			
4. Carrying amount			
4.1 Carrying amount as at 30/06/2017	93,560,740.12	24,079,456.49	117,640,196.61
4.2 Carrying amount as at 31/12/2016	94,762,531.56	19,441,221.64	114,203,753.20

6.12.2 Land rights with pending ownership registration

No case of land rights with pending ownership registration was identified as at 30/06/2017.

6.13 Goodwill

6.13.1 General information

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

6.13.2 Impairment allowance

Investee	B/f	Current period increase		Current period 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 period increase	Current period amortization	Other decrease	C/f
Pilot training	459,390,584.88	31,372,829.61	39,214,140.43		451,549,274.06
Decoration expenditure	12,727,205.54		2,774,472.25		9,952,733.29
Modification costs for aircraft leasing	3,444,869.66		203,575.96		3,241,293.70
Total	475,562,660.08	31,372,829.61	42,192,188.64		464,743,301.05

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	129,407,837.83	32,351,959.46	127,149,817.90	31,787,454.48

Impairment allowance for fixed assets	2,569,081.85	642,270.46	12,824,873.52	3,206,218.38
Fair value movement of financial liabilities held for trading	1,753,048.20	438,262.05	1,155,815.80	288,953.95
Provisions	2,766,225,312.75	691,556,328.19	2,398,351,341.80	599,587,835.45
Employment benefits payable	35,087,927.95	8,771,981.99	13,339,322.51	3,334,830.63
Deferred income	13,581,523.92	3,395,380.98	14,319,523.98	3,579,881.00
Total	2,948,624,732.50	737,156,183.13	2,567,140,695.51	641,785,173.89

6.15.2 Deferred tax liabilities

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax liabilities	Deductible temporary difference	Deferred tax liabilities
Changes in fair value of financial assets available for sale	253,720,357.35	63,430,089.33	183,520,082.34	45,880,020.58
Total	253,720,357.35	63,430,089.33	183,520,082.34	45,880,020.58

6.16 Short-term borrowings

Type	C/f	B/f
Credit loans	400,000,000.00	
Total	400,000,000.00	

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

Item	Fair value c/f	Fair value b/f
Interest rate swaps	1,753,048.20	1,155,815.80
Total	1,753,048.20	1,155,815.80

The immature interest rate swaps held by the Company had a principal amount of USD 55,962,278.40 as at 30/06/2017; bankers confirmed that the reporting date fair value of these interest rate swaps is CNY-1,753,048.20.

6.18 Accounts payable

6.18.1 General information

Item	C/f	B/f
Aircraft maintenance costs	562,966,441.98	463,956,451.17

Item	C/f	B/f
Fuel cost	319,440,237.62	197,231,462.72
Landing fee	427,815,841.70	333,773,372.93
Aircraft service cost	388,213,258.16	345,104,581.50
Flight catering	120,248,460.13	82,266,721.74
Computer booking fee	71,471,899.53	35,600,521.61
Lease rental	11,447,814.56	7,978,905.87
Others	285,543,897.76	222,182,843.55
Total	2,187,147,851.44	1,688,094,861.09

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	535,922,697.17	671,930,813.96
Advanced payment for tickets	6,300,535.78	4,811,444.78
Others	6,113,052.89	22,577,294.31
Total	548,336,285.84	699,319,553.05

6.20 Employee benefits payable

6.20.1 Disclosure by classification

Item	B/f	Current period increase	Current period decrease	C/f
1. Short-term employee benefits	454,375,029.19	1,191,501,026.57	1,326,318,602.26	319,557,453.50
2. Post-employment benefits		106,556,787.04	106,556,787.04	
3. Termination benefits				
4. Other long-term employee benefits within one year				
Total	454,375,029.19	1,298,057,813.61	1,432,875,389.30	319,557,453.50

6.20.2 Disclosure by classification of short-term employee benefits

Item	B/f	Current period increase	Current period decrease	C/f

Item	B/f	Current period increase	Current period decrease	C/f
1. Wages, salaries and subsidies	413,228,272.68	1,067,988,356.98	1,211,714,104.89	269,502,524.77
2. Employee welfare		5,598,657.30	5,598,657.30	
3. Social insurance:		37,731,054.43	37,731,054.43	
Including: Medical insurance		31,643,641.26	31,643,641.26	
Employment injury insurance		2,541,251.07	2,541,251.07	
Maternity insurance		3,546,162.11	3,546,162.11	
Disabled security payments				
4. Housing provident fund	147,434.00	33,451,830.80	33,575,120.80	24,144.00
5. Labour union fee and employee education fee	13,339,322.51	31,731,127.06	10,039,664.84	35,030,784.73
6. Short-term paid absences	27,660,000.00	15,000,000.00	27,660,000.00	15,000,000.00
7. Short-term profit-sharing plan				
Total	454,375,029.19	1,191,501,026.57	1,326,318,602.26	319,557,453.50

6.20.3 Disclosure by defined contribution plan

Item	B/f	Current period increase	Current period decrease	C/f
1. Basic pension		66,459,048.96	66,459,048.96	
2. Unemployment insurance		2,724,338.00	2,724,338.00	
3. Annuity payment		37,373,400.08	37,373,400.08	
Total		106,556,787.04	106,556,787.04	

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	799,271.10	775,322.54
Urban construction and maintenance tax	817,694.42	171,124.16

