Auditor’s report

Shandong Airlines Co., Ltd.

RONGCHENG SHENZI [2022] No. 518Z0027

RSM CHINA CPA LLP
CHINA BEIJING

Contents

Independent Auditor’s Report

RONGCHENG SHENZI [2022] No. 518Z0027

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

I. Audit Opinion

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. (hereafter, Shandong Airlines or the Company), which comprise the consolidated and the parent company’s statements of financial position as at December 31, 2021, the consolidated and the parent company’s statements of comprehensive income, the consolidated and the parent company’s statements of cash flows and the consolidated and the parent company’s statements of changes in equity for the year then ended and the notes to the financial statements.

In our opinion, the accompanying financial statements of Shandong Airlines have been prepared in accordance with the requirements of the Enterprises Accounting Standards of China and presented fairly, in all material respects, the consolidated and the parent company’s financial positions as at December 31, 2021, and the consolidated and the parent company’s financial performance and the consolidated and the parent company’s cash flows for the year then ended.

II. Basis of Forming the Audit Opinion

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

III. Key Audit Items

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

1. Recognition of Passenger Service Revenue

1.1 Description

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

Please refer to accounting policies described in Note 3.13 Contract assets and contract liabilities under Note 3 Important Accounting Principles and Accounting Estimates. Please refer to Note 5.21 Contract liabilities and Note 5.39 Operating revenues and costs under Note 5 Notes to significant elements of the consolidated financial statements. Please refer to Note 14.4 Operating revenues and costs under Note 14 Notes to elements of the parent company’s financial statements for details.

1.2 Audit Response

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

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

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

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

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

2. Impairment provisions for owned and leased aircrafts and engines

2.1 Description

As at December 31, 2021, the amount of owned and leased aircrafts and engines is CNY 20,763,616,394.54, accounting for 63.61% of the total assets of the consolidated statement. The Company evaluated the recoverable amount of the asset group when there is any indication that the asset group may be impaired at the balance sheet date to recognize loss of asset impairments. The recoverable amount is the higher of the fair value of the asset group less disposal costs and the present value of the estimated future cash flows of the asset group. According to the result of the impairment test, there is no impairment among owned and leased aircrafts and engines of the Company.

Since significant judgement is required to assess the assumptions of the forecast growth rate and discount rate involved in the estimation of the present value of the estimated future cash flows of the aircraft assets by the Company, we identified the assessment of the present value of the estimated future cash flows of the aircraft assets as the key Audit Matters.

Please refer to accounting policies described in Note 3.21 Long-term assets impairment and Note 3.28 Lease under Note 3 Important Accounting Principles and Accounting Estimates. Please refer to accounting policies described in Note 5.10 Fixed asset, Note 5.11 Construction in process and Note 5.12 Right of use asset under Note 5 Notes to significant elements of the consolidated financial statements.

2.2 Audit Response

The relevant procedures we implemented for impairment provisions for owned and leased aircrafts and engines mainly including:

2.2.1 Assess the effectiveness of the design and operation of internal controls related to current value of estimated future cash flows of aircrafts.

2.2.2 Assess the reasonableness of estimated growth ratio based on the future business plan of the Company.

2.2.3 Understand and assess the testing measure of recoverable amount used and material judgment and estimate made by the Management and review the calculation of impairment test with the assistance of our professionals with valuation skills and knowledge.

2.2.4 Analyze the sensitivity of estimated growth rate and discount rate to evaluate the influence on the impairment test result of the Company.

IV. Other Information

The management of the Company is responsible for other information, which includes the information contained in the Company’s 2021 annual report except for the financial statements and our auditor report.

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

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

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

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

Management of the Company (hereafter, the management) is responsible for the preparation and fair presentation of the financial statements in accordance with Enterprise Accounting Standards of China, and for the design, implementation and maintenance of such internal control to ensure the financial statements are free from material misstatements, whether due to fraud or error.

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

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

VI. Auditor' Responsibility for the Audit of Financial Statements

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

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

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

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

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

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

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

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

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

We also provide a statement to those charged with governance regarding the fact that we comply with the requirements of professional ethics relating to independence, and also communicate with them about all relationships and other matters that may be reasonably deemed to affect our independence，as well as, where applicable, the relevant precautions (if applicable).

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

RSM China CPA LLP

Chinese CPA：YANG, Yunhui (Engagement Partner)

Beijing, China

Chinese CPA： GUO, Yuefeng

Chinese CPA：XU, Hong

March 29, 2022

2. Consolidated Statement of Financial Position

Prepared by Shandong Airlines Co., Ltd.

December 31, 2021

In RMB

Item	December 31, 2021	December 31, 2020
Current assets:		
Monetary funds	3,811,102,681.16	5,306,474,451.06
Settlement provisions		
Capital lent		
Trading financial assets		
Derivative financial assets		
Note receivable		
Account receivable	340,113,063.11	354,352,296.99
Receivable financing		
Accounts paid in advance	4,685,949.55	213,530,865.28
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Other account receivable	171,734,868.85	159,397,943.13
Including: Interest receivable		
Dividend receivable		
Buying back the sale of financial assets		
Inventories	111,785,343.17	110,572,399.50
Contractual assets		
Assets held for sale		

Non-current asset due within one year		
Other current assets	369,977,255.76	282,572,739.73
Total current assets	4,809,399,161.60	6,426,900,695.69
Non-current assets:		
Loans and payments on behalf		
Debt investment		
Other debt investment		
Long-term account receivable		
Long-term equity investment		
Investment in other equity instrument	461,245,883.18	541,789,406.63
Other non-current financial assets		
Investment real estate	24,226,182.74	
Fixed assets	6,200,939,794.32	6,904,082,012.35
Construction in progress	4,862,174,283.01	5,770,696,951.56
Productive biological asset		
Oil and gas asset		
Right-of-use assets	12,051,991,488.86	N/a
Intangible assets	441,785,379.60	118,699,980.33
Expense on Research and Development		
Goodwill		454,020.13
Long-term expenses to be apportioned	587,815,156.73	641,782,578.43
Deferred income tax asset	3,204,004,227.14	1,999,099,488.87

Other non-current asset		
Total non-current asset	27,834,182,395.58	15,976,604,438.30
Total assets	32,643,581,557.18	22,403,505,133.99
Current liabilities:		
Short-term loans	2,601,211,111.11	2,001,111,111.11
Loan from central bank		
Capital borrowed		
Trading financial liability	78,548.31	862,955.67
Derivative financial liability		
Note payable	94,287,021.53	472,095,003.24
Account payable	2,220,194,249.13	2,543,319,300.31
Accounts received in advance		
Contractual liability	455,346,878.56	445,400,801.19
Selling financial asset of repurchase		
Absorbing deposit and interbank deposit		
Security trading of agency		
Security sales of agency		
Wage payable	454,324,256.07	346,238,955.37
Taxes payable	73,278,520.98	102,206,477.49
Other account payable	667,515,022.58	635,865,961.62
Including: Interest payable		
Dividend payable	602,306.96	602,306.96
Commission charge and commission payable		

Reinsurance payable		
Liability held for sale		
Non-current liabilities due within one year	3,219,248,211.06	321,577,566.89
Other current liabilities	32,096,585.80	31,100,597.66
Total current liabilities	9,817,580,405.13	6,899,778,730.55
Non-current liabilities:		
Insurance contract reserve		
Long-term loans	6,697,007,747.75	6,117,434,899.32
Bonds payable	1,000,000,000.00	1,000,000,000.00
Including: Preferred stock		
Perpetual capital securities		
Lease liability	9,441,515,109.42	N/a
Long-term account payable	5,230,688,729.19	5,303,354,015.63
Long-term wages payable		254,025,000.00
Accrual liability	1,060,428,713.51	
Deferred income	97,814,550.53	100,513,810.37
Deferred income tax liabilities	216,210,941.34	158,137,753.91
Other non-current liabilities		
Total non-current liabilities	23,743,665,791.74	12,933,465,479.23
Total liabilities	33,561,246,196.87	19,833,244,209.78
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	279,670,337.38	322,552,319.90
Reasonable reserve		
Surplus public reserve	538,773,444.97	538,773,444.97
Provision of general risk		
Retained profit	-2,211,518,785.74	1,233,524,795.64
Total owner’ s equity attributable to parent company	-917,664,639.69	2,570,260,924.21
Minority interests		
Total owner’ s equity	-917,664,639.69	2,570,260,924.21
Total liabilities and owner’ s equity	32,643,581,557.18	22,403,505,133.99

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

3.Consolidated Statement of Profit or Loss and Other Comprehensive Income

In RMB

Item	2021	2020
I. Total operating income	12,515,317,963.16	10,534,403,350.87
Including: Operating income	12,515,317,963.16	10,534,403,350.87
Interest income		
Insurance gained		
Commission charge and commission income		

II. Total operating cost	15,147,394,074.67	13,833,221,113.61
Including: Operating cost	13,550,590,002.11	12,554,900,116.09
Interest expense		
Commission charge and commission expense		
Cash surrender value		
Net amount of expense of compensation		
Net amount of withdrawal of insurance contract reserve		
Bonus expense of guarantee slip		
Reinsurance expense		
Tax and extras	18,372,220.34	10,479,064.77
Sales expense	648,675,348.06	613,910,975.53
Administrative expense	424,010,598.68	493,640,757.37
R&D expense	25,042,013.59	22,866,289.98
Financial expense	480,703,891.89	137,423,909.87
Including: Interest expenses	821,081,133.14	230,831,883.77
Interest income	96,757,343.73	45,680,277.19
Add: Other income	160,262,151.16	100,684,939.11
Investment income (Loss is listed with “-”)	-568,877.88	3,190,496.20
Including: Investment income on affiliated company and joint venture		
The termination of income recognition for financial assets measured by amortized		

cost		
Exchange income (Loss is listed with "-")		
Net exposure hedging income (Loss is listed with "-")		
Income from change of fair value (Loss is listed with "-")	784,407.36	-736,690.92
Loss of credit impairment (Loss is listed with "-")	-16,030,897.16	3,388,382.43
Losses of devaluation of asset (Loss is listed with "-")	-454,020.13	
Income from assets disposal (Loss is listed with "-")	162,594.11	603,734.58
III. Operating profit (Loss is listed with "-")	-2,487,920,754.05	-3,191,686,901.34
Add: Non-operating income	88,322,895.53	46,593,143.85
Less: Non-operating expense	2,658,018.62	798,968.97
IV. Total profit (Loss is listed with "-")	-2,402,255,877.14	-3,145,892,726.46
Less: Income tax expense	-588,550,569.75	-763,877,270.65
V. Net profit (Net loss is listed with "-")	-1,813,705,307.39	-2,382,015,455.81
(i) Classify by business continuity		
1.continuous operating net profit (net loss listed with '-")	-1,813,705,307.39	-2,382,015,455.81
2.termination of net profit (net loss listed with '-")		
(ii) Classify by ownership		
1.Net profit attributable to	-1,813,705,307.39	-2,382,015,455.81

owner's of parent company		
2.Minority shareholders' gains and losses		
VI. Net after-tax of other comprehensive income	-60,407,642.59	-247,935,420.02
Net after-tax of other comprehensive income attributable to owners of parent company	-60,407,642.59	-247,935,420.02
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-60,407,642.59	-247,935,420.02
1.Changes of the defined benefit plans that re-measured		1,769,000.00
2.Other comprehensive income under equity method that cannot be transfer to gain/loss		
3.Change of fair value of investment in other equity instrument	-60,407,642.59	-249,704,420.02
4.Fair value change of enterprise's credit risk		
5. Other		
(ii) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1.Other comprehensive income under equity method that can transfer to gain/loss		

2.Change of fair value of other debt investment		
3.Amount of financial assets re-classify to other comprehensive income		
4.Credit impairment provision for other debt investment		
5.Cash flow hedging reserve		
6.Translation differences arising on translation of foreign currency financial statements		
7.Other		
Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	-1,874,112,949.98	-2,629,950,875.83
Total comprehensive income attributable to owners of parent Company	-1,874,112,949.98	-2,629,950,875.83
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	-4.53	-5.96
(ii) Diluted earnings per share	-4.53	-5.96

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

4.Consolidated Statement of Cash Flows

In RMB

Item	2021	2020
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	13,597,307,085.68	11,042,083,759.34
Net increase of customer deposit and interbank deposit		
Net increase of loan from central bank		
Net increase of capital borrowed from other financial institution		
Cash received from original insurance contract fee		
Net cash received from reinsurance business		
Net increase of insured savings and investment		
Cash received from interest, commission charge and commission		
Net increase of capital borrowed		
Net increase of returned business capital		
Net cash received by agents in sale and purchase of securities		

Write-back of tax received	15,592,880.52	59,006,545.25
Other cash received concerning operating activities	281,275,702.01	238,727,574.04
Subtotal of cash inflow arising from operating activities	13,894,175,668.21	11,339,817,878.63
Cash paid for purchasing commodities and receiving labor service	8,594,911,906.26	9,575,117,855.40
Net increase of customer loans and advances		
Net increase of deposits in central bank and interbank		
Cash paid for original insurance contract compensation		
Net increase of capital lent		
Cash paid for interest, commission charge and commission		
Cash paid for bonus of guarantee slip		
Cash paid to/for staff and workers	3,167,172,577.54	2,965,393,711.37
Taxes paid	207,751,817.71	201,842,884.10
Other cash paid concerning operating activities	367,017,548.88	297,192,188.56
Subtotal of cash outflow arising from operating activities	12,336,853,850.39	13,039,546,639.43
Net cash flows arising from operating activities	1,557,321,817.82	-1,699,728,760.80
II. Cash flows arising from investing activities:		

Cash received from recovering investment		
Cash received from investment income	208,728.00	4,019,690.59
Net cash received from disposal of fixed, intangible and other long-term assets	68,366,199.75	5,464,475.89
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	68,574,927.75	9,484,166.48
Cash paid for purchasing fixed, intangible and other long-term assets	2,068,296,938.33	660,563,018.81
Cash paid for investment		
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained		
Other cash paid concerning investing activities	777,605.88	829,194.39
Subtotal of cash outflow from investing activities	2,069,074,544.21	661,392,213.20
Net cash flows arising from investing activities	-2,000,499,616.46	-651,908,046.72
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	4,100,000,000.00	9,950,000,000.00
Other cash received concerning financing activities		2,000,000,000.00
Cash received from issuing bonds		
Subtotal of cash inflow from financing activities	4,100,000,000.00	11,950,000,000.00
Cash paid for debt repayment	2,110,292,372.25	4,376,851,929.66
Cash paid for distribution of dividends, profits or repayment of interest	319,544,830.00	152,212,442.26
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid in connection with financing activities	2,725,684,347.70	360,556,413.20
Subtotal of cash outflow from financing activities	5,155,521,549.95	4,889,620,785.12
Net cash flows arising from financing activities	-1,055,521,549.95	7,060,379,214.88
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-334,663.59	-1,129,021.99
V. Net increase of cash and cash equivalents	-1,499,034,012.18	4,707,613,385.37
Add: Balance of cash and	5,306,474,451.06	598,861,065.69

cash equivalents at the period -begin		
VI. Balance of cash and cash equivalents at the period -end	3,807,440,438.88	5,306,474,451.06

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

5.Consolidated Statement of Changes in Owners' Equity

Current Amount

In RMB

Item	2021														
	Owners’ equity attributable to the parent Company													Minority interests	Total owners’ equity
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit	Other	Subtotal		
		Preferred stock	Perpetual capital securities	Other											
I. The ending balance of the previous year	400,000,000.00				75,410,363.70		322,552,319.90		538,773,444.97		1,233,524,795.64		2,570,260,924.21		2,570,260,924.21

Add: Changes of accounting policy											-1,613,812,613.92		-1,613,812,613.92		-1,613,812,613.92
Error correction of the last period															
Enterprise combine under the same control															
Other															
II. The beginning balance of the current year	400,000,000.00				75,410,363.70		322,552,319.90		538,773,444.97		-380,287,818.28		956,448,310.29		956,448,310.29
III. Increase/ Decrease in the period (Decrease is listed with “-”)							-42,881,982.52				-1,831,230,967.46		-1,874,112,949.98		-1,874,112,949.98
(i) Total comprehensive income							-60,407,642.59				-1,813,705,307.39		-1,874,112,949.98		-1,874,112,949.98
(ii) Owners’															

devoted and decreased capital															
1.Common shares invested by shareholders															
2. Capital invested by holders of other equity instruments															
3. Amount reckoned into owners equity with share-based payment															
4. Other															
(iii) Profit distribution															
1. Withdrawal of surplus reserves															
2. Withdrawal of general risk provisions															
3. Distribution for owners (or															

shareholders)															
4. Other															
(iv) Carrying forward internal owners' equity							17,525,660.07				-17,525,660.07				
1. Capital reserves conversed to capital (share capital)															
2. Surplus reserves conversed to capital (share capital)															
3. Remedying loss with surplus reserve															
4. Carry-over retained earnings from the defined benefit plans							17,525,660.07				-17,525,660.07				
5.															