Tax (Fee)	C/f	B/f
Education surcharge	585,025.59	123,863.13
Enterprise income tax	29,084,460.23	4,877,426.27
Property tax	170,078.07	170,078.07
Land tax	246,269.42	221,139.00
Personal income tax	11,137,061.06	22,838,989.34
stamp duty		2,553,371.69
Civil aviation development fund	124,960,374.23	106,835,140.08
Others	130,418.83	95,350.88
Total	167,930,652.95	138,661,805.16

6.22 Interests payable

Item	C/f	B/f
Interest on long-term borrowings with repayment by installments	2,404,528.96	2,430,456.90
Total	2,404,528.96	2,430,456.90

6.23 Other payables

6.23.1 Disclosure by nature

Item	C/f	B/f
Payable for construction projects	31,100,786.10	30,515,708.94
Payable for down payments	117,631,288.49	91,264,426.66
Payables associated with aircraft purchase	11,382,401.11	3,949,505.02
Taxes deducted at source	86,608,192.77	80,231,680.37
Others	174,846,035.61	195,893,115.22
Total	421,568,704.08	401,854,436.21

6.23.2 Significant other payables due for more than 1 year

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

6.24 Non-current liabilities due within one year

Category	C/f	B/f
Long-term borrowings due within one year (Note 6.25)	617,888,896.00	836,269,451.50
Bonds payable due within one year		
Long-term payables due within one year (Note 6.26)	146,349,115.65	144,580,142.52
Long-term employee benefits payable due within one year (Note 6.27)	6,738,112.68	6,794,418.00
Total	770,976,124.33	987,644,012.02

6.25 Long-term borrowings

Category	C/f	B/f
Mortgage loan		
Secured loans	1,690,180,208.59	2,027,940,287.04
Guaranteed loans		
Credit loans	270,298,560.00	607,930,932.00
Less: Long-term borrowings due within one year (Note 6.24)	617,888,896.00	836,269,451.50
Total	1,342,589,872.59	1,799,601,767.54

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

② Interest rates as at 30/06/2017 of the above-mentioned long-term borrowings range from 2.1177%-4.4100%.

6.26 Long-term payables

Category	C/f	B/f
Financial lease rental payables	838,611,112.16	921,300,803.04
Maintenance payables for aircrafts and engines held under operating lease	2,549,546,659.38	2,217,672,688.43
Less: Financial lease rental payables due within one year (Note 6.24)	146,349,115.65	144,580,142.52
Less: Maintenance payables for aircrafts and engines held under operating lease due within one year (Note 1)	558,229,106.00	460,191,258.69
Total	2,683,579,549.89	2,534,202,090.26

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

6.27 Long-term employee benefits payable**6.27.1 General information**

Item	C/f	B/f
Post-employment benefits-net defined benefit liability	98,904,864.11	100,925,069.51
Less: long-term staff remuneration payable due within one year (Note 6.24)	6,738,112.68	6,794,418.00
Total	92,166,751.43	94,130,651.51

6.27.2 Movements

① Defined benefit obligation

Item	Current period	Prior period
(1) Net Defined Benefit Asset/(Liability) at End of Prior Period	100,925,069.51	90,145,000.00
(2) Defined benefit costs recognised into current profit or loss	1,584,500.00	1,308,000.00
1. Current Service Cost		
2. Past Service Cost		
3. Settlement (Gain)/Loss		
4. Net Interest/(Income) on Net Defined Benefit Liability/(Asset)	1,584,500.00	1,308,000.00
(3) Defined benefit costs recognised into other comprehensive income		
1. Actuarial gains/(losses)		
(4) Other movements	3,604,705.40	3,415,116.37
1. Settlement payment		
2. Benefits Paid Directly by Employer	3,604,705.40	3,415,116.37
(5) Net defined benefit asset/(liability) at end of current period	98,904,864.11	88,037,883.63

② Actuarial Assumptions

Item	31st December, 2016	30th June, 2017
Discount Rate	3.00%	3.25%
Mortality Rate	China Life Insurance Mortality Rate 2000-2003 (Annuity)	
Cost of Living Adjustments for Retired Cadres and Retirees	0.00%	
Cost of Living Adjustments for Internal Retirees	0.00%	

Item	31st December, 2016	30th June, 2017
Cost of Living Adjustments for Dependents		0.00%

28. Government Subsidy

6.28.1 General information of government subsidy initially recognized in this period

subsidy project	amount	Related to the assets		Related to the income				whether it is actually received
		deferred income	offset the book balance of related book value of asset	deferred income	other income	non operating income	offset the cost and expense	
Airline subsidies	59,238,280.87				59,238,280.87			Yes
Energy-saving reward from ministry of finance	188,679.25				188,679.25			Yes
Total	59,426,960.12				59,426,960.12			

6.28.2 General information of government subsidy included in the current profits and losses

subsidy project	related to the assets/ related to the income	included in other income	included in non-operating income	offset the cost and expense
Airline subsidies	related to the income	59,238,280.87		
Energy-saving reward from ministry of finance	related to the income	188,679.25		
Designated subsidy for snow disaster	related to the assets	249,750.00		
Designated subsidy for civil aviation energy-saving program	related to the assets	488,250.06		
Total		60,164,960.18		