Item	Share capital	Other equity instrument: Pref	Other equity instrument: Perp	Other equity instrument: Other	Capital reserve	Less: Inventory shares	Other comprehensive	Reasonable reserve	Surplus reserve	Provision of general	Retained profit	Other	Subtotal	Minority interests	Total owners' equity
Carry-over retained earnings from other comprehensive income															
6. Other															
(v) Reasonable reserve															
1. Withdrawal in the report period															
2. Usage in the report period															
(vi) Others															
IV. Balance at the end of the period	400,000,000.00				75,410,363.70		279,670,337.38		538,773,444.97		-2,211,518,785.74		-917,664,639.69		-917,664,639.69

Amount of the previous period

In RMB

Item	2020														
	Owners' equity attributable to the parent Company													Minority interests	Total owners' equity
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shar	Other comprehensiv	Reasonable reserve	Surplus reserve	Provision of general	Retained profit	Other	Subtotal		
		Pref	Perp	Other											

		erred stock	etual capital securities			es	e income			risk					
I. The ending balance of the previous year	400,000,000.00				75,410,363.70		570,487,739.92		538,773,444.97		3,588,847,456.98		5,173,519,005.57		5,173,519,005.57
Add: Changes of accounting policy											26,692,794.47		26,692,794.47		26,692,794.47
Error correction of the last period															
Enterprise combine under the same control															
Other															
II. The beginning balance of the current	400,000,00				75,410,363.7		570,487,739.		538,773,444.		3,615,540,251.45		5,200,211,80		5,200,211,800.04

year	0.00				0		92		97				0.04		
III. Increase/ Decrease in the period (Decrease is listed with “-”)							-247,935,420.02				-2,382,015,455.81		-2,629,950,875.83		-2,629,950,875.83
(i) Total comprehensive income							-247,935,420.02				-2,382,015,455.81		-2,629,950,875.83		-2,629,950,875.83
(ii) Owners’ devoted and decreased capital															
1.Common shares invested by shareholders															
2. Capital invested by holders of other equity instruments															
3. Amount reckoned into owners equity with															

share-based payment															
4. Other															
(iii) Profit distribution															
1. Withdrawal of surplus reserves															
2. Withdrawal of general risk provisions															
3. Distribution for owners (or shareholders)															
4. Other															
(iv) Carrying forward internal owners' equity															
1. Capital reserves conversed to capital (share capital)															
2. Surplus reserves															

conversed to capital (share capital)															
3. Remedying loss with surplus reserve															
4. Carry-over retained earnings from the defined benefit plans															
5. Carry-over retained earnings from other comprehensive income															
6. Other															
(v) Reasonable reserve															
1. Withdrawal in the report period															
2. Usage in															

the report period															
(vi) Others															
IV. Balance at the end of the period	400,000,000.00				75,410,363.70		322,552,319.90		538,773,444.97		1,233,524,795.64		2,570,260,924.21		2,570,260,924.21

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

6.Statement of Financial Position of Parent Company

In RMB

Item	December 31, 2021	December 31, 2020
Current assets:		
Monetary funds	3,799,124,518.37	5,302,302,306.13
Trading financial assets		
Derivative financial assets		
Note receivable		
Account receivable	338,296,131.65	350,673,304.20
Receivable financing		
Accounts paid in advance	4,409,314.22	213,297,372.67
Other account receivable	179,708,210.51	165,544,964.64
Including: Interest receivable		
Dividend receivable		
Inventories	108,129,200.65	108,682,699.25
Contractual assets		

Assets held for sale		
Non-current assets maturing within one year		
Other current assets	369,478,051.10	282,309,117.39
Total current assets	4,799,145,426.50	6,422,809,764.28
Non-current assets:		
Debt investment		
Other debt investment		
Long-term receivables		
Long-term equity investments	144,101,285.43	144,101,285.43
Investment in other equity instrument	461,245,883.18	541,789,406.63
Other non-current financial assets		
Investment real estate	24,226,182.74	
Fixed assets	6,110,155,029.14	6,812,145,764.90
Construction in progress	4,854,111,226.65	5,770,696,951.56
Productive biological assets		
Oil and natural gas assets		
Right-of-use assets	12,051,991,488.86	N/a
Intangible assets	429,783,837.53	106,310,248.22
Research and development costs		
Goodwill		
Long-term deferred expenses	587,815,156.73	641,779,766.13
Deferred income tax assets	3,202,709,890.47	1,998,341,086.43
Other non-current assets		

Total non-current assets	27,866,139,980.73	16,015,164,509.30
Total assets	32,665,285,407.23	22,437,974,273.58
Current liabilities:		
Short-term borrowings	2,601,211,111.11	2,001,111,111.11
Trading financial liability	78,548.31	862,955.67
Derivative financial liability		
Notes payable	94,287,021.53	472,095,003.24
Account payable	2,224,880,206.89	2,560,482,401.82
Accounts received in advance		
Contractual liability	453,677,991.84	443,746,099.43
Wage payable	449,645,567.63	341,473,984.67
Taxes payable	70,542,724.73	99,360,041.47
Other accounts payable	752,957,627.89	726,704,906.20
Including: Interest payable		
Dividend payable	11,940.00	11,940.00
Liability held for sale		
Non-current liabilities due within one year	3,219,248,211.06	321,577,566.89
Other current liabilities	32,096,585.80	31,100,597.66
Total current liabilities	9,898,625,596.79	6,998,514,668.16
Non-current liabilities:		
Long-term loans	6,697,007,747.75	6,117,434,899.32
Bonds payable	1,000,000,000.00	1,000,000,000.00
Including: Preferred stock		

Perpetual capital securities		
Lease liability	9,441,515,109.42	N/a
Long-term account payable	5,230,688,729.19	5,303,354,015.63
Long term employee compensation payable		254,025,000.00
Accrued liabilities	1,060,428,713.51	
Deferred income	97,814,550.53	100,513,810.37
Deferred income tax liabilities	215,428,494.29	157,224,899.02
Other non-current liabilities		
Total non-current liabilities	23,742,883,344.69	12,932,552,624.34
Total liabilities	33,641,508,941.48	19,931,067,292.50
Owners' equity:		
Share capital	400,000,000.00	400,000,000.00
Other equity instrument		
Including: Preferred stock		
Perpetual capital securities		
Capital public reserve	86,911,168.71	86,911,168.71
Less: Inventory shares		
Other comprehensive income	279,670,337.38	322,552,319.90
Special reserve		
Surplus reserve	538,112,740.44	538,112,740.44
Retained profit	-2,280,917,780.78	1,159,330,752.03
Total owner's equity	-976,223,534.25	2,506,906,981.08
Total liabilities and owner's	32,665,285,407.23	22,437,974,273.58

equity		

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

7.Statement of Profit or Loss and Other Comprehensive Income of Parent Company

In RMB

Item	2021	2020
I. Operating income	12,469,239,340.59	10,510,004,302.71
Less: Operating cost	13,524,184,156.03	12,555,099,599.57
Taxes and surcharge	16,273,798.24	8,539,807.74
Sales expenses	645,370,725.69	611,539,386.64
Administration expenses	404,404,768.11	477,280,905.62
R&D expenses	25,042,013.59	22,866,289.98
Financial expenses	480,707,287.41	137,421,750.46
Including: Interest expenses	230,831,883.77	5,554,390.21
Interest income	45,641,728.82	0.60
Add: Other income	160,031,682.63	100,419,883.27
Investment income (Loss is listed with “-”)	-568,877.88	3,190,496.20
Including: Investment income on affiliated Company and joint venture		
The termination of income recognition for financial assets measured by amortized cost (Loss is listed with “-”)		

Net exposure hedging income (Loss is listed with “-”)		
Changing income of fair value (Loss is listed with “-”)	784,407.36	-736,690.92
Loss of credit impairment (Loss is listed with “-”)	-16,154,979.96	3,472,930.02
Losses of devaluation of asset (Loss is listed with “-”)		
Income on disposal of assets (Loss is listed with “-”)	162,594.11	603,734.58
II. Operating profit (Loss is listed with “-”)	-2,482,488,582.22	-3,195,793,084.15
Add: Non-operating income	88,174,781.11	46,368,092.53
Less: Non-operating expense	2,653,546.07	800,154.63
III. Total Profit (Loss is listed with “-”)	-2,396,967,347.18	-3,150,225,146.25
Less: Income tax	-588,057,088.36	-765,353,953.03
IV. Net profit (Net loss is listed with “-”)	-1,808,910,258.82	-2,384,871,193.22
(i) continuous operating net profit (net loss listed with ‘-”)	-1,808,910,258.82	-2,384,871,193.22
(ii) termination of net profit (net loss listed with ‘-”)		
V. Net after-tax of other comprehensive income	-60,407,642.59	-247,935,420.02
(i) Other comprehensive income items which will not be reclassified subsequently to	-60,407,642.59	-247,935,420.02

profit of loss		
1.Changes of the defined benefit plans that re-measured		1,769,000.00
2.Other comprehensive income under equity method that cannot be transfer to gain/loss		
3.Change of fair value of investment in other equity instrument	-60,407,642.59	-249,704,420.02
4.Fair value change of enterprise's credit risk		
5. Other		
(ii) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1.Other comprehensive income under equity method that can transfer to gain/loss		
2.Change of fair value of other debt investment		
3.Amount of financial assets re-classify to other comprehensive income		
4.Credit impairment provision for other debt investment		
5.Cash flow hedging reserve		
6.Translation		

differences arising on translation of foreign currency financial statements		
7.Other		
VI. Total comprehensive income	-1,869,317,901.41	-2,632,806,613.24
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

8.Statement of Cash Flows of Parent Company

In RMB

Item	2021	2020
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	13,535,433,001.45	11,009,882,324.49
Write-back of tax received	15,592,880.52	59,006,545.25
Other cash received in connection with operating activities	285,000,578.38	248,160,175.85
Subtotal of cash inflow arising from operating activities	13,836,026,460.35	11,317,049,045.59
Cash paid for purchasing commodities and receiving labor service	8,619,388,427.50	9,605,312,325.28
Cash paid to/for staff and workers	3,118,574,378.18	2,920,147,365.43

Taxes paid	200,653,861.40	194,509,236.96
Other cash paid in connection with operating activities	364,919,237.63	269,257,710.91
Subtotal of cash outflow arising from operating activities	12,303,535,904.71	12,989,226,638.58
Net cash flows arising from operating activities	1,532,490,555.64	-1,672,177,592.99
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	208,728.00	4,019,690.59
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	68,365,703.35	5,453,274.22
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	68,574,431.35	9,472,964.81
Cash paid for purchasing fixed assets, intangible assets and other long-term assets	2,051,271,197.61	656,948,896.00
Cash paid for investment		
Net cash received from subsidiaries and other units obtained		

Other cash paid in connection with investment activities	777,605.88	829,194.39
Subtotal of cash outflow from investing activities	2,052,048,803.49	657,778,090.39
Net cash flows arising from investment activities	-1,983,474,372.14	-648,305,125.58
III. Cash flows arising from financing activities:		
Cash received from absorbing investment		
Cash received from loans	4,100,000,000.00	9,950,000,000.00
Other cash received concerning financing activities		2,000,000,000.00
Cash received from issuing bonds		
Subtotal of cash inflow from financing activities	4,100,000,000.00	11,950,000,000.00
Cash paid for debt repayment	2,110,292,372.25	4,376,851,929.66
Cash paid for distribution of dividends, profits or repayment of interest	319,544,830.00	152,212,442.26
Other cash paid in connection with financing activities	2,725,684,347.70	360,556,413.20
Subtotal of cash outflow from financing activities	5,155,521,549.95	4,889,620,785.12
Net cash flows arising from financing activities	-1,055,521,549.95	7,060,379,214.88
IV. Influence on cash and cash equivalents due to fluctuation in	-334,663.59	-1,129,021.99

exchange rate		
V. Net increase of cash and cash equivalents	-1,506,840,030.04	4,738,767,474.32
Add: Balance of cash and cash equivalents at the period -begin	5,302,302,306.13	563,534,831.81
VI. Balance of cash and cash equivalents at the period -end	3,795,462,276.09	5,302,302,306.13

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

9.Statement of Changes in Owners' Equity of Parent Company

Current Amount

In RMB

Item	2021											
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Other	Total owners' equity
		Preferred stock	Perpetual capital securities	Other								
I. The ending balance of the previous year	400,000,000.00				86,911,168.71		322,552,319.90		538,112,740.44	1,159,330,752.03		2,506,906,981.08
Add: Changes of accounting										-1,613,812,6		-1,613,812,613.92

policy										13.92		
Error correction of the last period												
Other												
II. The beginning balance of the current year	400,000,000.00				86,911,168.71		322,552,319.90		538,112,740.44	-454,481,861.89		893,094,367.16
III. Increase/ Decrease in the period (Decrease is listed with "-")							-42,881,982.52			-1,826,435,918.89		-1,869,317,901.41
(i) Total comprehensive income							-60,407,642.59			-1,808,910,258.82		-1,869,317,901.41
(ii) Owners' devoted and decreased capital												
1.Common shares invested by shareholders												
2. Capital invested by holders of other equity												

instruments												
3. Amount reckoned into owners equity with share-based payment												
4. Other												
(iii) Profit distribution												
1. Withdrawal of surplus reserves												
2. Distribution for owners (or shareholders)												
3. Other												
(iv) Carrying forward internal owners' equity							17,525,660.07			-17,525,660.07		
1. Capital reserves conversed to capital (share capital)												
2. Surplus reserves												

conversed to capital (share capital)												
3. Remedying loss with surplus reserve												
4. Carry-over retained earnings from the defined benefit plans							17,525,660.07			-17,525,660.07		
5. Carry-over retained earnings from other comprehensive income												
6. Other												
(v) Reasonable reserve												
1. Withdrawal in the report period												
2. Usage in the report period												
(vi) Others												

IV. Balance at the end of the period	400,000,000.00				86,911,168.71		279,670,337.38		538,112,740.44	-2,280,917,780.78		-976,223,534.25

Amount of the previous period

In RMB

Item	2020											
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Other	Total owners' equity
		Preferred stock	Perpetual capital securities	Other								
I. The ending balance of the previous year	400,000,000.00				86,911,168.71		570,487,739.92		538,112,740.44	3,517,509,150.78		5,113,020,799.85
Add: Changes of accounting policy										26,692,794.47		26,692,794.47
Error correction of the last period												
Other												
II. The	400,				86,91		570,		538,	3,544,		5,139,7

beginning balance of the current year	000,000.00				1,168.71		487,739.92		112,740.44	201,945.25		13,594.32
III. Increase/ Decrease in the period (Decrease is listed with “-”)							-247,935,420.02			-2,384,871,193.22		-2,632,806,613.24
(i) Total comprehensive income							-247,935,420.02			-2,384,871,193.22		-2,632,806,613.24
(ii) Owners’ devoted and decreased capital												
1.Common shares invested by shareholders												
2. Capital invested by holders of other equity instruments												
3. Amount reckoned into owners equity with share-based												

payment												
4. Other												
(iii) Profit distribution												
1. Withdrawal of surplus reserves												
2. Distribution for owners (or shareholders)												
3. Other												
(iv) Carrying forward internal owners' equity												
1. Capital reserves conversed to capital (share capital)												
2. Surplus reserves conversed to capital (share capital)												
3. Remedying												

loss with surplus reserve												
4. Carry-over retained earnings from the defined benefit plans												
5. Carry-over retained earnings from other comprehensive income												
6. Other												
(v) Reasonable reserve												
1. Withdrawal in the report period												
2. Usage in the report period												
(vi) Others												
IV. Balance at the end of the period	400,000,000.00				86,911,168.71		322,552,319.90		538,112,740.44	1,159,330,752.03		2,506,906,981.08

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

Shandong Airlines Co., Ltd.
Notes to the Financial Statements
for the Year Ended December 31, 2021
(All amounts are expressed in CNY unless otherwise stated)

Note 1 BASIC INFORMATION ABOUT THE COMPANY

1.1 Corporation Information

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

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

The Company issued 140,000,000 domestically listed shares denominated in foreign currency (境内上市外资股) (hereafter, B share(s)), with par value at CNY 1.00 each and issue price at HKD 1.58 each, on August 28 2000 upon the approval (ZhengJianFaXingZi[2000]No.116 (证

监发行字[2000]116 号)) granted by the China Securities Regulatory Commission on August 22 2000; and the Company was listed on the Shenzhen Stock Exchange on September 12, 2000. Immediately after the issuance of the B shares, the capital of the Company increased to CNY 400,000,000.00.

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

Legal representative of the Company: SUN, Xiujiang

Place of registration: Shandong Jinan Yaoqiang International Airport

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

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

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

Financial Statement Approval Reporting Date: The financial statements were approved for publication by the board of directors of the Company on March 29, 2022.

1.2 Scope and Changes of Consolidation

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

Note 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Basis for Preparation

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

Besides, the Company has disclosed related financial information in conformity with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reports (2014 Revision) issued by the China Securities Regulatory Commission (CSRC).

2.2 Going Concern

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

Note 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

3.1 Statement of Compliance with The Accounting Standards for Business Enterprises

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

3.2 Accounting Period

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

3.3 Operating Cycle

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

3.4 Functional Currency

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

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

3.5.1 Business Combinations Under Common Control

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

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

3.5.2 Business combinations not under common control

The assets and liabilities that the Company obtains in a business combination not under common control shall be measured at their fair value at the acquisition date. If the accounting policy adopted by the acquired entity is different from that adopted by the acquiring entity, the acquiring entity shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the acquired entity based on the principal of materiality. The acquiring entity shall recognise the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired entity as goodwill. The acquiring entity shall, pursuant to the following provisions, treat the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired entity:

①It shall review the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquired entity as well as the combination costs;

②If, after the review, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquired entity, the balance shall be recognised in profit or loss of the reporting period. For the accounting treatment of business combination under common control by step acquisitions, please refer to Note 3.6 (6).

3.5.3 Treatment of Business Combination Related Costs

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

3.6 Method of Preparing the Consolidated Financial Statements

3.6.1 Scope of Consolidation

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

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

3.6.2 Special provisions on the parent company being an investment subject

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

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

①Obtains funds from one or more investors for the purpose of providing those investors with investment management services;

②Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and

③Measures and evaluates the performance of substantially all of its investments on a fair value basis.

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

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

3.6.3 Method of Preparing the Consolidated Financial Statements

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

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

①Like items of assets, liabilities, equity, income, expenses and cash flows of the parent are combined with those of the subsidiaries.

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

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

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

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

①Acquisition of subsidiaries or business

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

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

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

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

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

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

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

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

②Disposal of subsidiaries or business

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

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

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

3.6.5 Special consideration in consolidation elimination

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

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

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

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

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

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

3.6.6 Accounting for Special Transactions

①Purchasing of non-controlling interests

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

②Gaining control over the subsidiary in stages through multiple transactions

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

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

In the consolidated financial statements, the assets and liabilities acquired during the combination should be recognized at their carrying amount in the ultimate controlling entity's consolidated financial statements on the combination date unless any adjustment is resulted from the difference in accounting policies. The difference between the carrying amount of the investment held prior of control plus book value of additional consideration paid on the acquisition date and the net assets acquired through the combination is adjusted into capital reserve (capital premium or share premium). If the capital reserve is not enough to absorb the difference, any excess shall be adjusted against retained earnings.

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

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

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

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

③Disposal of investment in subsidiaries without a loss of control

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

④ Disposal of investment in subsidiaries with a loss of control

A. Disposal through one transaction

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

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

B. Disposal in stages

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

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

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

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

(a) The transactions are entered into simultaneously or in contemplation of one another.

(b) The transactions form a single transaction designed to achieve an overall commercial effect.

(c) The occurrence of one transaction depends on the occurrence of at least one other transaction.

(d) One transaction, when considered on its own merits, does not make economic sense, but when considered together with the other transaction or transactions would be considered economically justifiable.

⑤ Diluting equity share of parent company in its subsidiaries due to additional capital injection by the subsidiaries’ minority shareholders.

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

3.7 Classification of Joint Arrangements and Accounting for Joint Operation

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

3.7.1 Joint operation

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

The Company shall recognise the following items in relation to shared interest in a joint operation, and account for them in accordance with relevant accounting standards of the Accounting Standards for Business Enterprises:

① its assets, including its share of any assets held jointly;

② its liabilities, including its share of any liabilities incurred jointly;

③ its revenue from the sale of its share of the output arising from the joint operation;

④ its share of the revenue from the sale of the output by the joint operation; and

⑤ its expenses, including its share of any expenses incurred jointly.

3.7.2 Joint venture

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

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

3.8 Cash and Cash Equivalents

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

3.9 Foreign Currency Transactions and Translation of Foreign Currency Financial Statements

3.9.1 Determination of the exchange rate for foreign currency transactions

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

3.9.2 Translation of monetary items denominated in foreign currency on the balance sheet date

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

3.9.3 Translation of foreign currency financial statements

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

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

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

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

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

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

3.10 Financial Instruments

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

3.10.1 Recognition and derecognition of financial instrument

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

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

①The rights to the contractual cash flows from a financial asset expire; and

②The financial asset has been transferred and meets one of the following derecognition conditions.

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

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

3.10.2 Classification and measurement of financial assets

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

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

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

①Financial asset at amortised cost

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

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

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

The Company make an irrevocable decision to designate part of non-trading equity instrument investments as measured through FVTOCI. All changes in fair value are recognised in other comprehensive income except for dividend income recognised in current profit or loss. At derecognition, cumulative gain or loss are reclassified to retained earnings. ③Financial asset at fair value through profit or loss (FVTPL)

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

3.10.3 Classification and measurement of financial liabilities

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

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

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

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

②Loan commitments and financial guarantee contracts

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

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

③Financial liabilities at amortised cost

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

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

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

②If a financial instrument must or may be settled in the Company's own equity instruments, it should be considered that the Company's own equity instruments are alternatives of cash or another financial instrument, or to entitle the holder of the equity instruments to sharing the remaining rights over the net assets of the issuer. If the former is the case, the instrument is a liability of the issuer; otherwise, it is an equity instrument of the issuer. Under some circumstances, it is regulated in the contract that the financial instrument must or may be settled in the Company's own equity instruments, where, amount of contractual rights and obligations are calculated by multiplying the number of the equity instruments to be available or delivered by its fair value upon settlement. Such contracts shall be classified as financial liabilities, regardless that the amount of contractual rights and liabilities is fixed, or fluctuate totally or partially with variables other than market price of the entity's own equity instruments (such as interest rate, price of some kind of goods or some kind of financial instrument).

3.10.4 Derivatives and embedded derivatives

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

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

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

3.10.5 Impairment of financial instrument

The Company shall recognise a loss allowance based on expected credit losses on a financial asset that is measured at amortised cost, a debt investment at fair value through other comprehensive income, a contract asset, a lease receivable, a loan commitment and a financial guarantee contract.

①Measurement of expected credit losses

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

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

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

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

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

For financial instrument at stage 1, stage 2 and those have low credit risk, the interest revenue shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset (i.e., impairment loss not been deducted). For financial instrument at stage 3, interest revenue shall be calculated by applying the effective interest rate to the amortised cost after deducting of impairment loss.

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

A. Receivables

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

a. Determination basis of notes receivable is as following:

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

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

b. Determination basis of accounts receivable is as following:

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

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

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

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

c. Determination basis of other receivables is as following:

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

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

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

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

B. Debt investment and other debt investment

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

②Low credit risk

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

③Significant increase in credit risk

The Company shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition, using the change in the risk of a default occurring over the expected life of the financial instrument, through the comparison of the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition.

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

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

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

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

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

E. Significant change that are expected to reduce the borrower’s economic incentive to make scheduled contractual payments ; and

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

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

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

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

Generally, the Company shall determine the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Company can only rebut this presumption if the Company has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

④Credit-impaired financial asset

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

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

⑤Presentation of impairment of expected credit loss

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

⑥Write-off

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

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

3.10.6 Transfer of financial assets

Transfer of financial assets refers to following two situations:

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

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

①Derecognition of transferred assets

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

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

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

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

A. The carrying amount of transferred financial asset;

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

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

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

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

②Continuing involvement in transferred assets

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

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

③Continue to recognise the transferred assets

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

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

3.10.7 Offsetting financial assets and financial liabilities

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

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

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

3.10.8 Determination of fair value of financial instruments

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

3.11 Fair Value Measurement

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

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

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

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

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

① Valuation techniques

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

When using the valuation technique, the Company shall give the priority to relevant observable inputs. The unobservable inputs can only be used when relevant observable inputs is not available or practically would not be obtained. Observable inputs refer to the information which is available from market and reflects the assumptions that market participants would use when pricing the asset or liability. Unobservable Inputs refer to the information which is not available from market and it has to be developed using the best information available in the circumstances from the assumptions that market participants would use when pricing the asset or liability.

② Fair value hierarchy

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

3.12 Inventory

3.12.1 Classification of Inventory

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

3.12.2 Measurement Method of Cost of Inventories Sold or Used

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

3.12.3 Inventory System

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

3.12.4 Provision for Impairment of Inventory

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

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

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

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

3.12.5 Amortization Method for Low-Value Consumables

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

packaging materials are amortized using immediate write-off method.

3.13 Contract assets and contract liabilities

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

See Note 3.10 for impairment of contract assets.

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

3.14 Contract costs

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

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

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

II. the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future; and

III. the costs are expected to be recovered.

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

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

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

I. the remaining amount of consideration that is expected to be received in exchange for the goods or services to which the asset relates; less

II. the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

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

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

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

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

3.15 Long-term Equity Investments

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

3.15.1 Determination basis of joint control or significant influence over the investee

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

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

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

3.15.2 Determination of initial investment cost

① Long-term equity investments generated in business combinations

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

B. For a business combination involving enterprises under common control, if the Company issues equity securities as the consideration for the business combination, the share of carrying amount of the owners' equity of the acquiree in the consolidated financial statements of the ultimate controlling party is recognised as the initial cost of the long-term equity investment on the combination date. The total par value of the shares issued is recognised as the share capital. The difference between the initial investment cost and the carrying amount of the total par value of the shares issued shall be adjusted against the capital reserve; if capital reserve is not enough to be offset, undistributed profit shall be offset in turn; and

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

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

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

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

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

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

3.15.3 Subsequent measurement and recognition of profit or loss

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

①Cost method

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

②Equity method

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

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

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

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

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

3.15.4 Impairment test method and provision for impairment

For investments in subsidiaries, associates and joint ventures, see Note 3.21 for the method of recognizing asset impairment.

3.16 Investment properties

3.16.1 Categories of investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties mainly include:

①Land use right leased out

②Land held for transfer upon appreciation

③Buildings leased out.

3.16.2 The measurement model of investment properties

The Company adopts cost model for subsequent measurement of investment properties. For provision for impairment please refer to Note 3.21.

The Company calculates the depreciation or amortization based on the net amount of investment property cost less the accumulated impairment and the net residual value using straight-line method. The estimated useful life and annual depreciation rates which are determined according to the categories, estimated economic useful lives and estimated net residual rates are listed as followings:

Category	Estimated useful life (Year)	Residual rates (%)	Annual depreciation rates (%)
Buildings and constructions	20-33	5.00	2.88-4.75
Land use right	Legal life	0.00	N/a

3.17 Fixed Assets

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

（1）Recognition criteria of fixed assets

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

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

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

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

（2）Depreciation methods of fixed assets

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

Category	Depreciation method	Estimated useful life (Year)/ Estimated flight hours (KHrs)	Residual rates (%)	Annual depreciation rates/KHrs (%)
Buildings and constructions	Straight-line method	20-33	5.00	2.88-4.75
Aircraft engine core parts and engine auxiliary power unit	Straight-line method	15-20	0.00-5.00	4.75-6.67

Category	Depreciation method	Estimated useful life (Year)/ Estimated flight hours (KHrs)	Residual rates (%)	Annual depreciation rates/KHrs (%)
Engine replacement parts (KHrs)	Units-of-production method	17-23	0.00	4.35-5.88
High-priced revolving parts	Straight-line method	3-15	0.00	6.67-33.33
Transportation equipment and others	Straight-line method	4-20	5.00	4.75-23.75

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

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

3.18 Construction in Progress

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

3.19 Borrowing Costs

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

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

①Expenditures for the asset are being incurred;

②Borrowing costs are being incurred; and

③Acquisition, construction or production activities that are necessary to prepare the assets for their intended use or sale are in progress.

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

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

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

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

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

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

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

3.20 Intangible Assets

3.20.1 Measurement method of intangible assets

Intangible assets are recognised at actual cost at acquisition.

3.20.2 The useful life and amortisation of intangible assets

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

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

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

② Assets of which the period to bring economic benefits to the Company are unforeseeable are regarded as intangible assets with indefinite useful lives. The Company reassesses the useful lives of those assets at every year end. If the useful lives of those assets are still indefinite, impairment test should be performed on those assets at the balance sheet date.

③Amortisation of the intangible assets

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

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

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

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

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

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

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

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

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

C. The method that the intangible assets generate economic benefits, including the Company can demonstrate the existence of a market for the output of the intangible assets or the intangible assets themselves or, if it is to be used internally, the usefulness of the intangible assets; and

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

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

3.21 Impairment of Long-Term Assets

Impairment loss of fixed assets, constructions in progress, Intangible assets with finite useful lives, investment properties subsequently measured at cost, right-of-use assets, long-term equity investment in subsidiaries, associates and joint ventures, goodwill, etc. shall be determined according to following method:

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

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

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

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

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

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

3.22 Long-term Deferred Expenses

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

3.23 Employee Benefits

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

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

(1) Short-term employee benefits

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

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

②Employee welfare

The Company shall recognise the employee welfare based on actual amount when incurred into current profit or loss or related capital expenditure. Employee welfare shall be measured at fair value as it is a non-monetary benefits.

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

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

④Short-term paid absences

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

⑤Short-term profit-sharing plan

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

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

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

(2) Post-employment benefits

①Defined contribution plans

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

When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using relevant discount rate (market yields at the end of the reporting period on high quality corporate bonds in active market or government bonds with the currency and term which shall be consistent with the currency and estimated term of the defined contribution obligations) to measure employee benefits payable.

②Defined benefit plan

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

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

B. The net defined benefit liability or asset

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

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

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

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

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

D. The amount recognised in other comprehensive income

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

(a) Actuarial gains and losses, the changes in the present value of the defined benefit obligation resulting from experience adjustments or the effects of changes in actuarial assumptions; and

(b) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability or asset; and

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

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

(3) Termination benefits

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

①When the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal.

②When the Company recognises costs or expenses related to a restructuring that involves the payment of termination benefits.

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

(4) Other long-term employee benefits

①Meet the conditions of the defined contribution plan

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

②Meet the conditions of the defined benefit plan

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

A. Service costs; and

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

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

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

3.24 Estimated liabilities

3.24.1 Recognition criteria for contingent liabilities

Estimated liabilities are recognized by the Company if obligations related to contingencies if all following criteria are met:

① That obligation is a current obligation of the Company; and

② The settle of that obligation is probable to result in an outflow of economic benefits from the Company; and

③ The amount of that obligation can be estimated reliably.

3.24.2 Measurement method of estimated liabilities

The estimated liabilities of the Company are initially measured at the best estimate of expenses required for the performance of relevant present obligations. The Company, when determining the best estimate, has had a comprehensive consideration of risks with respect to contingencies, uncertainties and the time value of money. The carrying amount of the estimated liabilities shall be reviewed at the end of every reporting period. If conclusive evidences indicate that the carrying amount fails to be the best estimate of the estimated liabilities, the carrying amount shall be adjusted based on the updated best estimate.

3.25 Revenue

3.25.1 General principle

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

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

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

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

If one of the following conditions is met, the performance obligation is satisfied over time. Otherwise, the performance obligation is satisfied at a certain point:

I. the client simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

II. the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

III. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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

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

I. the entity has a present right to payment for the asset, i.e.. the client is presently obliged to pay for an asset;

II. the legal title to the asset has been transferred to the client, i.e.. the client has the legal title to the asset;

III. the entity has transferred physical possession of the asset to the client, i.e.. the client has physical possession of the asset;

IV. the entity has transferred substantially significant risks and rewards of ownership of the asset, i.e.. the client has the significant risks and rewards of ownership of the asset;

V. the client has accepted the asset;

When the Company receives payment for goods or services from the customer in advance, such payment shall first be recognized as a liability and shall be transferred to revenue when the relevant performance obligations are fulfilled. Where the Company does not need to refund the advance payment and the Client may waive all or part of its contractual rights, the Company expects to be entitled to an amount related to the waiver of the Contract rights by the Client, such amount shall be recognized as revenue pro rata in accordance with the mode in which the Client exercises the contractual rights; Otherwise, the company will only convert the relevant balance of the aforesaid liability into revenue when the possibility of the client’s request to fulfill the remaining performance obligations is extremely low.

3.25.2 Specific methods

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

① Revenue from providing services

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

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

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

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

3.26 Government Grants

(1) Recognition of government grants

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

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

②The grants will be received.

(2) Measurement of government grants

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

(3) Accounting for government grants

①Government grants related to assets

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

②Government grants related to income

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

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

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

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

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

③Loan interest subsidy

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

④Repayment of the government grants

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

3.27 Deferred Tax Assets and Deferred Tax Liabilities

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

(1) Recognition of deferred tax asset

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

A. Is not a business combination; and

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

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

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

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

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

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

(2) Recognition of deferred tax liabilities

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

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

A. The initial recognition of goodwill; or

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

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

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

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

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

①Deferred tax liabilities or assets related to business combination

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

②Items directly recognised in equity

Current tax and deferred tax related to items that are recognised directly in equity shall be recognised in equity. Such items include: other comprehensive income generated from fair value fluctuation of available for sale investments; an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of a prior period (significant) error; amounts arising on initial recognition of the equity component of a compound financial instrument that contains both liability and equity component.

③Unused tax losses and unused tax credits

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

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

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

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

④Temporary difference generated in consolidation elimination

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

⑤Share-based payment settled by equity

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

3.28 Leases

Adopted from January 1, 2021

3.28.1 Identifying a lease

At inception of a contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company shall assess whether, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from use of the identified asset and to direct the use of the identified asset.

3.28.2 Identifying a separate lease component

When a contract includes more than one separate lease components, the Company shall separate components of the contract and account for each lease component separately. The right to use an underlying asset is a separate lease component if both conditions have been satisfied: ①the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee; ②the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

3.28.3 The Company as a lessee

At the commencement date, the Company identifies the lease that has a lease term of 12 months or less and does not contain a purchase option as a short-term lease. A lease qualifies as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically of low value. If the Company subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

For all asset included in short-term leases or leases for which the underlying asset is of low value/ all the short-term leases or leases for which the underlying asset is of low value, the

Company shall recognise the lease payments associated with those leases as cost of relevant asset or expenses in current profit or loss on a straight-line basis over the lease term.

Except for the election of simple treatment as short-term lease or lease of a low-value asset as mentioned above, at the commencement date, the Company shall recognise a right-of-use asset and a lease liability.

① Right-of-use assets

A right-of-use asset represents the right of the Company to use an asset over the life of a lease.

At the commencement date, the Company shall initially measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

(a) the amount of the initial measurement of the lease liability；

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The Company recognises and measures the cost in accordance with the recognition criteria and measurement method for estimated liabilities, details please refer to Notes 3.24. Those costs incurred to produce inventories shall be included in the cost of inventories.

The right-of-use asset shall be depreciated according to the categories using straight - line method or units of production method. If it is reasonably certain that the ownership of the underlying asset shall be transferred to the lessee by the end of the lease term, the depreciation rate shall be determined based on the classification of the right-of- use asset and estimated residual value rate from the commencement date to the end of the useful life of the underlying asset. Otherwise, the depreciation rate shall be determined based on the classification of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The depreciation method, estimated useful life, residual rates and annual depreciation rates which are determined according to the categories of right-of-use asset are listed as followings:

Category	Depreciation method	Estimated useful life (Year)/ Estimated flight hours (KHrs)	Residual rates (%)	Annual depreciation rates/KHrs (%)
Buildings and constructions	Straight-line method	1-5	0.00	20-100
Aircraft engine core parts and engine auxiliary power unit	Straight-line method	5-20	0.00-5.00	4.75-20
Engine replacement parts	Units-of-production method	17-23	0.00	4.35-5.88

②Lease liability

A lease liability shall be measured at the present value of the lease payments that are not paid at the commencement date. The lease payments include the followings:

(a) Fixed payments and in-substance fixed payments, less any lease incentives if exist; and

(b) Variable lease payments that depend on an index or a rate; and

(c) The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and

(d) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease; and

(e) Amounts expected to be payable by the lessee under residual value guarantees.

The Company uses the interest rate implicit in the lease to discount the lease payments. If that rate cannot be readily determined, the Company uses the lessee’s incremental borrowing rate as discount rate.

The difference between the lease payment and its present value shall be recognized as unrecognised financial charges, calculated bases on the discount rate of the present value of the lease payments in each period within the lease term and recorded as interest expense in current profit or loss. Variable lease payments not included in the measurement of lease liabilities shall be recognised in current profit or loss when incurred.

After the commencement date, the Company shall remeasure the lease liability based on the revised present value of the lease payments and adjust the carrying amount of the right-of-use asset if there is a change in the in-substance fixed payments, or change in the amounts expected to be payable under a residual value guarantee, or change in an index or a rate used to determine lease payments, or change in the assessment or exercising of an option to purchase the underlying asset, or an option to extend or terminate the lease.

3.28.4 The Company as a lessor

At the commencement date, the Company shall classify a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, otherwise it shall be classified as an operating lease.

①Operating leases

The Company shall recognise lease payments from operating leases as income on a straight-line basis / units of production method (or other systematic and rational basis) over the term of the relevant lease and the initial direct costs incurred in obtaining an operating lease shall be capitalised and recognised as an expense over the lease term on the same basis as the lease income. The Company shall recognise the variable lease payments relating to the operating lease but not included in the measurement of the lease receivables into current profit or loss when incurred.

②Finance leases

At the commencement date, the Company shall recognise the lease receivables at an account equal to the net investment in the lease (the sum of the present value of the unguaranteed residual values and the lease payment that are not received at the commencement date discounted at the interest rate implicit in the lease) and derecognise the asset relating to the finance lease. The Company shall recognise interest income using the interest rate implicit in the lease over the lease term.

The Company shall recognise the variable lease payments relating to the finance lease but not included in the measurement of the net investment in the lease into current profit or loss when incurred.

3.28.5 Lease modifications

Where there is a modification on operating lease, the Company considers it to be a new lease from the effective date of the modification, and the advances from customer and receivables related to lease payments before the modification shall be considered as payments for new lease.

3.28.6 Sale and leaseback transactions

The Company shall determine whether the transfer of an asset under the sale and leaseback transaction is a sale of that asset according to the policies in Note 3.25.

①The Company as a seller (lessee)

If the transfer of the asset is not a sale, the Company shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability according to Note 3.10. If the transfer of the asset is a sale, the Company shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. Accordingly, the Company shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

②The Company as a buyer (lessor)

If the transfer of the asset is not a sale, the Company shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset according to Note 3.10. If the transfer of the asset is a sale, the Company shall account for the purchase of the asset applying applicable Accounting Standards of Business Enterprises, and for the lease applying the lessor accounting requirements.

The following accounting policies for operating leases and finance leases apply to the year 2020 or before

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

(1) Accounting for operating leases

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

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

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

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

(2) Accounting for finance leases

①When the Company as a lessee, at commencement of the lease, assets obtained through finance leases should be recorded at the lower of their fair values and the present values of the minimum lease payments. The Company shall recognise long-term payables at amounts equal to the minimum lease payments, and the differences shall be recognised as unrecognised finance charges, which shall be amortised over the lease terms as finance expenses by using effective interest rate method and recognised into finance cost.