6.29 Deferred income

Item	B/f	Current period increase	Current period decrease	C/f
Unrealized gains and losses of operating lease from aircraft leaseback	44,119,997.18	25,550,859.37	8,734,309.83	60,936,546.72
Designated subsidy for snow disaster	1,490,458.34		249,750.00	1,240,708.34
Designated subsidy for civil aviation energy-saving program	12,829,065.64		488,250.06	12,340,815.58
Total	58,439,521.16	25,550,859.37	9,472,309.89	74,518,070.64

Details of government grants:

Item	B/f	Current period increase	Current period decrease				C/f	related to the assets/ related to the income
			included in non-operating income	included in other income	offset the cost and expense	Other decrease		
Designated subsidy for snow disaster	1,490,458.34			249,750.00			1,240,708.34	related to the assets
Designated subsidy for civil aviation energy-saving program	12,829,065.64			488,250.06			12,340,815.58	related to the assets
Total	14,319,523.98			738,000.06			13,581,523.92	

6.30 Share capital

Category	B/f		Currency period movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Coverion from reserves	Others	Subtotal	Amount	%
1. Shares with restriction on disposal									
1.1 State-held shares									

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

6.31 Capital reserves

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

6.32 Other comprehensive income

Item	B/f	Total amount in current period					C/f
		Amount for the period before tax	Less: previously recognised in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
1.Other comprehensive income will be reclassified into income or loss in the future	-5,760,000.00						-5,760,000.00
Including: remeasurement of net assets or net liabilities of defined benefit plans	-5,760,000.00						-5,760,000.00
2.Other comprehensive income reclassifiable to profit or loss in subsequent periods	137,640,061.76	70,200,275.01		17,550,068.75	52,650,206.26		190,290,268.02

Item	B/f	Total amount in current period					C/f
		Amount for the period before tax	Less: previously recognised in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
Gains and losses from changes in fair value of financial assets available for sale	137,640,061.76	70,200,275.01		17,550,068.75	52,650,206.26		190,290,268.02
Total of other comprehensive income	131,880,061.76	70,200,275.01		17,550,068.75	52,650,206.26		184,530,268.02

6.33 Surplus reserves

Category	B/f	Current period increase	Current period decrease	C/f
Statutory surplus reserve	423,424,327.64			423,424,327.64
Total	423,424,327.64			423,424,327.64

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

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

6.34 Retained earnings

Items	Current period	Prior year
Pre-adjustment balance brought forward	2,805,458,074.96	2,425,066,740.03
Total adjustment to retained earnings b/f (+, -)		
Retained earnings b/f after adjustment	2,805,458,074.96	2,425,066,740.03
Add: Net profit attributable to shareholders of the parent	90,093,090.83	532,834,567.17
Other transfer		

Items	Current period	Prior year
Pre-adjustment balance brought forward	2,805,458,074.96	2,425,066,740.03
Less: Appropriation to statutory surplus reserve		52,443,232.24
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared	120,000,000.00	100,000,000.00
Bonus issue		
Balance carrying forward	2,775,551,165.79	2,805,458,074.96

6.35 Operating revenues and costs

Category	Current period		Prior period	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	7,361,655,609.07	7,009,774,578.68	6,174,403,762.33	5,422,888,318.50
Other business	189,139,132.85	1,002,863.77	135,345,527.89	679,535.22
Total	7,550,794,741.92	7,010,777,442.45	6,309,749,290.22	5,423,567,853.72

6.36 Tax and surcharges

Item	Current period	Prior period
Business tax		4,626,340.00
Urban maintenance and construction tax	7,470,575.03	19,639,678.24
Property tax	1,208,730.14	
Land tax	977,402.06	
Vehicle and vessel tax	34,222.58	
stamp duty	1,358,423.51	
Total	11,049,353.32	24,266,018.24

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

6.37 Sales expenses

Category	Current period	Prior period
Agency fees	112,513,566.00	142,524,924.99
Employment benefits	104,260,383.02	87,674,449.74

Category	Current period	Prior period
Computer booking	58,863,913.92	48,542,318.85
Online payment	15,910,504.99	18,243,015.91
Sales expense of annual tickets	328,077.20	569,258.24
Lease rental	8,067,710.47	5,386,640.36
Advertisement fees	6,751,819.61	5,933,117.54
Administrative office expenses	1,476,762.08	2,328,914.03
Travel expenses	2,867,765.21	2,768,481.58
System and network	17,687,307.23	1,315,330.83
BSP data processing	2,373,896.01	1,509,044.75
Depreciation	733,987.92	804,033.70
Others	12,668,596.52	11,709,951.77
Total	344,504,290.18	329,309,482.29

6.38 General and administrative expenses

Category	Current period	Prior period
Employment benefits	83,476,149.47	75,981,194.22
Lease rental	11,249,615.81	10,303,991.66
Business entertainment costs	2,657,241.98	2,073,800.42
Depreciation	7,334,279.71	7,473,243.21
Taxes and fees		5,486,165.66
Technology development costs	3,181,341.72	1,722,759.24
Amortisation of intangibles	3,091,092.49	2,577,170.71
Water, electricity charges	5,009,064.83	5,911,247.24
Outsourcing fee	5,237,232.81	8,035,371.48
Others	40,890,363.73	28,673,428.41
Total	162,126,382.55	148,238,372.25