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

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

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

3.29 Routine maintenance and overhaul costs

According to the relevant lease agreement, the company needs to carry out regular maintenance work on certain aircraft held by the company by lease, so as to ensure that the aircraft is returned to the agreed state. Except for the provision for lease termination compensation reserve recognized in the initial measurement of the right-of-use assts on the commence date in Note 3.28.3, other overhaul costs related to the lease termination shall be accrued during the lease term. The difference between the provision and actual expense for overhaul shall be included in the current profits and losses in the overhaul period.

Eligible overhaul costs are capitalized as incurred and depreciated by the straight-line method or units-of-production method over a reasonable period. Expenses for routine maintenance and repair shall be carried to the current profits and losses when incurred.

3.30 Changes in Significant Accounting Policies and Accounting Estimates

3.30.1 Changes in Significant Accounting Policies

The Ministry of Finance issued the revised Accounting Standards for Business Enterprises No. 21 -- Lease (Caikuai [2018] No. 35) on December 7, 2018 (hereinafter referred to as the "new lease standards"), requiring domestic listed enterprises to implement the new revenue standards from January 1, 2021.

According to the resolution of the Tenth Meeting of the Seventh Board of Directors on March 25, 2021, the Company will implement the aforementioned new lease standards from January 1, 2021. Please see details in Note 3.28.

① The Company as a lessee

The Company chooses to recognise the cumulative impact of initially applying this standard as an adjustment to the opening balance of retained earnings and other related accounts of the financial statements at the date of initial application (January 1, 2021), not restating comparative information:

A. For leases previously classified as finance leases, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and finance lease payable immediately before that date measured applying previous standard;

B. For leases previously classified as operating leases, the Company adopts the following method to measure the right-of-use asset:

I. For aircraft and engine lease, the Company measures that right-of-use asset at its carrying amount as if the standard had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application;

II. For lease other than aircraft and engine, the Company measures the right-of-use asset at an amount equal to the lease liability, with necessary adjustments for lease prepayment.

C. At the first implementation date, the Company conducts impairment test on right-of-use assets and performs corresponding accounting treatment in accordance with Note 3.21.

For operating leases that are classified as low value assets before the first implementation date, the Company adopts simplified treatments, not recognising right-of-use assets and lease liabilities.

② The Company as a lessor

The Company does not make any adjustments on transition for leases in which it is a lessor and accounts for those leases applying this Standard from the date of initial application .

③Sale and leaseback transactions

The Company does not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in Note 3.25 to be accounted for as a sale. For sale and leaseback transactions after the first implementation date, as a seller and a lessor, the Company assesses whether the transfer of assets in sale and leaseback transactions is a sale in accordance with the revenue standards.

Please refer to Note 3.30.3 for the cumulative effect of the above accounting standards.

3.30.2 Significant changes in accounting estimates

The Company has no change in accounting estimates for the current period.

3.30.3 Adjustments of the Financial Statements at the Beginning of the Reporting Period for the First-Year Adoption of New Lease Standards

Consolidated Statement of Financial Position

Unit: Yuan, Currency: CNY

Items	December 31, 2020	January 1, 2021	Adjustment
Current assets:			
Prepayments	213,530,865.28	6,408,523.03	-207,122,342.25
Total current assets	6,426,900,695.69	6,219,778,353.44	-207,122,342.25
Non-current assets:			
Fixed assets	6,904,082,012.35	5,313,062,985.24	-1,591,019,027.11

Items	December 31, 2020	January 1, 2021	Adjustment
Right-of-use assets	N/a	13,096,845,510.69	13,096,845,510.69
Deferred tax assets	1,999,099,488.87	2,537,037,026.88	537,937,538.01
Total non-current assets	15,976,604,438.30	28,020,368,459.89	12,043,764,021.59
Total assets	22,403,505,133.99	34,240,146,813.33	11,836,641,679.34
Current liabilities			
Accounts payable	2,543,319,300.31	2,137,248,727.24	-406,070,573.07
Non-current liabilities due within one year	321,577,566.89	2,804,980,819.75	2,483,403,252.86
Total current liabilities	6,899,778,730.55	8,977,111,410.34	2,077,332,679.79
Non-current liabilities:			
Lease liabilities	N/a	11,218,614,628.36	11,218,614,628.36
Long-term payables	5,303,354,015.63	4,464,861,000.74	-838,493,014.89
Accrued liabilities		993,000,000.00	993,000,000.00
Total non-current liabilities	12,933,465,479.23	24,306,587,092.70	11,373,121,613.47
Total liabilities	19,833,244,209.78	33,283,698,503.04	13,450,454,293.26
Shareholders' equity			
Retained earnings	1,233,524,795.64	-380,287,818.28	-1,613,812,613.92
Equity attributable to shareholders of the parent	2,570,260,924.21	956,448,310.29	-1,613,812,613.92
Total owners’ equity	2,570,260,924.21	956,448,310.29	-1,613,812,613.92
Total liabilities and owners' equity	22,403,505,133.99	34,240,146,813.33	11,836,641,679.34

On January 1, 2021, for financial lease prior to the first implementation date, the Company reclassified the book value of fixed assets of financial leases amounted to CNY 1,591,019,027.11 from fixed assets to right-of-use assets. Finance lease payable amounted to CNY 1,048,235,448.82 were reclassified from long-term payable to lease liabilities. Finance lease payable under non-current liabilities due within one year amounted to CNY 181,264,490.05 were reclassified to lease liabilities under non-current liabilities due within one year.

On January 1, 2021, for operating lease prior to the first implementation date, for aircraft and engine lease, the Company measured the right-of-use asset, lease liabilities, and estimated liabilities at their carrying amounts as if the standard had been applied since the commencement date. The amount of right-of-use assets is CNY 11,484,632,839.77, the amount of lease liabilities and lease liabilities under non-current liabilities due within one year is CNY 12,632,588,788.59, the amount of estimated liabilities is CNY 993,000,000.00, and prepayment amount decreases CNY 207,122,342.25. For lease of buildings and constructions, the Company measures the right-of-use asset at an amount equal to the lease liability, which is CNY 21,193,643.81.

On January 1, 2021, payable of overhaul expense of operating lease of aircraft and engine under long-term payable and accounts payable were written back, and payables of lease termination compensation of operating lease of aircraft and engine were recognised, decreasing accounts payables by CNY 406,070,573.07 and increasing long-term payables by CNY 209,742,433.93.

On January 1, 2021, the deferred tax assets was adjusted for the book-tax difference in relation with new lease standards and accrued expenses, the deferred tax assets was increased by CNY 537,937,538.01.

Statement of Financial Position of the Parent Company

Unit: Yuan Currency: CNY

Items	December 31, 2020	January 1, 2021	Adjustment
Current assets:			
Prepayments	213,297,372.67	6,175,030.42	-207,122,342.25
Total current assets	6,422,809,764.28	6,215,687,422.03	-207,122,342.25
Non-current assets:			
Fixed assets	6,812,145,764.90	5,221,126,737.79	-1,591,019,027.11
Right-of-use assets	N/a	13,096,845,510.69	13,096,845,510.69
Deferred tax assets	1,998,341,086.43	2,536,278,624.44	537,937,538.01
Total non-current assets	16,015,164,509.30	28,058,928,530.89	12,043,764,021.59
Total assets	22,437,974,273.58	34,274,615,952.92	11,836,641,679.34
Current liabilities			
Accounts payable	2,560,482,401.82	2,154,411,828.75	-406,070,573.07
Non-current liabilities due within one year	321,577,566.89	2,804,980,819.75	2,483,403,252.86

Items	December 31, 2020	January 1, 2021	Adjustment
Total current liabilities	6,998,514,668.16	9,075,847,347.95	2,077,332,679.79
Non-current liabilities:			
Lease liabilities	N/a	11,218,614,628.36	11,218,614,628.36
Long-term payables	5,303,354,015.63	4,464,861,000.74	-838,493,014.89
Accrued liabilities		993,000,000.00	993,000,000.00
Total non-current liabilities	12,932,552,624.34	24,305,674,237.81	11,373,121,613.47
Total liabilities	19,931,067,292.50	33,381,521,585.76	13,450,454,293.26
Shareholders' equity			
Retained earnings	1,159,330,752.03	-454,481,861.89	-1,613,812,613.92
Total owners' equity	2,506,906,981.08	893,094,367.16	-1,613,812,613.92
Total liabilities and owners' equity	22,437,974,273.58	34,274,615,952.92	11,836,641,679.34

On January 1, 2021, for financial lease prior to the first implementation date, the Company reclassified the book value of fixed assets of financial leases amounted to CNY 1,591,019,027.11 from fixed assets to right-of-use assets. Finance lease payable amounted to CNY 1,048,235,448.82 were reclassified from long-term payable to lease liabilities. Finance lease payable under non-current liabilities due within one year amounted to CNY 181,264,490.05 were reclassified to lease liabilities under non-current liabilities due within one year.

On January 1, 2021, for operating lease prior to the first implementation date, for aircraft and engine lease, the Company measured the right-of-use asset, lease liabilities, and estimated liabilities at their carrying amounts as if the standard had been applied since the commencement date. The amount of right-of-use assets is CNY 11,484,632,839.77, the amount of lease liabilities and lease liabilities under non-current liabilities due within one year is CNY 12,632,588,788.59, the amount of accrued liabilities is CNY 993,000,000.00, and prepayment amount decreases CNY 207,122,342.25. For lease of buildings and constructions, the Company measures the right-of-use asset at an amount equal to the lease liability , which is CNY 21,193,643.81.

On January 1, 2021, payable of overhaul expense of operating lease of aircraft and engine under long-term payable and accounts payable were written back, and payables of lease termination compensation of operating lease of aircraft and engine were recognised, decreasing accounts payables by CNY 406,070,573.07 and increasing long-term payables by CNY 209,742,433.93.

On January 1, 2021, the deferred tax assets was adjusted for the book-tax difference in relation with new lease standards and accrued expenses, the deferred tax assets was increased by CNY 537,937,538.01.

3.31 Correction of Prior Period Errors

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

3.32 Significant Account Judgement and Estimates

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

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

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

(1) Impairment of Financial Assets

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

(2) 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.

(3) The Fair Value of Financial Instruments

For a financial instrument which has no active market, the Company establishes fair value by using various valuation methods, including of discounted cash flow analysis model. The Company needs to estimate future cash flow, credit risk, volatility and relationship during the valuation and choose appropriate discount rate. Such assumptions have uncertainties and their changes shall have impact on the fair value of financial instruments. If an equity instrument investment or contract has a public offer, the Company does not use cost as the best estimate of its fair value.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) Overhaul Expenses and lease termination compensations for leased aircraft and engine

Aircraft overhaul expenses and lease termination compensations are accrued and charged to profit or loss during the lease period. The calculation of the provision for overhaul expenses and lease termination compensations involves a number of variable factors and assumptions, including the expected use of the aircraft and the estimated maintenance cost. These estimates are largely based on past historical data about the same or similar types of aircraft and engines overhaul. The overhaul expenses and lease termination compensations may be affected by different judgments and estimates and affect current profit or loss.

Note 4 TAXATION

4.1 Major Taxes and Tax Rate

Tax	Tax rate (%)
Enterprise income tax	Business tax is calculated according to the taxable income (note1)
Value added tax	The VAT is calculated as the difference between output tax and deductible input tax for the period, and the tax rates are 6%, 9%, 13% (Note 2). The output tax is calculated using the sales of goods and taxable services income

Tax	Tax rate (%)
	(including transportation and ground services revenue).
Property tax	Property tax is calculated by the nature of house property and is collected by ad valorem or specific duties according to the tax rules.
Urban maintenance and construction tax	Urban maintenance and construction tax are calculated at 7% of turnover tax.
Education surcharge	Education surcharge is calculated at 3% of turnover tax.
Local education surcharge	Local education surcharge is calculated at 2% of turnover tax.
Civil aviation development Fund	Civil aviation development fund shall be calculated using the collection standard of the relevant category of flight routes, maximum departure weight and flight distance adopted by the civil aviation industry. According to “Interim measures for the administration of the administration of civil aviation development fund”《民航发展基金征收使用管理暂行办法》.

Note 1: According to the provision of National Development and Reform Commission ([2014]15) and Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》) (State Administration of Taxation [2012]12), the Chongqing branch of the Company can get a reduced rate of 15% to pay corporate income tax, when its international and domestic air passenger and cargo transport projects are in line with the " Catalogue of Encouraged Industries in Western Region”(《西部地区鼓励类产业目录》). All companies in mainland China are subject to a corporate income tax rate of 25%.

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

4.2 Tax Incentives

4.2.1. Zero VAT rate applies to entities and individuals within the Chinese territory that provide international transportation services, research and development services and designing services provided to foreign entities, roundtrip transportation services between Hongkong, Macao, and Taiwan, as well as transportation services provided in Hongkong, Macao, and Taiwan per the Notice of Pilot Conversion of Sales-tax-to-VAT for the Transportation Sector and Certain Contemporary Service Sectors by the Ministry of Finance and State Administration of Taxation (Caishui [2013] No.37)(财税[2013]37 号《财政部、国家税务总局关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》). After the comprehensive "replacement of business tax with VAT" in 2016, the relevant policies will continue to apply in accordance with the requirements of the Notice of the Ministry of Finance and the State Administration of Taxation on Fully Implementing the Pilot Program of Replacing Business Tax with VAT" (Cai Shui [2016] No. 36). (财税[2016]36 号《财政部、国家税务总局关于全面推开营业税改征增值税试点的通知》).

4.2.2. According to the Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》) (State Administration of Taxation [2012]12) （国家税务总局[2012]12 号） and Announcement on Continuing the Enterprise Income Tax Policy for the Great Western Development" (Announcement No. 23 [2020] of the Ministry of Finance, the State Administration of Taxation, and the National Development and Reform Commission) (财政部、税务总局、国家发展改革委公告 2020 年第 23 号《关于延续西部大开发企业所得税政策的公告》), Chongqing Branch of the Company meets the conditions for reduction and exemption in the development of the western region, could enjoy the preferential policy of reducing enterprise income tax by 15% in 2020.

4.2.3. According to the Announcement on Cancellation of Port Construction Fees and Adjustment of Civil Aviation Development Fund Relevant Policies (《关于取消港口建设费和调整民航发展基金有关政策的公告》) (Ministry of Finance Announcement No. 8, 2021), from April 1, 2021, the civil aviation development funds shall be paid by the airlines followed by a further 20% reduction based on the original 50% reduction in accordance with the Notice of the Ministry of Finance on Adjusting Some Government Funds Relevant Policies (Cai Shui [2019] No. 46)（财税〔2019〕46 号《财政部关于调整部分政府性基金有关政策的通知》).

Note 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the following annotated items (including the annotated major items in the parent Company's financial statements), unless otherwise indicated, "end of the previous period " refers to December 31, 2020 and "end of the period" refers to December 31, 2021; "Current period" refers to the year 2021 and "Previous period" refers to the year 2020.

5.1 Monetary funds

Item	December 31, 2021	December 31, 2020
Cash at hand:	159,608.70	225,522.11
Bank deposit:	3,810,943,072.46	5,306,248,928.95
Other monetary funds		
Total	3,811,102,681.16	5,306,474,451.06
Including: the total amount of deposit abroad	1,109,732.99	5,411,252.96

As of the end of the period, CNY 3,662,242.28 of bank deposit of the Company is interest receivable on notice deposits.

5.2 Accounts receivable

5.2.1 Disclosure by Age

Age	December 31, 2021	December 31, 2020
Within 1 year	296,273,001.48	283,442,317.86
1 to 2 years	26,836,339.62	52,253,563.71
2 to 3 years	15,955,262.91	34,123,063.16
3 to 4 years	32,120,000.00	
4 to 5 years		
Over 5 years	3,186,437.70	3,186,437.70
Subtotal	374,371,041.71	373,005,382.43
Less: provision for bad debt	34,257,978.60	18,653,085.44
Total	340,113,063.11	354,352,296.99

5.2.2 Disclosure by Category

① December 31, 2021

Category	December 31, 2021				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment	50,258,874.92	13.42	20,883,150.81	41.55	29,375,724.11
Accounts receivable subject to group impairment assessment	324,112,166.79	86.58	13,374,827.79	4.13	310,737,339.00
Total	374,371,041.71	100.00	34,257,978.60	9.15	340,113,063.11

(Continued)

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

Detailed explanation of provision for bad debt:

② Accounts receivable subject to individual impairment assessment as of December 31, 2021

Category	December 31, 2021			
	Book balance	Provision for bad debt	Provision ratio (%)	Reason
Debtor #1	32,120,000.00	12,773,220.82	39.77	Impairment upon

Category	December 31, 2021			
	Book balance	Provision for bad debt	Provision ratio (%)	Reason
				individual assessment
Debtor #2	15,372,966.87	5,344,021.94	34.76	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
Total	50,258,874.92	20,883,150.81	41.55	

③ Accounts receivable subject to group impairment assessment as of December 31, 2021

Category	December 31, 2021		
	Book balance	Provision for bad debt	Provision ratio (%)
Amounts due from the clearing center	16,263,740.96		
Amounts due from the aviation association	34,671,136.84		
Amounts due from related parties	5,680,733.40		
Other receivables	267,496,555.59	13,374,827.79	5.00
Total	324,112,166.79	13,374,827.79	4.13

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

④ Accounts receivable with individually significant balance and provision for bad debt recognized individually as of December 31, 2020

Entity name	December 31, 2020			
	Book balance	Provision for bad debt	Provision ratio (%)	Reason
Kun Peng Airlines Co.,	1,849,400.00	1,849,400.00	100.00	Impairment upon

Entity name	December 31, 2020			
	Book balance	Provision for bad debt	Provision ratio (%)	Reason
Ltd				individual assessment
CRAirways	916,508.05	916,508.05	100.00	Impairment upon individual assessment
Total	2,765,908.05	2,765,908.05	100.00	

⑤Accounts receivable with individually insignificant balance but provision for bad debt recognized individually as of December 31, 2020

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

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

5.2.3 Changes of Provision for Bad Debt During the Reporting Period

Category	December 31, 2020	Changes during the reporting period			December 31, 2021
		Provision	Recovery or reversal	Write-off	
Accounts receivable subject to individual impairment assessment	2,765,908.05	18,117,242.76			20,883,150.81
Accounts receivable subject to impairment assessment by group	15,887,177.39		2,512,349.60		13,374,827.79

Total	18,653,085.44	18,117,242.76	2,512,349.60		34,257,978.60

5.2.4 The Company has no accounts receivable actually written-off in the current period.

5.2.5 According to the ending balance collected by the debtor, the summary amount of the top five accounts receivable is CNY 174,838,477.71, accounting for 46.70% of the total ending balance of accounts receivable, and the corresponding summary amount of the ending balance of bad debt provision is CNY 19,909,144.71.

5.2.6 The Company has no receivables terminated due to the transfer of financial assets.

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

5.3 Prepayments

5.3.1 Disclosure by Age

Age	December 31, 2021		December 31, 2020	
	Amount	%	Amount	%
Within 1 year	4,314,603.85	92.08	213,189,480.25	99.84
1 to 2 years	280,226.14	5.98	151,385.03	0.07
2 to 3 years	61,119.56	1.30	120,000.00	0.06
Over 3 years	30,000.00	0.64	70,000.00	0.03
Total	4,685,949.55	100.00	213,530,865.28	100.00

The Company has no significant prepayments over 1 year.

5.3.2 The total amount of the top five prepayments of the company is CNY 4,362,157.29, accounting for 93.09% of the total ending balance of prepayments.

5.3.3 The ending balance of prepayments decreases by 97.81% compared with the end of the previous period, mainly due to the implementation of the new lease standards in the current period.

5.4 Other receivables

5.4.1 Other Receivables by Category

Items	December 31, 2021	December 31, 2020
Interest receivable		

Items	December 31, 2021	December 31, 2020
Dividend receivable		
Other receivables	171,734,868.85	159,397,943.13
Total	171,734,868.85	159,397,943.13

5.4.2 Other Receivables

① Other receivables by age

Age	December 31, 2021	December 31, 2020
Within one year	136,102,606.78	129,289,406.75
1-2 years	17,401,910.52	5,366,941.18
2-3 years	3,653,219.68	12,340,149.83
3-4 years	9,370,949.83	4,004,091.99
4-5 years	1,980,964.96	803,055.01
Over 5 years	109,130,160.41	113,073,237.70
Subtotal	277,639,812.18	264,876,882.46
Less: provision for bad debt	105,904,943.33	105,478,939.33
Total	171,734,868.85	159,397,943.13

②Other receivables by nature

Nature	December 31, 2021	December 31, 2020
Deposits receivable	66,697,664.53	63,646,894.09
Amounts due from related parties	123,877,633.81	122,685,554.68
Other receivables	87,064,513.84	78,544,433.69
Subtotal	277,639,812.18	264,876,882.46
Less: provision for bad debt	105,904,943.33	105,478,939.33
Total	171,734,868.85	159,397,943.13

③ Other receivables by bad debt provision method

A. Provision for bad debts recognized based on three stages model as of December 31, 2021 is as follows:

Stage	Book balance	Provision for bad debt	Carrying amount
First stage	176,088,094.53	4,353,225.68	171,734,868.85
Second stage			
Third stage	101,551,717.65	101,551,717.65	

Total	277,639,812.18	105,904,943.33	171,734,868.85

Provision for bad debt in the first stage as of December 31, 2021:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Oher receivables subject to individual impairment assessment					
Oher receivables subject to impairment assessment by group	176,088,094.53	2.47	4,353,225.68	171,734,868.85	
Including: Deposits receivable	66,697,664.53			66,697,664.53	No significant increase on credit risk
Amounts due from related parties	22,325,916.16			22,325,916.16	No significant increase on credit risk
Other receivables	87,064,513.84	5.00	4,353,225.68	82,711,288.16	No significant increase on credit risk
Total	176,088,094.53	2.47	4,353,225.68	171,734,868.85	

As of December 31, 2021, the Company have no interest receivable, dividends receivable and other receivables recognized in the second Stage.

Provision for bad debt in the third stage as of December 31, 2021:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Other receivables subject to individual impairment assessment	101,551,717.65	100.00	101,551,717.65		
Shandong Rainbow Commercial Jet Co.,	101,551,717.65	100.00	101,551,717.65		Credit impaired

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Ltd					
Total	101,551,717.65	100.00	101,551,717.65		

B. Provision for bad debt using incurred loss model as of December 31, 2020:

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

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

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

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

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

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Other receivables subject to individual impairment assessment	101,551,717.65	100.00	101,551,717.65		
Shandong Rainbow Commercial Jet Co., Ltd	101,551,717.65	100.00	101,551,717.65		Credit impaired
Total	101,551,717.65	100.00	101,551,717.65		

④ Changes of provision for bad debt during the reporting period

Category	December 31, 2020	Changes during the reporting period			December 31, 2021
		Provision	Recovery or reversal	Write-off	
Other receivables subject to individual impairment assessment	101,551,717.65				101,551,717.65
Other receivables subject to impairment assessment by credit risk characteristics of a group	3,927,221.68	426,004.00			4,353,225.68
Total	105,478,939.33	426,004.00			105,904,943.33

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

⑥Top five closing balances by entity

Entity name	Nature	Balance at December 31, 2021	Age	Proportion of the balance to the total other receivables (%)	Provision for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	101,551,717.65	Over 5 years	36.58	101,551,717.65
Debtor #1	Deposits	31,257,853.34	Within 1 year	11.26	

Entity name	Nature	Balance at December 31, 2021	Age	Proportion of the balance to the total other receivables (%)	Provision for bad debt
Debtor #2	Deposits	14,567,356.48	Within 1 year	5.25	
Debtor #3	Others	14,129,792.80	Within 1 year	5.09	706,489.64
Debtor #4	Deposits	10,503,492.40	Within 3 years	3.78	
Total		172,010,212.67		61.96	102,258,207.29

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

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

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

5.5 Inventories

5.5.1 Inventories by Category

Items	December 31, 2021			December 31, 2020		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Consumable air equipment	108,880,783.95	4,227,205.99	104,653,577.96	109,543,973.05	4,227,205.99	105,316,767.06
Low-value consumables	2,388,064.47		2,388,064.47	2,325,185.14		2,325,185.14
Materials	4,743,700.74		4,743,700.74	2,930,447.30		2,930,447.30
Total	116,012,549.16	4,227,205.99	111,785,343.17	114,799,605.49	4,227,205.99	110,572,399.50

5.5.2 Provision for Impairment

Items	December 31, 2020	Increase during the reporting period		Decrease during the reporting period		December 31, 2021
		Provision	Others	Reversal or written-down	Others	
Consumable air	4,227,205.99					4,227,205.99

equipment						
Total	4,227,205.99					4,227,205.99

5.6 Other current assets

Items	December 31, 2021	December 31, 2020
VAT deductible	369,977,255.76	282,572,739.73
Total	369,977,255.76	282,572,739.73

Other current assets at the end of the period increases by 30.93% compared with the end of the previous period, mainly due to the increase of tax credit as of the reporting date.

5.7 Long-term equity investment

Investees	December 31, 2020	Provision b/f	Changes in the current period (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Air New Media Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Investees	Changes in the current period (+, -)			December 31, 2021	Provision as at December 31, 2021
	Declared cash dividends or profits	Provision recognized	Others		
Associates					
Shandong Air New Media Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

5.8 Other equity instrument investment

5.8.1 General Information of Other Equity Instrument Investment

Items	December 31, 2021	December 31, 2020
Non-trading equity instrument investment	461,245,883.18	541,789,406.63
Total	461,245,883.18	541,789,406.63

5.8.2 General Information of Non-Trading Equity Instrument Investment

Item	Dividend income in current period	Cumulative gain	Cumulative loss	Other comprehensive income transferred into retained earnings	Reasons for being measured at fair value and its changes are included in other comprehensive income	Reasons for other comprehensive income transferred into retained earnings
TravelSky Technology Limited	208,728.00	133,247,930.50			Non-trading financial assets	
Sichuan Airlines		239,823,105.34			Non-trading financial assets	
Jinan International Airport			177,252.66		Non-trading financial assets	
Total	208,728.00	373,071,035.84	177,252.66			

5.9 Investment properties

5.9.1 Investment properties adopt the cost model

Items	Buildings and constructions	Land use right	Total
1. Cost:			
1.1 Balance as at December 31, 2020			
1.2 Increased in current period	26,263,754.60	8,480,000.00	34,743,754.60
(1) Purchase			
(2) Transferred from fixed assets/ intangible assets	26,263,754.60	8,480,000.00	34,743,754.60
(3) Transferred from merger and acquisitions			
1.3 Decreased in current period			
(1) Disposal			
(2) Others			
1.4 Balance as at December 31, 2021	26,263,754.60	8,480,000.00	34,743,754.60
2. Accumulated depreciation and amortization			
2.1 Balance as at December 31, 2020			
1.2 Increased in current period	8,488,388.04	2,029,183.82	10,517,571.86
(1) amortization	774,690.77	242,663.93	1,017,354.70
(2) Others	7,713,697.27	1,786,519.89	9,500,217.16
2.3 Decreased in current period			
(1) Disposal			
(2) Others			
2.4 Balance as at December 31, 2021	8,488,388.04	2,029,183.82	10,517,571.86
3. Impairment provision			
3.1 Balance as at December 31, 2020			
3.2 Increased in current period			
(1) Accrual			
3.3 Decreased in current period			
(1) Disposal			
(2) Others			
3.4 Balance as at December 31, 2021			
4. Carrying amount of investment properties			

Items	Buildings and constructions	Land use right	Total
4.1 Carrying amount as at December 31, 2021	17,775,366.56	6,450,816.18	24,226,182.74
4.2 Carrying amount as at December 31, 2020			

5.9.2 The Company has no investment properties without certificate of title.

5.10 Fixed assets

5.10.1 Fixed Assets by Category

Items	December 31, 2021	December 31, 2020
Fixed assets	6,200,939,794.32	6,904,082,012.35
Disposal of fixed assets		
Total	6,200,939,794.32	6,904,082,012.35

5.10.2 Fixed Assets

①General information of fixed assets

Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at December 31, 2020	572,253,146.88	12,379,288,425.67	764,930,369.31	73,914,807.79	240,054,880.79	14,030,441,630.44
Changes in accounting policies		-2,128,488,287.78				-2,128,488,287.78
Balance as at 1 January 2021	572,253,146.88	10,250,800,137.89	764,930,369.31	73,914,807.79	240,054,880.79	11,901,953,342.66
1.2 Increased in current period	1,072,904,127.53	477,545,283.00	16,590,708.06	12,116,539.39	28,802,356.47	1,607,959,014.45
(1) Purchase	268,112.00	477,545,283.00	16,590,708.06	12,116,539.39	28,802,356.47	535,322,998.92
(2) Transferred from construction-in-progress	1,072,636,015.53					1,072,636,015.53
(3) Transferred from merger and acquisitions						
(4) Others						
1.3 Decreased in current period	26,263,754.60	311,786,603.06	897,482.54	1,529,400.03	9,570,789.42	350,048,029.65
(1) Disposal or scrap		311,786,603.06	897,482.54	1,529,400.03	9,570,789.42	323,784,275.05
(2) Others	26,263,754.60					26,263,754.60
1.4. Balance as at December 31, 2021	1,618,893,519.81	10,416,558,817.83	780,623,594.83	84,501,947.15	259,286,447.84	13,159,864,327.46
2. Accumulated depreciation						
2.1 Balance as at December 31, 2020	150,076,855.72	6,345,506,840.16	422,221,950.34	48,373,090.74	157,983,058.20	7,124,161,795.16
Changes in accounting policies		-537,469,260.67				-537,469,260.67
Balance as at 1 January 2021	150,076,855.72	5,808,037,579.49	422,221,950.34	48,373,090.74	157,983,058.20	6,586,692,534.49
2.2 Increased in current period	39,729,638.22	554,952,780.08	79,116,993.17	5,138,685.80	21,261,510.85	700,199,608.12

Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(1) Accrual	39,729,638.22	554,952,780.08	79,116,993.17	5,138,685.80	21,261,510.85	700,199,608.12
(2) Transferred from merger and acquisitions						
2.3 Decreased in current period	7,713,697.27	311,786,603.06	893,325.73	1,365,919.16	8,401,730.37	330,161,275.59
(1) Disposal or scrap		311,786,603.06	893,325.73	1,365,919.16	8,401,730.37	322,447,578.32
(2) Others	7,713,697.27					7,713,697.27
2.4 Balance as at December 31, 2021	182,092,796.67	6,051,203,756.51	500,445,617.78	52,145,857.38	170,842,838.68	6,956,730,867.02
3. Impairment provision						
3.1 Balance as at December 31, 2020			2,197,822.93			2,197,822.93
Changes in accounting policies						
Balance as at 1 January 2021			2,197,822.93			2,197,822.93
3.2 Increased in current period						
(1) Accrual						
(2) Transferred from merger and acquisitions						
3.3 Decreased in current period			4,156.81			4,156.81
(1) Disposal or scrap			4,156.81			4,156.81
(2) Others						
3.4 Balance as at December 31, 2021			2,193,666.12			2,193,666.12
4 Carrying amount of fixed assets						
4.1 Carrying amount as at December 31, 2021	1,436,800,723.14	4,365,355,061.32	277,984,310.93	32,356,089.77	88,443,609.16	6,200,939,794.32
4.2 Carrying amount as at December 31, 2020	422,176,291.16	6,033,781,585.51	340,510,596.04	25,541,717.05	82,071,822.59	6,904,082,012.35

② The Company has no fixed assets leased out through operating lease.

③Fixed assets without certificate of title

Items	Carrying amount	Reason
Buildings of Shandong Airline Base of Qingdao Jiaodong International Airport	1,044,322,513.69	Related procedures of land use right are in progress
Buildings of Jinping Food Co., Ltd.	9,001,313.36	Land use rights belonging to Shandong SDA Group, not eligible for ownership registration
Jinan cargo arrival and departure warehouses	10,535,903.63	Land rented from Jinan Air Control, not eligible for ownership registration

5.11 Construction in progress

5.11.1 Construction in Progress by Category

Items	December 31, 2021	December 31, 2020
Construction in progress	4,862,174,283.01	5,770,696,951.56
Construction material		
Total	4,862,174,283.01	5,770,696,951.56

5.11.2 Construction in Progress

① General Information of Construction in Progress

Items	December 31, 2021	December 31, 2020

	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Factory building project	2,944,905.67		2,944,905.67	920,262,448.04		920,262,448.04
Prepayment for aircrafts introduction project	4,845,889,181.13		4,845,889,181.13	4,845,805,623.68		4,845,805,623.68
Construction of information system	1,355,171.97		1,355,171.97	706,911.96		706,911.96
Simulator	3,921,967.88		3,921,967.88	3,921,967.88		3,921,967.88
Others	8,063,056.36		8,063,056.36			
Total	4,862,174,283.01		4,862,174,283.01	5,770,696,951.56		5,770,696,951.56

② Changes in significant projects of construction in progress

Projects	Budget	December 31, 2020	Increase during the reporting period	Transfer to fixed asset	Decrease during the reporting period	December 31, 2021
Jiaodong airport project	1,265,803,800.00	907,818,189.40	159,513,121.56	1,067,331,310.96		
Aircraft asset introduction project	9,937,456,340.04	4,845,805,623.68	83,557.45			4,845,889,181.13
Total	11,203,260,140.04	5,753,623,813.08	159,596,679.01	1,067,331,310.96		4,845,889,181.13

(Continued）

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative cost of borrowing capitalized	Including: Transferred into leaseback assets during the current year	Including: Transferred into fixed assets during the current year	Including: cost of borrowing capitalized during the current year	Capitalisation rate applicable to the current year	Source of finance
Jiaodong airport	84.32	Completed						Working

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative cost of borrowing capitalized	Including: Transferred into leaseback assets during the current year	Including: Transferred into fixed assets during the current year	Including: cost of borrowing capitalized during the current year	Capitalisation rate applicable to the current year	Source of finance
project								capital
Aircraft asset introduction project	48.76	N/a	134,270,401.12					Loans from financial institution
Total			134,270,401.12					

5.12 Right-of-use assets

Category	Houses and buildings	Aircrafts and engines	Total
1. Cost:			
1.1 Balance as at December 31, 2020	—	—	—
Changes in accounting policies	21,193,643.81	27,956,907,834.86	27,978,101,478.67
Balance as at 1 January 2021	21,193,643.81	27,956,907,834.86	27,978,101,478.67
1.2 Increased in current period	2,902,094.59	1,382,424,923.85	1,385,327,018.44
1.3 Decreased in current period		499,392,441.07	499,392,441.07
1.4. Balance as at December 31, 2021	24,095,738.40	28,839,940,317.64	28,864,036,056.04
2. Accumulated depreciation			
2.1 Balance as at December 31, 2020	—	—	—
Changes in accounting policies		14,881,255,967.98	14,881,255,967.98
Balance as at 1 January 2021		14,881,255,967.98	14,881,255,967.98
2.2 Increased in current period	10,977,757.22	2,419,203,283.05	2,430,181,040.27
2.3 Decreased in current period		499,392,441.07	499,392,441.07
2.4. Balance as at December 31, 2021	10,977,757.22	16,801,066,809.96	16,812,044,567.18
3. Impairment provision			
3.1 Balance as at December 31, 2020	—	—	—
Changes in accounting policies			
Balance as at 1 January 2021			
3.2 Increased in current period			
3.3 Decreased in current period			
3.4 Balance as at December 31, 2021			
4. Carrying amount of right-of-use assets			
4.1 Carrying amount as at December 31, 2021	13,117,981.18	12,038,873,507.68	12,051,991,488.86
4.2 Carrying amount as at December 31, 2020	21,193,643.81	13,075,651,866.88	13,096,845,510.69

5.13 Intangible assets

5.13.1 General Information of Intangible Assets

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at December 31, 2020	108,347,341.13	70,177,954.74	178,525,295.87
1.2 Increased in current year	344,688,942.00	3,473,035.65	348,161,977.65
(1) Purchase	344,688,942.00		344,688,942.00
(2) Transferred from construction-in-progress		3,473,035.65	3,473,035.65
(3) Increased from business combination			
1.3 Decreased in current year	8,480,000.00		8,480,000.00
(1) Disposal			
(2) Others	8,480,000.00		8,480,000.00
1.4 Balance as at December 31, 2021	444,556,283.13	73,650,990.39	518,207,273.52
2. Accumulated amortization			
2.1 Balance as at December 31, 2020	23,199,141.01	36,626,174.53	59,825,315.54
2.2 Increased in current year	6,182,289.92	12,200,808.35	18,383,098.27
(1) Accrual	6,182,289.92	12,200,808.35	18,383,098.27
2.3 Decreased in current year	1,786,519.89		1,786,519.89
(1) Disposal			
(2) Others	1,786,519.89		1,786,519.89
2.4 Balance as at December 31, 2021	27,594,911.04	48,826,982.88	76,421,893.92
3. Impairment provision			
3.1 Balance as at December 31, 2020			
3.2 Increased in current year			
(1) Accrual			
3.3 Decreased in current year			
(1) Disposal			
3.4 Balance as at December 31, 2021			
4. Carrying amount			
4.1 Carrying amount as at December 31, 2021	416,961,372.09	24,824,007.51	441,785,379.60
4.2 Carrying amount as at December 31, 2020	85,148,200.12	33,551,780.21	118,699,980.33

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

5.13.3 The general information of land use of right without certificate of title

Items	Book value	Reason
Land of Qingdao Jiaozhou	340,667,571.01	Related procedures of land use right are in progress
Total	340,667,571.01	

5.13.4 Intangible assets at the end of this period increases 272.19% compared with the end of the previous period, mainly due to the purchase of land use rights in some areas of Qingdao Jiaodong Airport this year.