6.39 Financial costs

Category	Current period	Prior period
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Interest expenses	59,926,303.54	67,649,152.92
Less: Interest income	3,834,523.99	7,344,162.51
Exchange difference	-47,560,156.02	50,594,145.29
Bank charges and others	801,510.26	3,309,378.48
Total	9,333,133.79	114,208,514.18

6.40 Loss on asset impairment

Category	Current period	Prior period
Allowance for bad debt	2,258,019.93	441,974.60
Total	2,258,019.93	441,974.60

6.41 Gain from changes in fair value

Source	Current period	Prior period
Interest rate swaps	-597,232.40	-3,926,637.22
Total	-597,232.40	-3,926,637.22

6.42 Investment income

Category	Current period	Prior period
Income from holding of financial assets available for sale	19,844,431.27	3.47
Income from long-term equity investment income of equity method		
Income from financial assets measured by fair value with changes in fair value recognised in profit or loss	-479,085.84	-850,517.15
Total	19,365,345.43	-850,513.68

6.43 Other income

Item	Current period	Prior period
Airline subsidies	59,238,280.87	
Energy-saving reward from ministry of finance	188,679.25	
Designated subsidy for snow disaster	249,750.00	
Designated subsidy for civil aviation energy-saving program	488,250.06	

Total	60,164,960.18
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6.44 Non-operating income

Category	Current period	Prior period	Included in current period non-recurring profit and loss
Gain on non-current asset disposals	24,408.34	38,150.95	24,408.34
Including: Gain on fixed asset disposals	24,408.34	38,150.95	24,408.34
Government grants (See details of government grants below)		108,958,388.62	
Others	20,383,484.09	6,701,077.28	20,383,484.09
Total	20,407,892.43	115,697,616.85	20,407,892.43

Details of government grants:

Government assistance	Current period	Prior period	related to the assets/ related to the income
Airline subsidies		86,623,850.00	
Energy-saving reward from ministry of finance		19,420,000.00	
Designated subsidy for snow disaster		249,750.00	
Designated subsidy for civil aviation energy-saving program		488,250.06	
Others		2,176,538.56	
Total		108,958,388.62	

6.45 Non-operating expenses

Category	Current period	Prior period	Included in current period non-recurring profit and loss
Loss on non-current asset disposals	836,956.54	1,994,829.83	836,956.54
Including: Loss on fixed asset disposals	836,956.54	1,994,829.83	836,956.54
Others	114,718.03	584,722.41	114,718.03
Total	951,674.57	2,579,552.24	951,674.57

6.46 Income tax expenses

6.46.1 Income tax expenses

Items	Current period	Prior period
Current income tax expense	114,413,329.18	258,215,995.70
Deferred tax	-95,371,009.24	-163,847,495.70
Total	19,042,319.94	94,368,500.00

6.46.2 Reconciliation of account profit and income tax expenses

Items	Current period
Profit before tax	109,135,410.78
Income tax computed in accordance with the applicable tax rate	27,283,852.70
Income tax computed in accordance with the applicable tax rate	-3,648,015.88
Impact of non-taxable income	-4,961,107.82
Impact of non-deductible costs, expenses and losses	367,590.94
Income tax expenses	19,042,319.94

6.47 Other comprehensive income

Please see Note 6. 32 for detail.

6.48 Notes to the consolidated statement of cash flows

6.48.1 Other cash receipts relating to operating activities

Category	Current period	Prior period
Government grants	59,426,960.12	108,220,388.56
Interest income on bank deposit	3,834,523.99	7,344,162.51
Cash receipts from non-operating income	20,383,484.09	6,701,077.28
Cash receipts from operating balance	10,187,211.62	38,808,493.53
Total	93,832,179.82	161,074,121.88

6.48.2 Other cash payments relating to operating activities

Category	Current period	Prior period
Bank charges	801,510.26	3,310,024.48
Cash payments for non-operating expenses	114,718.03	584,722.41

Category	Current period	Prior period
Cash payments for operating balance	62,159,661.28	52,354,485.57
Cash payments for sales and general and administrative expenses	27,914,187.14	22,941,379.52
Total	90,990,076.71	79,190,611.98

6.48.3 Other cash payments relating to investing activities

Category	Current period	Prior period
Cash payments of settlement of interest rate swaps	214,526.52	421,533.02
Total	214,526.52	421,533.02

6.48.4 Other cash receipts relating to financing activities

Category	Current period	Prior period
Cash receipts for disposal of purchase rights on aircrafts (which became acquired under operating lease instead of purchase)	430,793,362.96	195,845,614.80
Total	430,793,362.96	195,845,614.80

6.48.5 Other cash payments relating to financing activities

Category	Current period	Prior period
Cash payments for aircraft financial lease rental	93,634,945.60	85,871,334.98
Total	93,634,945.60	85,871,334.98

6.49 Supplementary information to the consolidated statement of cash flows

6.49.1 Supplementary information to the statement of cash flows

Items	Current period	Prior period
① Reconciliation of cash flows from operating activities to net profit:		
Net profit	90,093,090.83	283,689,488.65
Add: Loss on asset impairment	2,258,019.93	441,974.60
Depreciation of fixed assets, oil and gas assets, biological assets held for production	406,648,784.99	390,723,606.22
Amortisation of intangible assets	3,091,092.49	2,577,170.71
Amortisation of Long-term deferred expenditure	42,192,188.64	40,967,578.75
Loss on non-current assets disposal (gain presented by "-" prefix)	812,548.20	1,956,678.88