5.14 Goodwill

5.14.1 Initial Recognition of Goodwill

Investees or matters that goodwill arising from	December 31, 2020	Increase during the reporting period		Decrease during the reporting period		December 31, 2021
		Business combination	Others	Disposal	Others	
Qingdao Feisheng	10,220,816.22					10,220,816.22
Shandong Jinping Food Co., Ltd.	454,020.13					454,020.13
Total	10,674,836.35					10,674,836.35

5.14.2 Provision for Impairment

Investees or matters that goodwill arising from	December 31, 2020	Increase during the reporting period		Decrease during the reporting period		December 31, 2021
		Business combination	Others	Disposal	Others	
Qingdao Feisheng	10,220,816.22					10,220,816.22
Shandong Jinping Food Co., Ltd.		454,020.13				454,020.13
Total	10,220,816.22	454,020.13				10,674,836.35

5.15 Deferred charges

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period		December 31, 2021
			Amortization	Other decrease	
Pilot training	620,401,352.79	64,644,551.34	108,020,568.53	17,362,500.71	559,662,834.89
Decoration expenditure	407,277.20	12,573,308.06	1,664,608.01		11,315,977.25
Modification costs for aircraft leasing	20,973,948.44	693,983.22	4,831,587.07		16,836,344.59
Total	641,782,578.43	77,911,842.62	114,516,763.61	17,362,500.71	587,815,156.73

5.16 Deferred tax assets and deferred tax liabilities

5.16.1 Deferred Tax Assets Before Offsetting

Items	December 31, 2021		December 31, 2020	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for bad debt	140,162,821.93	35,040,705.48	124,132,024.77	31,033,006.20
Impairment provision for inventories	4,227,205.99	1,056,801.50	4,227,205.99	1,056,801.50
Impairment provision for fixed assets	2,193,666.12	548,416.53	2,197,822.93	549,455.73
Fair value movement of financial liabilities held for trading	78,548.31	19,637.08	862,955.67	215,738.92
Provisions	5,844,514,155.98	1,461,128,539.00	5,022,551,127.92	1,255,637,781.98
Employment benefits payable	43,815,617.86	10,953,904.47	39,140,304.16	9,785,076.04
Deferred income	22,622,586.89	5,655,646.72	19,074,728.93	4,768,682.23
New lease standards related	1,197,120,612.68	299,280,153.17		
Deductible losses	5,561,281,692.78	1,390,320,423.19	2,784,211,785.04	696,052,946.27
Total	12,816,016,908.54	3,204,004,227.14	7,996,397,955.41	1,999,099,488.87

5.16.2 Deferred Tax Liabilities Before Offsetting

Items	December 31, 2021		December 31, 2020	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Asset evaluation increment from business combination not under same control	3,129,788.20	782,447.05	3,651,419.57	912,854.89
Depreciation and amortization of fixed assets	488,820,193.96	122,205,048.49	175,462,289.43	43,865,572.36
Changes in fair value of other equity instruments investment	372,893,783.18	93,223,445.80	453,437,306.63	113,359,326.66
Total	864,843,765.34	216,210,941.34	632,551,015.63	158,137,753.91

5.16.3 Deferred income tax assets at the end of the period increased by 60.27% compared with the end of the previous period , mainly due to the book-tax difference treatment in relation with the new lease standards and the increase in deferred income tax assets on loss carryforward at the end of the period. Deferred income tax liabilities at the end of the period increased by 36.72% compared with the end of the previous period , mainly due to the increase in the book-tax difference in relation with fixed assets depreciation.

5.17 Short-term borrowings

5.17.1 Disclosure of Short-Term Borrowings by Category

Items	December 31, 2021	December 31, 2020
Credit loan	2,601,211,111.11	2,001,111,111.11
Total	2,601,211,111.11	2,001,111,111.11

5.17.2 The Company has no overdue short-term borrowings.

5.18 Held-for-trading financial liabilities

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
Financial liabilities designated at fair value through profit or loss	862,955.67		784,407.36	78,548.31
Including: Interest rate swaps	862,955.67		784,407.36	78,548.31
Total	862,955.67		784,407.36	78,548.31

5.19 Notes payable

Category	December 31, 2021	December 31, 2020
Commercial acceptance bills		49,605,767.94
Bank acceptance bills	94,287,021.53	422,489,235.30
Total	94,287,021.53	472,095,003.24

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

5.19.2 Notes payable at the end of this period decreases 80.03% compared with the end of pervious period, mainly due to the payment of matured bank acceptance bills in this period.

5.20 Accounts payable

5.20.1 Accounts Payable by Nature

Items	December 31, 2021	December 31, 2020
Aircraft maintenance costs	117,074,446.80	492,193,935.93
Engine lease return compensation	102,385,814.48	
Fuel cost	187,084,901.39	197,183,769.59
Landing fee	290,843,996.33	466,711,569.27
Aircraft service cost	805,652,196.57	549,082,156.02
Flight catering	95,577,041.54	113,233,126.31
Computer booking fee	191,836,041.64	325,614,566.13
Lease rental	573,761.49	96,262,308.48
Others	429,166,048.89	303,037,868.58
Total	2,220,194,249.13	2,543,319,300.31

5.20.2 The Company has no significant accounts payable with age of over one year as at the reporting date.

5.21 Contract liabilities

Items	December 31, 2021	December 31, 2020
Ticket clearing	297,337,814.74	314,216,701.60
Advanced payment for tickets	137,783,246.87	99,366,787.75
Others	20,225,816.95	31,817,311.84
Total	455,346,878.56	445,400,801.19

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

5.22 Employee benefits payable

5.22.1 Details of Employee Benefits Payable

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
1. Short-term employee benefits	346,238,955.37	2,578,803,687.93	2,470,718,387.23	454,324,256.07
2. Post-employment benefits – defined contribution plans		424,927,901.20	424,927,901.20	
3. Termination benefits				
4. Other long-term employee benefits within one year				
Total	346,238,955.37	3,003,731,589.13	2,895,646,288.43	454,324,256.07

5.22.2 Short-Term Employee Benefits

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
1. Wages, salaries and subsidies	306,835,731.58	2,212,101,959.24	2,139,735,339.60	379,202,351.22
2. Employee welfare		24,993,935.79	24,993,935.79	
3. Social insurance:		125,114,737.05	125,114,737.05	
Including: Medical insurance		103,311,874.70	103,311,874.70	
Employment injury insurance		7,281,362.08	7,281,362.08	
Maternity insurance		14,521,500.27	14,521,500.27	

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
4. Housing provident fund		120,496,666.31	120,496,666.31	
5. Labour union fee and employee education fee	39,403,223.79	65,096,389.54	60,377,708.48	44,121,904.85
6. Short-term paid absences		31,000,000.00		31,000,000.00
7. Short-term profit-sharing plan				
Total	346,238,955.37	2,578,803,687.93	2,470,718,387.23	454,324,256.07

5.22.3 Defined Contribution Plans

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
Post-employment benefits:				
1. Basic pension		246,774,078.60	246,774,078.60	
2. Unemployment insurance		10,535,007.40	10,535,007.40	
3. Annuity payment		167,618,815.20	167,618,815.20	
Total		424,927,901.20	424,927,901.20	

The employee benefits payable at the end of the period increases 31.22% compared with the end of pervious period, mainly due to the increase of accrual of safety and performance reward.

5.23 Taxes and fees payable

Items	December 31, 2021	December 31, 2020
VAT	1,773,763.50	1,476,083.36
Urban construction and maintenance tax	139,135.62	160,601.55
Education surcharge	102,412.92	118,517.68
Enterprise income tax	539,381.28	944,983.82
Property tax	2,986,370.57	172,992.36
Land tax	979,311.20	179,311.20
Personal income tax	8,464,616.24	9,353,560.27
Stamp duty	700,000.00	1,380,000.00
Civil aviation development fund	57,593,529.65	88,404,867.39
Others		15,559.86
Total	73,278,520.98	102,206,477.49

5.24 Other payables

5.24.1 Other Payables by Category

Items	December 31, 2021	December 31, 2020
Interests payable		
Dividends payable	602,306.96	602,306.96
Other payables	666,912,715.62	635,263,654.66
Total	667,515,022.58	635,865,961.62

5.23.2 Dividends Payable

Items	December 31, 2021	December 31, 2020
Dividend on common shares	602,306.96	602,306.96
Total	602,306.96	602,306.96

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

5.24.3 Other Payables

① Other Payables by Nature

Items	December 31, 2021	December 31, 2020
Payables for construction projects	270,620,233.42	225,955,475.65
Payables for deposits	144,432,403.45	180,641,018.52
Taxes deducted at source	67,166,197.85	70,763,959.51
Others	184,693,880.90	157,903,200.98
Total	666,912,715.62	635,263,654.66

②The Company has no significant other payables with aging of more than one year as at the reporting date.

5.25 Non-current liabilities due within one year

Items	December 31, 2021	December 31, 2020
Long-term borrowings due within one year	903,784,357.84	103,186,354.59
Bonds payables due within one year	20,514,722.25	20,514,722.25
Long-term payables due within one year		181,264,490.05
Long-term employee benefits payable due within one year		16,612,000.00
Lease liabilities due within one year	2,294,949,130.97	

Items	December 31, 2021	December 31, 2020
Total	3,219,248,211.06	321,577,566.89

The non-current liabilities due within one year at the end of this period increases 901.08% compared with the end of the pervious period, mainly due to the increase of lease liabilities due within one year from the implementation of new lease standards.

5.26 Other current liabilities

Items	December 31, 2021	December 31, 2020
VAT to be recognised	32,096,585.80	31,100,597.66
Total	32,096,585.80	31,100,597.66

5.27 Long-term borrowings

5.27.1 Long-Term Borrowings by Category

Items	December 31, 2021	December 31, 2020	Range of interest rates in 2021
Secured loans	379,162,550.65	464,796,466.93	0.8554%~1.2650%
Credit loans	7,221,629,554.94	5,755,824,786.98	3.3200%~3.5000%
Subtotal	7,600,792,105.59	6,220,621,253.91	
Less: Long-term borrowings due within one year (Note 5.25)	903,784,357.84	103,186,354.59	
Total	6,697,007,747.75	6,117,434,899.32	

5.28 Bonds payable

5.28.1 Bonds Payable by Category

Items	December 31, 2021	December 31, 2020
Medium-term notes	1,020,514,722.25	1,020,514,722.25
Subtotal	1,020,514,722.25	1,020,514,722.25
Less: Bonds payable due within one year (Note 5.25)	20,514,722.25	20,514,722.25
Total	1,000,000,000.00	1,000,000,000.00

5.28.2 Changes in increase or decrease of bonds payable

Bond name	Face value	Issue date	Maturity of bond	Issue price	December 31, 2020
20 Shandong	1,000,000,000.00	2020-4-22	3 years	1,000,000,000.00	1,020,514,722.25

Bond name	Face value	Issue date	Maturity of bond	Issue price	December 31, 2020
Airlines MTN001					
Total	1,000,000,000.00			1,000,000,000.00	1,020,514,722.25

(Continued)

Bond name	Issued this period	Interest accrued at face value	Amortization of excess discount	Payback this period	December 31, 2021
20 Shandong Airlines MTN001		27,989,722.26		27,989,722.26	1,020,514,722.25
Total		27,989,722.26		27,989,722.26	1,020,514,722.25

5.29 Lease liabilities

Items	December 31, 2021	December 31, 2020
Lease payments	12,968,955,180.10	—
Less: Unrealised finance expenses	1,232,490,939.71	—
Subtotal	11,736,464,240.39	—
Less: lease liabilities due within one year (Note 5.25)	2,294,949,130.97	—
Total	9,441,515,109.42	—

5.30 Long-term payables

5.30.1 Long-Term Payables by Category

Items	December 31, 2021	December 31, 2020
Long-term payables	5,450,148,990.47	5,976,812,441.61
Subtotal	5,450,148,990.47	5,976,812,441.61
Less: Long-term payables due within one year (Note 5.25)	219,460,261.28	673,458,425.98
Total	5,230,688,729.19	5,303,354,015.63

5.30.2 Long-Term Payables by Nature

Items	December 31, 2021	December 31, 2020
Financial lease rental payables		1,229,499,938.87
Payables of lease termination compensation of aircraft and engine held under operating lease	4,887,007,912.24	
Overhaul payables for aircrafts and engines held under operating lease		4,747,312,502.74
Others	563,141,078.23	
Subtotal	5,450,148,990.47	5,976,812,441.61

Items	December 31, 2021	December 31, 2020
Less: Financial lease rental payables due within one year (Note 5.25)		181,264,490.05
Less: Payables of lease termination compensation of aircraft and engine held under operating lease due within one year (Note 1)	102,385,814.48	
Less: Overhaul payables for aircrafts and engines held under operating lease due within one year		492,193,935.93
Others due within one year	117,074,446.80	
Total	5,230,688,729.19	5,303,354,015.63

Note 1: Payables of lease termination compensation of aircraft and engine held under operating lease due within one year had been included in accounts payable.

5.31 Long-term employee benefits payable

5.31.1 General information of long-term employee benefits payable

Items	December 31, 2021	December 31, 2020
1. Post-employment benefits-net defined benefit liability		270,637,000.00
Less: long-term staff remuneration payable due within one year (Note 5.25)		16,612,000.00
Total		254,025,000.00

5.31.2 Changes in Defined Benefit Plans

Present value of the defined benefit obligation:

Items	2021	2020
1. Balance at the beginning of the reporting period	270,637,000.00	162,909,225.21
2. Cost recognized in current profit or loss:		120,860,000.00
2.1 Current service cost		
2.2 Past service cost		115,723,000.00
2.3 Gains /(losses) on settlement (loss presented with "-" prefix)		
2.4 Net interest		5,137,000.00
3. Cost recognized in other comprehensive income:		1,769,000.00
3.1 Actuarial gains /(losses) (loss presented with "-" prefix)		1,769,000.00
4. Other changes:	270,637,000.00	11,363,225.21

Items	2021	2020
4.1 Consideration paid in settlements	264,723,621.69	
4.2 Payment of benefits	5,913,378.31	11,363,225.21
5. Balance at the end of the reporting period		270,637,000.00

Note: The long-term employee benefits payable at the end of this period decreases 100% compared with the end of the previous period, mainly because in this period, the Company enters into an agreement with a third party to materially terminate the future obligations of the original defined benefit plan through a one-time payment.

5.32 Accrued liabilities

Items	December 31, 2021	December 31, 2020	Reason
Restoration costs of aircrafts under leases	1,060,428,713.51		Restoration costs of aircrafts under leases
Total	1,060,428,713.51		

5.33 Deferred income

5.33.1 General information of deferred income

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021	Reason
Unrealized gains and losses of operating lease from aircraft leaseback	81,439,081.44		6,247,117.80	75,191,963.64	The aircraft sale-leaseback disposal profits and losses
Designated subsidy for civil aviation energy-saving program	8,923,065.16		976,500.12	7,946,565.04	Asset related subsidies
Designated subsidy for HUD and repackage project	10,151,663.77	6,480,000.00	1,955,641.92	14,676,021.85	Asset related subsidies
Total	100,513,810.37	6,480,000.00	9,179,259.84	97,814,550.53	

5.33.2 Items Related to Government Grants

Items	December 31, 2020	Increase during the reporting period	Recognized in non-operating income during the reporting period	Recognized in other income during the reporting period	Other changes	December 31, 2021	Related to assets/Related to profit or loss
Designated subsidy for civil aviation energy-saving program	8,923,065.16			976,500.12		7,946,565.04	Asset related subsidies
Designated subsidy for HUD and repackage project	10,151,663.77	6,480,000.00		1,955,641.92		14,676,021.85	Asset related subsidies
Total	19,074,728.93	6,480,000.00		2,932,142.04		22,622,586.89	

5.34 Share capital

Item	December 31, 2020	Changes during the reporting period (+, -)					December 31, 2021
		New issues	Bonus issues	Capitalisation of reserves	Others	Subtotal	
Number of total shares	400,000,000.00						400,000,000.00

5.35 Capital reserves

Items	December 31, 2020	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
Share premium	67,618,282.54			67,618,282.54
Other capital reserves	7,792,081.16			7,792,081.16
Total	75,410,363.70			75,410,363.70

5.36 Other comprehensive income

Items	December 31, 2020	Changes during the reporting period						December 31, 2021
		Amount before tax	Less: Items previously recognized in other comprehensive income being reclassified to current profit or loss	Less: Income tax expenses	Attributable to owners of the Company	Attributable to minority interests	Amount before tax	
Other comprehensive income that cannot be reclassified into profit or loss	322,552,319.90	-80,543,523.45		-17,525,660.07	-20,135,880.86	-42,881,982.52		279,670,337.38
Including: remeasurement of net assets or net liabilities of	-17,525,660.07			-17,525,660.07		17,525,660.07		

Items	December 31, 2020	Changes during the reporting period						December 31, 2021
		Amount before tax	Less: Items previously recognized in other comprehensive income being reclassified to current profit or loss	Less: Income tax expenses	Attributable to owners of the Company	Attributable to minority interests	Amount before tax	
defined benefit plans								
Fair value change of the equity instruments	340,077,979.97	-80,543,523.45			-20,135,880.86	-60,407,642.59		279,670,337.38
Total of other comprehensive income	322,552,319.90	-80,543,523.45		-17,525,660.07	-20,135,880.86	-42,881,982.52		279,670,337.38

5.37 Surplus reserves

Items	December 31, 2020	Changes of accounting policy	January 1, 2021	Increase during the reporting period	Decrease during the reporting period	December 31, 2021
Statutory surplus reserve	538,773,444.97		538,773,444.97			538,773,444.97
Total	538,773,444.97		538,773,444.97			538,773,444.97

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

5.38 Retained earnings

Items	2021	2020
Pre-adjustment balance brought forward	1,233,524,795.64	3,588,847,456.98
Total adjustment to retained earnings b/f (+, -)	-1,613,812,613.92	26,692,794.47
Retained earnings b/f after adjustment	-380,287,818.28	3,615,540,251.45
Add: Net profit attributable to shareholders of the parent	-1,813,705,307.39	-2,382,015,455.81
Changes in the defined benefit plan transferred to retained earnings	-17,525,660.07	
Less: Appropriation to statutory surplus reserve		
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared		
Bonus issue		
Closing balance as of December 31, 2021	-2,211,518,785.74	1,233,524,795.64

5.39 Operating revenues and operating costs

Items	2021		2020	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal activities	11,870,164,619.98	13,539,575,331.07	9,881,777,998.48	12,550,178,248.90
Other activities	645,153,343.18	11,014,671.04	652,625,352.39	4,721,867.19

Items	2021		2020	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Total	12,515,317,963.16	13,550,590,002.11	10,534,403,350.87	12,554,900,116.09

(1) Operating revenue deductions

Items	2021		2020	
	Amount	Details	Amount	Details
Operating revenue	12,515,317,963.16		10,534,403,350.87	
Total amount of operating revenue deductions	54,035,710.22		56,794,107.52	
Proportion of operating revenue deductions to operating revenues	0.43%		0.54%	
1. Revenues unrelated to principal activities	—	—	—	—
1.1 Revenues from other operating revenue than normal operations. i.e. revenues from renting out fixed assets, intangible assets, or packaging, sales of materials, exchange of non-monetary assets with materials, income from operation of entrusted management business, as well as income other than the normal operation of the listed company although it is included in the main business income	54,035,710.22	Revenue of media resource fee, revenue of labor expenses for foreign flights, maintenance revenue, lease revenue, etc..	56,794,107.52	Revenue of media resource fee, revenue of labor expenses for foreign flights, maintenance revenue, lease revenue, etc..
Subtotal of revenues unrelated to principal activities	54,035,710.22		56,794,107.52	
2. Revenue without commercial substance				
3. Other revenues unrelated to principal activities or without commercial substance				
Operating revenues after deductions	12,461,282,252.94		10,477,609,243.35	

5.40 Tax and surcharges

Items	2021	2020
Urban maintenance and construction tax	2,307,862.32	1,646,287.30
Housing property tax	7,650,120.45	2,731,914.23
Land use tax	2,750,614.23	1,056,036.38
Education surcharge and others	5,663,623.34	5,044,826.86
Total	18,372,220.34	10,479,064.77

Tax and surcharges at the end of this period increases 75.32% compared with the end of the previous period, mainly because Qingdao Jiaodong Airport was put into use in this period, increasing the housing property tax and land use tax.