Items	Current period	Prior period
Loss on scrap of fixed assets (gain presented by "-" prefix)		
Loss on fair value changes (gain presented by "-" prefix)	597,232.40	3,926,637.22
Financial costs (gain presented by "-" prefix)	5,645,105.18	131,315,878.01
Investment loss (gain presented by "-" prefix)	-19,365,345.43	850,513.68
Decrease of deferred tax assets (increase presented by "-" prefix)	-95,371,009.24	-163,847,495.70
Increase of deferred tax liabilities (increase presented by "-" prefix)		
Decrease of inventories (increase presented by "-" prefix)	9,168,828.87	-11,498,790.06
Decrease of operating receivables (increase presented by "-" prefix)	-282,707,697.16	-176,385,529.52
Increase of operating payables (decrease presented by "-" prefix)	489,695,710.66	523,193,137.15
Others	-3,604,705.40	-3,415,116.37
Net cash flows generated from operating activities	649,153,844.96	1,024,495,732.22
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 30/06/2017	443,328,925.09	592,355,497.98
Less: Cash as at 31/12/2016	791,255,686.65	1,415,399,630.60
Add: Cash equivalents as at 30/06/2017		
Less: Cash equivalents as at 31/12/2016		
Net increase of cash and cash equivalents	-347,926,761.56	-823,044,132.62

6.49.2 Composition of cash and cash equivalents

Items	Current period	Prior period
① Cash	443,328,925.09	791,255,686.65
Including: Cash at hand	495,385.69	182,606.18
Demand bank deposit	442,833,539.40	791,073,080.47

Items	Current period	Prior period
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 30/06/2017	443,328,925.09	791,255,686.65
Including: restricted cash and cash equivalents in parent company or subsidiary		

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

6.50 Assets with imposed restriction on ownership

Category	C/f	Reason of restriction
Assets pledged as security	3,515,126,638.81	
Aircrafts and engines	3,515,126,638.81	Pledge as security for borrowings
Other form of restriction:	1,069,717,064.11	
Aircrafts and engines	1,069,717,064.11	Assets acquired under financial lease
Total	4,584,843,702.92	

6.51 Foreign currency monetary items

Item	Original amount as at 30/06/2017	Foreign exchange rate	Translated amount as at 30/06/2017
Monetary funds			
Including: -USD	41,441,618.06	6.7744	280,742,097.39
-CAD	10.00	5.2144	52.14
-KRW	25,444,230.00	0.0059	150,120.96
-TWD	7,016,794.00	0.2228	1,563,341.70
-THB	690,473.50	0.1996	137,818.51

Item	Original amount as at 30/06/2017	Foreign exchange rate	Translated amount as at 30/06/2017
Prepayments			
Including: -USD	34,575,749.93	6.7744	234,229,960.33
Other receivables			
Including: -USD	14,809,814.44	6.7744	100,327,606.94
Accounts payable			
Including: -USD	4,792,054.86	6.7744	32,463,296.44
-EUR	18,525.71	7.7496	143,566.84
-GBP	8,348,421.00	0.0605	505,079.47
Other payables			
Including: -USD	20,861,098.53	6.7744	141,321,425.88
Non-current liabilities due within one year			
Including: -USD	94,511,856.87	6.7744	640,261,123.18
Long-term borrowings			
Including: -USD	160,278,382.23	6.7744	1,085,789,872.57
Long-term payables			
Including: -USD	61,477,802.26	6.7744	416,475,223.63

Note 7: Change of scope of consolidation

No change of scope of consolidation from last year.

Note 8: The equity in other main entities**8.1 The equity in subsidiaries**

8.1.1 The construction of the group

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

8.2 The equity in associates

8.2.1 Significant associates

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

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

Item	Jun 30th,2017/Current period	Dec 31th,2016/Prior period
Current assets	1,819,652.14	1,820,781.43
Non-current assets	25,172.36	25,856.24
Total assets	1,844,824.50	1,846,637.67
Current liabilities	167,765,813.33	167,765,813.33
Non-current liabilities		
Total liabilities	167,765,813.33	167,765,813.33
Minority interests		
Equity attributable to shareholders of the parent	-165,920,988.83	-165,919,175.66

Item	Jun 30th,2017/Current period	Dec 31th,2016/Prior period
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	-1,813.17	-952.04
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividends received from associates during the year		

8.2.3 Excess loss occurred by associates

Associates	Cumulative unrecognized losses of Prior period	Unrecognized losses of current period (Share of net profit of current period)	Cumulative unrecognized losses of current period
Shandong Rainbow Commercial Jet Co., Ltd.	-74,663,608.80	-815.93	-74,664,424.73

Note 9 The risk associated with financial instruments

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

Sensitivity analysis techniques are adopted by the Company to analyse the impact of reaonsable and possible changes of risk variables on the

profit and loss or shareholders' equity for the current period. While risk variables seldomly change in isolation, and the correlation among variables will have a significant effect on the ultimate impact of the change of one risk variable. Therefore, the following content is based on the assumption that changes in each variable is independent.

9.1 The targets and policies of risks management

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

9.1.1 Market Risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate fluctuations generally. The company bears the foreign exchange risk primarily concerned with USD, and uses USD for pricing or settlement in the field of main financing business, operating leases, financing leasing. On 30 June 2017, except the following assets or liabilities in Note 6.50 are recorded in foreign currency, the others are recorded in CNY. Foreign exchange risk of the assets and liabilities in foreign currencies may have an impact on the Company's performance of operation.

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

The risk of changes in cash flows of a financial instrument due to interest rate is mainly concerned with the floating rate of bank borrowings (see Note 6.25,6.26). The company's policy is to maintain a floating interest rate on the borrowings.

(3) Other price risk

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

9.1.2. Credit Risk

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

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

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

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

9.1.3 Liquidity risk

When managing liquidity risk, the Company's management believes maintaining adequate cash and cash equivalents, and monitoring that at same

time, in order to meet the needs of operation of the Company, and to reduce the impact of fluctuations in cash flows. The management of the Company monitors the use of bank borrowings and ensure to abide by loan agreements.

Note 10 Disclosure of the fair value

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

Item	The fair value at the end of current period			
	The first level measured by fair value	The second level measured by fair value	The third level measured by fair value	Total
1. Continuous measurement by fair value				
1.1 financial assets available for sale	260,410,357.35			260,410,357.35
(1) Equity instruments investment	260,410,357.35			260,410,357.35
Total amount of assets continuous measurement by fair value	260,410,357.35			260,410,357.35
2. Financial liabilities measured at fair value with changes in fair value recognised in profit or loss		1,753,048.20		1,753,048.20
Interest rate swaps		1,753,048.20		1,753,048.20
Total amount of liabilities continuous measurement by fair value		1,753,048.20		1,753,048.20

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

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

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

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

Note 11 Related parties and related party transaction

11.1 Major investors

Investor	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
SDA Group	Jinan	Investment and management of aero	580,000,000.00	42.00	42.00

Investor	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
		transportation			
Air China	Beijing	Aero transportation	13,084,751,004.00	22.80	22.80

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

11.2 Subsidiaries

See Note 8.1 for subsidiaries.

11.3 Associates

See Note 8.2 for associates.

11.4 Other related parties

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

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

11.5 Related party transactions

11.5.1 Purchase of goods and services

Related party	Transaction	Current period	Prior period
SDA Group	Office lease rental and catering	13,739,607.74	15,513,331.65
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	50,826,981.46	28,803,053.19
Shandong XiangYu Air Technology Co., Ltd.	Repairment	38,996,267.68	29,668,696.78
Shandong XiangYu Air Technology Co., Ltd.	Purchase / lease of aircraft materials	13,705.00	
Air China	Ground service	7,888,336.36	6,169,564.28
Air China	Repairment		724,929.11
Air China	Purchase / lease of aircraft materials	186,711.99	152,804.77
Air China	Agency service	5,458,596.51	6,168,028.80
Air China	Irregular flight expenditure	4,647,528.32	7,283,337.46
Shenzhen Airlines Co., Ltd.	Agency service	1,355,884.53	382,425.92
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	77,366.20	

Related party	Transaction	Current period	Prior period
Shenzhen Airlines Co., Ltd.	Catering	821,436.08	533,732.80
Shenzhen Airlines Co., Ltd.	Ground service	82,320.00	
Air China Cargo Co., Ltd.	Ground service	1,375,854.32	1,551,773.69
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	25,863,897.05	22,363,336.17
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials	294,133.10	87,545.01
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	14,791,642.54	15,553,050.00
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	3,485,554.10	202,356,167.14
Chengfu FuKai Aircraft Engineering Co., Ltd.	Repairment	1,831,830.31	2,636,992.53
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	3,494,970.00	
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	979,920.00	875,178.00
Air China Import & Export Co., Ltd.	Taxes of aircraft materials		4,786.52
Total		176,212,543.29	340,828,733.82

11.5.2 Sales of goods and vendering of services

Related party	Transaction	Current period	Prior period
Air China	Ground service	939,820.29	2,323,611.71
Air China	Simulator maintenance / House rental income	2,242,714.29	2,242,714.29
Air China	Sale /rent of aircraft materials	12,906.84	4,710.21
Air China	Irregular flight expenditure	37,220.00	4,570.00
Air China	Agency service	2,425,297.00	1,657,266.61
Air China Cargo Co., Ltd.	Cargo income	2,117,233.31	889,454.73
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	343,536.05	169,173.21

Related party	Transaction	Current period	Prior period
Shenzhen Airlines Co., Ltd.	Agency service	740,562.00	162,976.46
Shenzhen Airlines Co., Ltd.	Ground service	51,200.00	172,600.00
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	57,676.75	
Shenzhen Airlines Co., Ltd.	Irregular flight expenditure	560.00	
Shenzhen Airlines Co., Ltd.	Cargo income	26,337.00	100.00
Dalian Airlines Co., Ltd.	Ground service	63,737.09	42,231.70
Dalian Airlines Co., Ltd.	Irregular flight expenditure	20,780.00	59,520.00
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	114,470.12	79,511.75
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	338,955.30	39,302.57
Shandong Air New Media Co., Ltd.	Media resource fee	6,050,000.00	
Total		15,583,006.04	7,847,743.24