5.41 Sales expenses

Items	2021	2020
Agency fees	173,831,486.42	138,402,370.07
Employment benefits	239,187,806.97	238,062,702.66
Computer booking fees	94,593,727.35	101,239,667.49
Online payment fees	33,394,218.76	22,746,819.32
Lease rental	13,782,104.29	20,950,099.16
Advertisement fees	13,927,077.73	12,139,670.83
Administrative office expenses	2,014,325.10	5,935,784.08
Travel expenses	3,556,627.44	3,768,427.11
System and network fees	38,709,108.84	39,289,807.51
BSP data processing fees	2,697,402.50	3,193,912.84
Depreciation	12,376,891.41	1,521,642.25
Others	20,604,571.25	26,660,072.21
Total	648,675,348.06	613,910,975.53

5.42 General and administrative expenses

Items	2021	2020
Employment benefits	221,608,067.44	325,886,133.31
Lease rental fees	20,065,677.92	27,737,933.24
Business entertainment costs	4,051,190.96	2,235,917.06
Depreciation	29,187,469.98	21,093,013.51

Items	2021	2020
Administrative office expenses	13,121,623.02	11,545,974.78
Amortization of intangibles	15,930,482.48	11,644,865.33
Water, electricity charges	13,257,526.33	10,576,962.96
Outsourcing fees	36,383,509.89	34,055,410.64
Others	70,405,050.66	48,864,546.54
Total	424,010,598.68	493,640,757.37

5.43 Research and development expenses

Items	2021	2020
Employment benefits	24,703,588.89	22,514,111.50
Others	338,424.70	352,178.48
Total	25,042,013.59	22,866,289.98

5.44 Financial costs

Items	2021	2020
Interest expenses	821,081,133.14	230,831,883.77
Including: interest expenses for lease liabilities	463,855,802.08	
Less: Interest income	96,757,343.73	45,680,277.19
Net interest expenses	724,323,789.41	185,151,606.58
Foreign exchange losses	465,682,517.79	52,422,557.01
Less: Foreign exchange gains	710,634,788.47	102,518,814.24
Net foreign exchange losses	-244,952,270.68	-50,096,257.23
Bank charges	1,332,373.16	2,368,560.52
Total	480,703,891.89	137,423,909.87

Financial costs of this period increase 249.80% compared with the previous period, mainly due to the increase of the interest expenses resulting from the adoption of new lease standards and the increase of borrowings in this period.

5.45 Other income

Category	2021	2020	Included in current period non-recurring profit and loss
1. Government grant recognized in other income	155,394,226.24	98,058,606.34	155,394,226.24
Including: Government grant related to deferred income (related	2,932,142.04	2,662,142.04	2,932,142.04

Category	2021	2020	Included in current period non-recurring profit and loss
to assets)			
Government grant related to deferred income (related to income)			
Government grant directly recognized in current profit or loss (related to income)	152,462,084.20	95,396,464.30	152,462,084.20
2. Others related to daily operation activities and recognized in other income	4,867,924.92	2,626,332.77	4,867,924.92
Including: Charges of withholding individual income tax	4,598,970.36	2,598,570.59	4,598,970.36
Including: Input tax deduction	268,954.56	27,762.18	268,954.56
Total	160,262,151.16	100,684,939.11	160,262,151.16

Other income of this period increases 59.17% compared with the previous period, mainly due to the increase of navigation subsidies received by the Company in this period.

5.46 Investment income

Category	2021	2020
Investment income from held-for-trading financial assets during holding period	-777,605.88	-829,194.39
Dividend income from other equity instrument income during holding period	208,728.00	4,019,690.59
Total	-568,877.88	3,190,496.20

5.47 Gains/(losses) from changes in fair values

Sources of gains on changes in fair value	2021	2020
Interest rate swaps	784,407.36	-736,690.92
Total	784,407.36	-736,690.92

5.48 Impairment loss of credit

Category	2021	2020
Provision for bad debt for accounts receivable	-15,604,893.16	667,731.60
Provision for bad debt for other receivables	-426,004.00	2,720,650.83

Category	2021	2020
Total	-16,030,897.16	3,388,382.43

5.49 Impairment loss of asset

Category	2021	2020
Goodwill impairment loss	-454,020.13	
Total	-454,020.13	

5.50 Gains/(losses) from disposal of assets

Category	2021	2020	Included in current period non-recurring profit and loss
Gains/(losses) from disposal of fixed assets, construction in progress, productive biological assets and intangible assets not classified as held for sale	162,594.11	603,734.58	162,594.11
Including: Fixed assets	162,594.11	603,734.58	162,594.11
Total	162,594.11	603,734.58	162,594.11

5.51 Non-operating income

5.51.1 Details of Non-operating income

Category	2021	2020	Included in current period non-recurring profit and loss
Transferred income from pilot	66,044,171.38	24,999,999.99	66,044,171.38
Others	22,278,724.15	21,593,143.86	22,278,724.15
Total	88,322,895.53	46,593,143.85	88,322,895.53

5.51.2 The Company has no government grants irrelevant to daily operation activities during the reporting period.

5.51.3 The non-operating income of this period increases 89.56% compared with the previous period, mainly due to the increase of pilot compensation received by the Company.

5.52 Non-operating expenses

Category	2021	2020	Included in current period non-recurring profit and loss
Loss on non-current asset damage	1,408,954.73	544,262.93	1,408,954.73

Category	2021	2020	Included in current period non-recurring profit and loss
and scrap			
Others	1,249,063.89	254,706.04	1,249,063.89
Total	2,658,018.62	798,968.97	2,658,018.62

The non-operating expense of this period increases 232.68% compared with the previous period, mainly due to the increase of loss on asset damage and scrap.

5.53 Income tax expenses

5.53.1 Details of Income Tax Expenses

Category	2021	2020
Current tax expenses	207,562.22	121,260,500.16
Deferred tax expenses	-588,758,131.97	-885,137,770.81
Total	-588,550,569.75	-763,877,270.65

5.53.2 Reconciliation of Accounting Profit and Income Tax Expenses

Category	2021	2020
Profit before tax	-2,402,255,877.14	-3,145,892,726.46
Income tax expense at the statutory /applicable tax rate	-600,563,969.28	-786,473,181.62
Adjustments of impact from prior period income tax	-380,809.13	-6,811,830.61
Effect of income that is exempt from taxation	-52,182.00	-1,004,922.65
Effect of non-deductible costs, expenses or losses	11,249,317.80	30,450,823.64
Effect of previously unrecognized deductible losses recognized as deferred tax assets		-38,159.41
Effect of deductible temporary differences or tax losses which no deferred income tax asset was recognised	1,197,072.86	
Income tax expenses	-588,550,569.75	-763,877,270.65

5.51 Other comprehensive income

For details of the other comprehensive income and related tax effect, transfer to profit or loss and adjustment of other comprehensive income, please refer to Note 5.36 Other Comprehensive Income.

5.55 Notes to the Statement of Cash Flow

5.55.1 Other cash received relating to operating activities

Category	2021	2020
Government grants	158,942,084.20	95,396,464.30
Cash received other than government grants which is recognized in other income	4,867,924.92	2,626,332.77
Interest income on bank deposit	93,095,101.45	45,680,277.19
Cash receipts from non-operating income	22,278,724.15	46,593,143.85
Cash receipts from current account	2,091,867.29	48,431,355.93
Total	281,275,702.01	238,727,574.04

5.55.2 Other cash payments relating to operating activities

Category	2021	2020
Bank charges	34,726,591.92	25,115,379.84
Cash payments for non-operating expenses	1,249,063.89	254,706.04
Cash payments for current account	73,532,858.30	23,517,158.20
Cash payments for sales and general and administrative expenses	257,509,034.77	248,304,944.48
Total	367,017,548.88	297,192,188.56

5.55.3 Other cash payment relating to financing activities

Category	2021	2020
Cash receipts from settlement of interest rate swaps	777,605.88	829,194.39
Total	777,605.88	829,194.39

5.55.4 Other cash payments relating to financing activities

Category	2021	2020
Cash payments for lease liabilities	2,725,684,347.70	360,556,413.20
Total	2,725,684,347.70	360,556,413.20

5.56 Supplementary information to the Statement of Cash Flows

5.56.1 Supplementary Information to the Statement of Cash Flows

Supplementary information	2021	2020
1．Adjustments of net profit to cash flows from operating activities:		
Net profit	-1,813,705,307.39	-2,382,015,455.81
Add: Provisions for impairment of assets	454,020.13	

Supplementary information	2021	2020
Impairment loss of credit	16,030,897.16	-3,388,382.43
Depreciation of fixed assets, investment properties, oil and gas assets and biological assets held for production	701,216,962.82	796,938,226.47
Depreciation of right-of-use asset	2,430,181,040.27	
Amortization of intangible assets	18,383,098.27	11,644,865.33
Amortization of deferred charges	114,516,763.61	113,982,866.41
Loss on non-current assets disposal (gain presented by "-" prefix)	-66,206,765.49	-603,734.58
Loss on scrap of fixed assets (gain presented by "-" prefix)	1,408,954.73	544,262.93
Loss on fair value changes (gain presented by "-" prefix)	-784,407.36	736,690.92
Financial costs (gain presented by "-" prefix)	575,294,023.28	183,792,301.57
Investment loss (gain presented by "-" prefix)	568,877.88	-3,190,496.20
Decrease of deferred tax assets (increase presented by "-" prefix)	-666,967,200.26	-893,720,837.14
Increase of deferred tax liabilities (increase presented by "-" prefix)	78,209,068.29	8,583,066.33
Decrease of inventories (increase presented by "-" prefix)	-1,212,943.67	-1,137,142.81
Decrease of operating receivables (increase presented by "-" prefix)	-36,250,837.43	158,681,830.15
Increase of operating payables (decrease presented by "-" prefix)	206,185,572.98	309,423,178.06
Others		
Net cash flows generated from operating activities	1,557,321,817.82	-1,699,728,760.80
2．Significant investing and financing activities involve no cash:		
Debt-to-capital conversion		
Convertible loan due within one year		
Fixed assets acquired under financial lease		
3．Movement of cash and cash equivalents:		
Cash at the end of the reporting period	3,807,440,438.88	5,306,474,451.06
Less: Cash at the beginning of the reporting period	5,306,474,451.06	598,861,065.69
Add: Cash equivalents at the end of the reporting period		
Less: Cash equivalents at the beginning of the reporting period		

Supplementary information	2021	2020
Net increase in cash and cash equivalents	-1,499,034,012.18	4,707,613,385.37

5.56.2 Net Cash Received from Disposals of Subsidiaries

Category	December 31, 2021	December 31, 2020
①Cash	3,807,440,438.88	5,306,474,451.06
Including: Cash at hand	159,608.70	225,522.11
Demand bank deposit	3,807,280,830.18	5,306,248,928.95
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		
③Cash and cash equivalents at the end of the reporting period	3,807,440,438.88	5,306,474,451.06
Including: Restricted cash and cash equivalents used by parent companies or subsidiaries within the group		

5.57 Assets with Imposed Restriction on Ownership

Category	Closing balance as of December 31, 2021	Reason of restriction
Assets pledged as security	806,930,433.54	
Aircrafts and engines	806,930,433.54	Pledge as security for borrowings
Other form of restriction:	3,662,242.28	
Bank deposit	3,662,242.28	Interest on notice deposit receivable
Total	810,592,675.82	

5.58 Foreign Currency Monetary Items

Items	Carrying amount at foreign currency	Exchange rate	Carrying amount at CNY
Monetary funds			
Including: -USD	391,106.17	6.3757	2,493,575.61
-EUR	5,042.00	7.2197	36,401.73
-CAD	10.00	5.0050	50.05
-JPY	3,251,069.00	0.0554	180,109.22
-TWD	2,779,463.00	0.2302	639,832.38
-KRW	35,702,109.00	0.0054	192,791.39
-THB	507,280.52	0.1912	96,992.04
Other receivables			
Including: -USD	6,340,014.96	6.3757	40,422,033.38
Accounts payable			
Including: -USD	16,871,273.87	6.3757	107,566,180.81
-JPY	2,618,255.00	0.0554	145,051.33
Other payables			
Including: -USD	21,076.05	6.3757	134,374.57
Non-current liabilities due within one year			
Including: -USD	353,103,282.91	6.3757	2,251,280,600.85
-JPY	22,861,813.96	0.0554	1,266,544.49
-THB	1,226,522.44	0.1912	234,511.09
-TWD	4,459,378.32	0.2302	1,026,548.89
Long-term borrowings			
Including: -USD	5,490,808.50	6.3757	35,007,747.75
Lease liabilities			
Including: -USD	1,155,017,186.70	6.3757	7,364,043,077.24
-JPY	14,044,486.37	0.0554	778,064.54

Items	Carrying amount at foreign currency	Exchange rate	Carrying amount at CNY
-TWD	6,092,655.25	0.2302	1,402,529.24

5.59 Government Grants

5.59.1 Government Grants Related to Assets

Items	Amount	Items presented in the Financial Statements	Recognized in current profit or loss or directly as deduct of related cost		Presented items that recognized in current profit or loss or directly as deduct of related cost
			2021	2020	
Designated subsidy for civil aviation energy-saving program	976,500.12	Deferred income	976,500.12		Other income
Designated subsidy for HUD and repackage project	1,955,641.92	Deferred income	1,955,641.92		Other income
Total	2,932,142.04		2,932,142.04		

5.59.2 Government grants related to income

Items	Amount	Items presented in the Financial Statements	Recognized in current profit or loss or directly as deduct of related cost		Presented items that recognized in current profit or loss or directly as deduct of related cost
			2021	2020	
Airline grants	105,322,923.29	Other income	105,322,923.29		Other income
Other government grants	47,139,160.91	Other income	47,139,160.91		Other income
Total	152,462,084.20		152,462,084.20		

5.59.3 The Company has no return of government grants during the reporting period.

5.60 Lease

5.60.1 The Company as a lessee

①Short-term lease expenses and low-value asset lease expenses of this period included in the current profits and losses:

Category	2021
Short-term lease expenses	53,641,137.12
Low-value asset lease expenses (except for short-term lease)	
Total	53,641,137.12

②Current profit and loss and cash flow related to lease

Category	2021
Interest expenses of lease payments	463,855,802.08
Variable lease payments included in the current profits and losses and not included in the lease liabilities	56,500,633.59
Revenue of sublease right-of-use assets	
Total cash outflow related to leases	2,835,826,118.41
Profit and loss related to sale and leaseback transaction	

5.60.2 The Company as a lessor

①Operating lease

A. Lease revenue

Category	2021
Lease revenue	2,935,401.85
Including: Revenue related to variable lease payments not included in lease payments	

B. Undiscounted lease receivables to be received in each of the five consecutive financial years followings the balance sheet date

Year	Amount
2022	2,452,592.00
2023	2,452,592.00
2024	2,452,592.00
2025	507,500.00

Year	Amount
2026	522,725.00
Total	8,388,001.00

C. The total undiscounted lease receivables related to irrevocable lease that will be received in the future according to the lease contracts signed with the lessee.

Residual maturity	Amount
Within 1 year (including 1 year, same as below)	500,000.00
1-2 years	500,000.00
2-3 years	500,000.00
Over 3 years	6,153,897.85
Total	7,653,897.85

Note 6 CHANGES IN THE SCOPE OF CONSOLIDATION

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

Note 7 INTERESTS IN OTHER ENTITIES

7.1 Interests in Subsidiaries

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion (%)		Acquired method
				Directly	Indirectly	
Shandong aviation Logistics Ltd (hereafter, Qingdao Logistics)	Qingdao, Shandong	Qingdao, Shandong	Logistics and storage	100.00		Acquired through investment
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao Feisheng)	Qingdao, Shandong	Qingdao, Shandong	Pilot training	100.00		Acquired through business combination not under common control
Shandong Jinping Air Catering Co., Ltd. (hereinafter referred to as "Jinping food")	Jinan, Shandong	Jinan, Shandong	Aeronautical food processing	100.00		Acquired through business combination not under common control
Shandong Airlines Qingdao Food Co., Ltd. (hereinafter referred to as "Qingdao Food")	Qingdao, Shandong	Qingdao, Shandong	Aeronautical food processing	49.70	50.30	Acquired through business combination not under common control

7.2 The Equity in Joint Ventures and Associates

7.2.1 Significant Joint Ventures and Associates

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion (%)		Accounting treatment for investment of joint ventures and associates
				Directly	Indirectly	
Shandong Rainbow Commercial Jet Co., Ltd.	Jinan, Shandong	Jinan, Shandong	Aero transportation	45.00		Equity method

7.2.2 Key Financial Information of the Significant Associate - Shandong Rainbow Commercial Jet Co., Ltd.

Item	December 31, 2021 /Year 2021	December 31, 2020 /Year 2020
Current assets	1,795,682.09	1,803,440.67
Non-current assets	360.00	360.00
Total assets	1,796,042.09	1,803,800.67
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	-165,969,771.24	-165,962,012.66
Pro rata shares of the net assets calculated		
Adjusting events		
- Goodwill		
-Unrealized profits from internal transaction		
-Others		
Book value of equity investments in associates		
Fair value of publicly quoted equity investments in associates		
Operating income		
Net profit	-7,758.58	-20,692.86
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	-7,758.58	-20,692.86
Dividends received from associates during the year		

7.2.8 Excess Loss Occurred by Joint Ventures and Associates

Name of joint ventures and associates	Cumulative unrecognized losses as of December 31, 2020	Unrecognized losses of current year (Share of net profit of current year)	Cumulative unrecognized losses as of December 31, 2021
Shandong Rainbow Commercial Jet Co., Ltd.	-74,685,696.99	-3,491.36	-74,689,188.35

Note 8 RISKS RELATED TO FINANCIAL INSTRUMENTS

The main financial instruments of the Company include equity investments, loans, accounts receivable, and accounts payable etc. Please see Note 5 for details of related items. The risks associated with financial instruments, and risk management policies which the Company use to reduce these risks are described below. The management of the Company manages and supervises the risks to ensure that the risks can be controlled within a limited range.