11.5.3 Related Party borrowing funds demolition

Related Party	Borrowing money	Beginning date	Due date	Description
borrowing:				
China National Aviation Finance Co., Ltd.	296,000,000.00	2016-6-20	2026-6-20	Balance as at 30/06/2017 CNY 266,400,000.00

11.5.4 Remuneration to key management personnel

Item	Current period	Prior period
Remuneration to key management personnel	CNY 5.8623 million	CNY 4.5343 million

11.5.5 Other related party transactions

Related party	Transaction	Current period	Prior period
Air China	Wet lease	93,266,177.00	183,404,273.00
Air China	Code sharing		-247,032.01
Air China	Frequent flyer cooperation	36,000,000.00	36,000,000.00
Air China Cargo Co., Ltd.	Code sharing for cargo	2,216,952.30	-2,479,852.47

Total		131,483,129.30	216,677,388.52
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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	167,803,828.21		111,220,493.07	
Total	167,803,828.21		111,220,493.07	
Other receivables				
Air China	5,615,980.16		6,250,133.00	
Shenzhen Airlines Co., Ltd.	58,736.75		468,173.37	
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	101,551,717.65	101,551,717.65
Shandong XiangYu Air Technology Co., Ltd.	349,625.78		15,444.48	
Taikoo (Shandong) Aircraft Engineering Company Limited	72,746.00		198,526.00	
Shandong Air New Media Co., Ltd.	7,127,044.28		1,027,044.28	
Total	114,775,850.62	101,551,717.65	109,511,038.78	101,551,717.65

11.6.2 Payables

Related party	C/f	B/f
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	4,107,384.61	2,451,618.94
Taikoo (Shandong) Aircraft Engineering Company Limited	5,014,595.72	1,279,779.59
Air China	230,144,770.75	190,287,022.82
Air China Cargo Co., Ltd.	1,048,153.98	260,935.50
Beijing Golden Phoenix Human Resources Service Co., Ltd.	159,354.00	161,838.00

Related party	C/f	B/f
Shenzhen Airlines Co., Ltd.	467,678.58	208,826.20
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	17,024,265.48	10,860,743.99
Sichuan International Aero Engine Maintenance Co., Ltd.	2,808,000.00	64,482,126.00
Total	260,774,203.12	269,992,891.04
Other payables		
SDA Group	7,919,618.11	6,041,798.09
Air China	20,000,000.00	20,000,000.00
Taikoo (Shandong) Aircraft Engineering Company Limited	245,400.00	245,400.00
Total	28,165,018.11	26,287,198.09

Note 12 Commitments**12.1 Significant commitments**

12.1.1 Capital commitment

Item	C/f	B/f
Firm contracts not recognized in the financial statements		
- Commitment to acquire non-current assets	15,839,411,117.62	18,276,050,022.59
- large outsourcing contract		
- External investment commitments		
Total	15,839,411,117.62	18,276,050,022.59

12.1.2 Operating lease

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

Item	C/f	B/f
Minimum lease rental for irrevocable operating lease contracts		
Within one year from the reporting date	2,529,499,561.85	2,290,232,032.00
Within two years from the reporting date	2,464,330,497.74	2,155,144,647.15
Within three years from the reporting date	2,328,174,416.06	2,125,539,777.15
Subsequent years	12,388,577,021.15	11,553,366,310.20
Total	19,710,581,496.80	18,124,282,766.50

12.1.3 Other commitment

No other significant commitments of the Company need to be disclosed as at 30/06/2017.

Note 13 Post balance sheet date events

No Post reporting date events is subject to disclosure as at the reporting date.

Note 14 Other significant events**14.1 Pension Plan**

No significant change of the annuity program occurred for current period, see note 6.20, 6.27.

Note 15 Notes to elements of the separate financial statements**15.1 Accounts receivable**

15.1.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	311,716,022.15	61.45			311,716,022.15
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	172,896,955.78	34.08	8,644,847.79	5.00	164,252,107.99
Accounts receivable of individual insignificance but subject to individual impairment assessment	22,653,662.66	4.47	8,057,209.85	35.57	14,596,452.81
Total	507,266,640.59	100.00	16,702,057.64	3.29	490,564,582.95

(Continued)

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	228,079,021.34	68.01			228,079,021.34
Accounts receivable subject to	88,170,349.23	26.29	4,408,517.46	5.00	83,761,831.77

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

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Air China	167,634,530.21			No indication of impairment upon individual assessment
BSP-CHINA	79,126,159.53			No indication of impairment upon individual assessment
Accounting Center of China Aviation	64,955,332.41			No indication of impairment upon individual assessment
Total	311,716,022.15			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	172,896,955.78	8,644,847.79	5.00
Total	172,896,955.78	8,644,847.79	5.00

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance

Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
BSP-others	8,476,009.77			No indication of impairment upon individual assessment
UATP	3,622,367.78			No indication of impairment upon individual assessment
Shandong aviation Logistics Ltd	2,256,268.70			No indication of impairment upon individual assessment
ARC	241,806.56			No indication of impairment upon individual assessment
Total	22,653,662.66	8,057,209.85	35.57	

15.1.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the year is CNY4,236,330.33.

15.1.3 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarized by debtors as at the end of current period is CNY 377,232,228.80, accounting for 74.37% of the total accounts receivable as at the end of current period, the total corresponding allowance for bad debts is CNY3,275,810.33.

15.2 Other receivables

15.2.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	415,303,737.60	74.69	104,933,519.66	27.37	310,370,217.94
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	95,728,352.36	17.22	4,786,417.62	5.00	90,941,934.74
Other receivables of individual insignificance but subject to individual impairment assessment	45,019,309.31	8.10			45,019,309.31
Total	556,051,399.27	100.00	109,719,937.28	19.73	446,331,461.99

(Continued)

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

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	200,228,266.83			No indication of impairment upon individual assessment
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	impairment upon individual assessment
Shandong Air Logistics Co., Ltd.	45,887,712.94			No indication of impairment upon individual assessment
Debtor #2	38,447,080.54	1,922,354.03	5.00	impairment assessment by portfolio
Debtor #3	29,188,959.64	1,459,447.98	5.00	impairment assessment by portfolio
Total	415,303,737.60	104,933,519.66	25.27	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	95,728,352.36	4,786,417.62	5.00
Total	95,728,352.36	4,786,417.62	5.00

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

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	17,300,360.00			No indication of impairment upon individual assessment
Debtor #2	4,238,588.20			No indication of impairment upon individual assessment
Debtor #3	2,067,420.00			No indication of impairment upon individual assessment
Debtor #4	2,062,200.00			No indication of impairment upon individual assessment
Debtor #5	4,457,873.01			No indication of impairment upon individual assessment
Debtor #6	773,050.73			No indication of impairment upon individual assessment
Debtor #7	895,684.40			No indication of impairment upon individual assessment
Air China	5,615,980.16			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	7,127,044.28			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	58,736.75			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering	72,746.00			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Company Limited				individual assessment
Shandong XiangYu Air Technology Co., Ltd.	349,625.78			No indication of impairment upon individual assessment
Total	45,019,309.31			

15.2.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the current period is CNY -1,895,386.48.

15.2.3 Disclosure by nature

Category	C/f	B/f
Deposits	232,023,443.17	149,790,973.93
Others	324,027,956.10	356,306,296.97
Total	556,051,399.27	506,097,270.90

15.2.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	200,228,266.83	Within 1 year	36.01	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 4 years	18.26	101,551,717.65
Shandong aviation Logistics Ltd	Others	45,887,712.94	Over 5 years	8.25	
Debtor #2	Others	38,447,080.54	Within 2 years	6.91	1,922,354.03
Debtor #3	Others	29,188,959.64	Within 3 years	5.25	1,459,447.98
Total		415,303,737.60		74.68	104,933,519.66

15.3 Long-term equity investments

15.3.1 Disclosure by category

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

15.3.2 Investments in subsidiaries

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

15.3.3 Investments in associates

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

(Continued)

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

15.4 Operating revenues and costs

Category	Current period		Prior period	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	7,351,087,545.79	7,007,942,808.37	6,158,342,851.56	5,417,613,981.08
Other business	189,139,132.85	1,002,863.77	135,345,527.89	679,535.22
Total	7,540,226,678.64	7,008,945,672.14	6,293,688,379.45	5,418,293,516.30

15.5 Investment income

Category	Current period	Prior period
Income from long-term equity investments measured at cost	19,844,431.27	3.47
Income from long-term equity investment income of equity method		
Income from long-term equity investment income of equity method	-479,085.84	-850,517.15
Total	19,365,345.43	-850,513.68

Note 16 Supplementary information**16.1 Non-recurring profit and loss**

Category	Current period	Description
Gains from disposals of non-current assets after expending impairment provisions	-812,548.20	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief		
Government grants recognised through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations	60,164,960.18	
Financial resource usage fees charged on non-financial institution recognised through profit or loss for the current reporting period		

Category	Current period	Description
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		
Reorganisation		
Reorganisation expenditure		
Unfair transactions		
Net profits or losses achieved by an acquired under-common-control entity during the period from the start of the period to the acquisition date		
Gains or losses arising from contingent events unconnected with the Company's daily operating activities		
Fair value changes of tradable financial assets and tradable financial liabilities held and gains or losses arising from disposals of tradable financial assets, tradable financial liabilities and available-for-sale financial assets, excluding hedging contracts relevant to the Company's daily operating activities	-1,076,318.24	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment		
Gains or losses arising from consigned borrowings		
Fair value changes of property investments subsequently measured at fair value		
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations		
Consignment income arising from consigned operations		
Income and expenses other than items listed above	20,268,766.06	
Other gains or losses satisfying the definition of extraordinary gains or losses		
Subtotal	78,544,859.80	
Less: Impact of income tax	19,659,294.97	
Less: Impact on non-controlling interest		
Total	58,885,564.83	

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

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

16.2 Rate of return on net assets and earnings per share

Profit category	Weighted average rate of RONA	Earnings per share (CNY/share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	2.32	0.23	0.23
Recurring profit or loss attributable to ordinary shareholders	0.80	0.08	0.08

Section XI. Documents available for Reference

1. Financial statements carrying the personal signatures and seals of Chairman of the Board, Chief Accountant and Person in Charge of Accounting Department.
2. Originals of all documents and notices publicly disclosed on newspapers and websites designated by CSRC in the reporting period.
3. The Company will offer above documents for reference timely provided that CSRC or Stock Exchange demands or shareholders requires according to the regulations and Articles of Association.

BOD

Shandong Airlines Co., Ltd.

30 August 2017