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

8.1 The Targets and Policies of Risks Management

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

8.1.1 Market Risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate fluctuations. The Company bears the foreign exchange risk primarily concerned with USD, and uses USD settlement in main financing transactions, operating leases, and financing leasing. On December 31, 2021, except the assets or liabilities in Note 5.58 are recorded in foreign currency, the others are recorded in CNY. Foreign exchange risk of the assets and liabilities in foreign currencies may have an impact on the Company's performance of operation.

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

The risk of changes in cash flows of a financial instrument due to interest rate is mainly concerned with the floating rate of bank borrowings (see Note 5.17, 5.25, 5.27, 5.28, 5.29). The Company's policy is to maintain a floating interest rate on the borrowings.

(3) Other price risk

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

8.1.2 Credit Risk

As of December 31, 2021, the maximum risk that could cause the Company's financial losses mainly comes from default of the other party of the contract, which includes:

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

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

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

8.1.3 Liquidity Risk

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

Note 9 FAIR VALUE DISCLOSURES

The inputs used in the fair value measurement in its entirety are to be classified in the level of the hierarchy in which the lowest level input that is significant to the measurement is classified.

Level 1: Inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Inputs for the assets or liabilities (other than those included in Level 1) that are either directly or indirectly observable.

Level 3: Inputs are unobservable inputs for the assets or liabilities

9.1 Assets and Liabilities Measured at Fair Value as at December 31, 2021

Item	The fair value at December 31, 2021			
	The 1st level measured by fair value	The 2nd level measured by fair value	The 3rd level measured by fair value	Total
1. Continuous measurement by fair value				
1.1 Other equity instrument investments	139,937,930.50		321,307,952.68	461,245,883.18
Total amount of assets continuous measurement by fair value	139,937,930.50		321,307,952.68	461,245,883.18
1.2 Financial liabilities at fair value through profit or loss		78,548.31		78,548.31
Interest rate swaps		78,548.31		78,548.31
Total amount of liabilities continuous measurement by fair value		78,548.31		78,548.31

The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date. The fair value of financial instruments not traded in an active market is determined by using valuation techniques. Specific valuation techniques used to value the above financial instruments include discounted cash flow and market approach to comparable company model. Inputs in the valuation technique include risk-free interest rates, benchmark interest rates, exchange rates, credit spreads, liquidity premiums, discount for lack of liquidity.

9.2 Determined on the Basis of Continuous and Noncontinuous First Level for Fair Value Measurement of the Market of Project

Investment in other equity instruments for continued fair value measurement is an investment in TravelSky Technology Limited, of which fair value was determined based on the closing price for the stock market in Hong Kong Stock Exchange on balance sheet date.

9.3 Continuous and Noncontinuous Second Level for Fair Value Measurement of the Market of Project, the Qualitative and Quantitative Information of the Valuation Techniques and Important Parameters

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

9.4 Continuous and Noncontinuous Third Level for Fair Value Measurement of the Market of Project, the Qualitative and Quantitative Information of the Valuation Techniques and Important Parameters

Other equity instrument investments that continue to be measured at fair value are investments in Sichuan Airlines and Jinan International Airport. Unlisted equity instrument investments which using comparable company multiplier models to estimate fair value, their assumptions adopted are not supported by observable market prices or interest rates. The Company needs to make an estimate of the liquidity discount. The Company believes that the fair value and its changes estimated by valuation techniques are reasonable and are also the most appropriate value on the balance sheet date.

Note 10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Recognition of related parties: The Company has control or joint control of, or exercise significant influence over another party; or the Company is controlled or jointly controlled, or significant influenced by another party.

10.1 Major Parent Companies

Parent companies	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
SDA Group	Jinan	Investment and management of aero transportation	580,000,000.00	42.00	42.00
Air China	Beijing	Aero transportation	14,524,815,185.00	22.80	22.80

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

10.2 Subsidiaries

See Note 7 for subsidiaries.

10.3 Joint Ventures and Associates

See Note 7 for joint ventures and associates.

10.4 Other related parties that have transactions with the company

Other related parties	Relationship to the Company
Taikoo (Shandong) Aircraft Engineering Company Limited	Controlled by major investors
Shandong XiangYu Air Technology Co., Ltd.	Controlled by major investors
Shandong Air New Media Co., Ltd.	Controlled by major investors
Beijing Airlines Co., Ltd.	Controlled by major investors
Chengdu Fukai Aircraft Engineering Services Limited	Controlled by major investors
Beijing Aircraft Maintenance and Engineering Corporation	Controlled by major investors
China Aviation Group Finance Co., Ltd.	Controlled by major investors
Shenzhen Airlines Co., Ltd.	Controlled by major investors
Dalian Airlines Co., Ltd.	Controlled by major investors
China International Airlines Inner Mongolia Co., Ltd.	Controlled by major investors
Kunming Airlines Ltd	Controlled by major investors

Other related parties	Relationship to the Company
Sichuan international aero engine maintenance Co., Ltd.	Jointly operated by major investors
Shanghai International Airport Ground Service Co., Ltd.	Jointly operated by major investors
Shandong Airlines Rainbow Auto Service Co., Ltd.	Controlled by major investors
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Controlled by major investors
Chongqing Golden Phoenix Aviation Service Co., Ltd.	Controlled by major investors

10.5 Related Party Transactions

10.5.1 Purchases or Sales of Goods, Rendering or Receiving of Services

Purchase of goods and services

Related party	Transaction	2021	2020
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	66,539,965.28	59,917,514.33
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials	119,313.00	283,789.14
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	18,554,603.19	25,036,782.78
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	1,476,891.93	1,572,810.30
Chengdu Fukai Aircraft Engineering Services Limited	Repairment	7,351,474.56	6,183,500.06
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	8,290,715.38	7,105,576.24
Shandong Air New Media Co., Ltd.	Ground service	549,114.62	347,115.05
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	99,603,645.09	94,693,380.12
Taikoo (Shandong) Aircraft Engineering Company Limited	Purchase of aircraft materials	3,870,523.52	2,788,150.44
Shandong XiangYu Air Technology Co., Ltd.	Repairment	91,453,918.31	77,999,772.25
Shandong XiangYu Air Technology Co., Ltd.	Purchase / lease of aircraft materials		12,232.91

Related party	Transaction	2021	2020
SDA Group	Office lease rental and catering	39,047,598.20	37,260,027.24
SDA Group	Group fee	5,647,026.04	8,645,366.19
SDA Group	Irregular flight	52,340.00	44,840.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Vehicle rental fee	64,201,573.93	67,139,779.12
Shandong Airlines Rainbow Auto Service Co., Ltd.	Group fee	3,137,837.35	2,533,255.98
Shandong Airlines Rainbow Auto Service Co., Ltd.	Irregular flight	347,807.34	362,440.37
Shenzhen Airlines Co., Ltd.	Ground service	3,898,859.27	964,552.14
Shenzhen Airlines Co., Ltd.	Agency service	56.13	205,627.68
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	256,415.09	147,389.16
Shenzhen Airlines Co., Ltd.	Catering	1,479,232.29	758,702.77
Shenzhen Airlines Co., Ltd.	Irregular flight	1,233,845.02	290,943.40
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	900,031,573.93	82,956,535.74
Air China	Ground service	12,406,355.24	12,714,204.38
Air China	Purchase / lease of aircraft materials	915,811.59	97,627.90
Air China	Agency service	35,238.87	548,692.50
Air China	Irregular flight / Group fee	18,414,723.04	21,782,305.64
Kunming Airlines Co., Ltd	Agency service	15,626.32	5,214.99
Dalian Airlines Co., Ltd.	Irregular flight	464,547.17	234,339.62
Shanghai International Airport Ground Service Co., Ltd.	Ground service	13,389.20	175,187.49
Total		1,349,410,020.90	512,807,655.93

Sales of goods and rendering of services

Related party	Transaction	2021	2020
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	1,559,510.35	410,650.36
Dalian Airlines Co., Ltd.	Ground service	928,188.86	1,112,129.34
Dalian Airlines Co., Ltd.	Non-routine maintenance/machinery service	177,560.85	54,619.72
Kunming Airlines Co., Ltd	Ground service		6,947.13
Kunming Airlines Co., Ltd	Locomotive service income	53,803.77	4,132.08
Kunming Airlines Co., Ltd	Agency service	12,952.36	6,722.40
Shandong Air New Media Co., Ltd.	Media resource fee	13,154,530.86	16,065,789.77
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	797,845.00	882,671.27
Taikoo (Shandong) Aircraft Engineering Company Limited	Training fee	114,100.00	51,556.60
Taikoo (Shandong) Aircraft Engineering Company Limited	Maintenance fee	173,396.26	939,588.49
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	990,000.00	1,820,932.96
Shenzhen Airlines Co., Ltd.	Agency service		201,448.80
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	303,405.10	214,448.00
Shenzhen Airlines Co., Ltd.	Irregular flight maintenance/locomotive service income	10,475.20	495.58
Shenzhen Airlines Co., Ltd.	Aircraft food offerings	1,701,343.43	
Air China	Ground service	5,037,122.40	4,961,303.96
Air China	Simulator maintenance / House rental income		4,111,642.86
Air China	Sale /rent of aircraft	3,783,256.16	682,341.23

Related party	Transaction	2021	2020
	materials		
Air China	Irregular flight maintenance/locomotive service income	12,212.39	29,619.47
Air China	Agency service	95,947.26	304,889.55
Beijing Airlines Co., Ltd.	Ground service	19,547.17	3,698.11
China International Airlines Inner Mongolia Co., Ltd.	Ground service	3,891.83	128,185.47
China International Airlines Inner Mongolia Co., Ltd.	Aircraft food offerings	841.68	
Shandong Airlines Rainbow Auto Service Co., Ltd.	Storage income	341,430.08	392,919.42
Shandong Airlines Rainbow Auto Service Co., Ltd.	Property fee income	21,803.77	28,420.75
Total		29,293,164.78	32,415,153.32

10.5.2 Remuneration to Key Management Personnel

Item	2021	2020
Key management personnel compensation	CNY 8.0962 million	CNY 8.7852 million

10.5.3 Other Related Party Transactions

Related party	Transaction	2021	2020
Air China	Frequent flyer cooperation	70,000,000.00	60,000,000.00
Total		70,000,000.00	60,000,000.00

10.6 Related Party Balances

10.6.1 Receivables

Related party	December 31, 2021		December 31, 2020	
	Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Accounts receivable				
Air China	5,235,402.60		9,869,517.17	
Air China Inner Mongolia Co., Ltd.	684.00		69,220.80	

Related party	December 31, 2021		December 31, 2020	
	Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Dalian Airlines Co., Ltd.	36,046.80		2,530.80	
Taikoo (Shandong) Aircraft Engineering Company Limited	33,600.00			
Shandong Air New Media Co., Ltd.	375,000.00		375,000.00	
Total	5,680,733.40		10,316,268.77	
Other receivables				
Air China	8,487,948.47		6,284,099.27	
Shenzhen Airlines Co., Ltd.	261,861.69		9,991.75	
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.	867,437.30		158,519.78	
Taikoo (Shandong) Aircraft Engineering Company Limited	1,158,659.95		32,760.70	
Shandong Air New Media Co., Ltd.	9,228,235.91		13,212,795.39	
Beijing Aircraft Maintenance and	2,186,215.64		1,061,799.39	
Dalian Airlines Co., Ltd.	93,625.20		321,199.10	
Kunming Airlines Co., Ltd	35,312.00		48,640.00	
Shandong Airlines Rainbow Auto Service Co., Ltd.	4,060.00		4,031.65	
Beijing Airlines Co., Ltd.	2,560.00			
Total	123,877,633.81	101,551,717.65	122,685,554.68	101,551,717.65

10.6.2 Payables

Related party	December 31, 2021	December 31, 2020
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	66,504,135.32	62,612,200.70
Taikoo (Shandong) Aircraft Engineering Company Limited	46,130,817.29	71,170,122.15
Air China	363,886,555.24	288,157,344.35
Beijing Golden Phoenix Human Resources Service Co., Ltd.		468,107.35

Related party	December 31, 2021	December 31, 2020
Shenzhen Airlines Co., Ltd.	1,348,606.03	1,575,214.82
Aircraft Maintenance and Engineering Corporation (Ameco)	41,299,730.06	69,550,487.95
Sichuan International Aero Engine Maintenance Co., Ltd.	188,855,298.97	40,552,088.72
Shandong Air New Media Co., Ltd.	842,384.00	4,310,391.38
Shandong Airlines Rainbow Auto Service Co., Ltd.	40,392,244.33	45,500,000.00
Chengdu Fukai Aircraft Engineering Service Co., Ltd.	3,421,933.08	2,407,193.88
Shanghai International Airport Ground Service Co., Ltd.		53,210.80
Dalian Airlines Co., Ltd.	38,160.00	
Total	752,719,864.32	586,356,362.10
Other payables		
SDA Group	37,087,354.58	20,892,072.83
Taikoo (Shandong) Aircraft Engineering Company Limited	80,022.00	641,414.74
Shandong Air New Media Co., Ltd.	1,772,290.91	3,138,323.91
Shandong Rainbow Commercial Jet Co., Ltd.	1,889,871.66	1,257,646.00
Total	40,829,539.15	25,929,457.48

Note 11 COMMITMENTS AND CONTINGENCIES

11.1 Significant Commitments

The nature and amount of significant commitments existing at the balance sheet date:

11.1.1 Capital Commitment

Capital commitments signed but not yet recognized in the financial statements	December31, 2021	December 31, 2020
Commitment for purchase long-term assets	4,744,085,049.45	6,327,478,302.14
Large contract		
Commitment for external investment		

11.1.2 Other Commitment

The Company has no other significant commitment needed to be disclosed as of December 31, 2021.

11.2 Contingencies

The Company has no other significant contingencies needed to be disclosed as of December 31, 2021.

Note 12 EVENTS AFTER THE REPORTING PERIOD

As of this reporting date, the Company has no post-balance sheet events that should be disclosed.

Note 13 OTHER SIGNIFICANT MATTERS

13.1 Pension Plan And Defined Benefit Plan

The Company enters into an agreement with a third party to materially terminate the future obligations of the original defined benefit plan through a one-time payment. The net liability of defined benefit plan under post-employment benefits after termination of obligation is zero. In addition to the above, no significant change of the annuity program occurred for the current year, see Note 5.22, 5.31 for details.

Note 14 NOTES TO ELEMENTS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

14.1 Accounts receivable

14.1.1 Disclosure by Age

Age	December 31, 2021	December 31, 2020
Within 1 year	294,841,782.04	279,757,208.36
1 to 2 years	26,374,321.46	52,098,250.31
2 to 3 years	15,955,262.91	34,122,000.00
3 to 4 years	32,120,000.00	
4 to 5 years		
Over 5 years	420,529.65	420,529.65
Subtotal	369,711,896.06	366,397,988.32
Less: provision for bad debt	31,415,764.41	15,724,684.12
Total	338,296,131.65	350,673,304.20

14.1.2 Disclosure by Category

Category	December 31, 2021				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion ratio (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment	47,492,966.87	12.85	18,117,242.76	38.15	29,375,724.11
Accounts receivable subject to group impairment assessment	322,218,929.19	87.15	13,298,521.65	4.13	308,920,407.54
Total	369,711,896.06	100.00	31,415,764.41	8.50	338,296,131.65

(Continued)

Category	December 31, 2020				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Provision ratio (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment					
Accounts receivable subject to group impairment assessment	366,397,988.32	100.00	15,724,684.12	4.29	350,673,304.20
Total	366,397,988.32	100.00	15,724,684.12	4.29	350,673,304.20

①Provisions for bad debts subject to individual impairment assessment as of December 31, 2021.

Category	December 31, 2021			
	Carrying amount	Provision	Provision ratio（%）	Reason
Debtor #1	32,120,000.00	12,773,220.82	39.77	Impairment upon individual assessment
Debtor #2	15,372,966.87	5,344,021.94	34.76	Impairment upon individual assessment

Total	47,492,966.87	18,117,242.76	38.15	

②Accounts receivable subject to impairment assessment by credit risk characteristics group as of December 31, 2021.

Category	December 31, 2021		
	Book value	Provision for bad debt	Provision ratio (%)
Amounts due from the clearing center	16,263,740.96		
Amounts due from the aviation association	34,671,136.84		
Amounts due from related parties	5,313,618.50		
Other receivables	265,970,432.89	13,298,521.65	5.00
Total	322,218,929.19	13,298,521.65	4.13

③As at December 31, 2020, there is no provision for bad debts subject to individual impairment assessment.

④Accounts receivable subject to impairment assessment by credit risk characteristics group as of December 31, 2020

Category	December 31,2021		
	Book value	Provision for bad debt	Provision ratio (%)
Amounts due from the clearing center	10,455,297.15		
Amounts due from the aviation association	31,724,360.89		
Amounts due from related parties	9,724,648.00		
Other receivables	314,493,682.28	15,724,684.12	5.00
Total	366,397,988.32	15,724,684.12	4.29

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

14.1.3 Changes of Provision for Bad Debt During the Reporting Period

Category	December 31, 2020	Changes during the reporting period			December 31, 2021
		Provision	Recovery or reversal	Write-off	
Accounts receivable subject to individual impairment assessment		18,117,242.76			18,117,242.76
Accounts receivable subject to impairment assessment by group	15,724,684.12		2,426,162.47		13,298,521.65
Total	15,724,684.12	18,117,242.76	2,426,162.47		31,415,764.41

14.1.4 The Company has no accounts receivable actually written off in this period.

14.1.5 As of December 31, 2021, the top five accounts receivable amounted to CNY 174,838,477.71, accounting for 47.29% of the total ending balance of accounts receivable, and the corresponding bad debt provision amounted to CNY 19,909,144.71 collectively.

14.1.6 The Company has no derecognition of accounts receivable due to the transfer of financial assets.

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

14.2 Other receivables

14.2.1 Other receivables by category

Items	December 31, 2021	December 31, 2020
Interests receivable		
Dividends receivable		
Other receivables	179,708,210.51	165,544,964.64
Total	179,708,210.51	165,544,964.64

14.2.2 Other Receivables

① Other receivables by age

Age	December 31, 2021	December 31, 2020
Within one year	144,296,475.71	136,305,404.11
1-2 years	17,370,290.85	4,690,877.26
2-3 years	3,644,719.68	12,288,561.13
3-4 years	9,319,361.13	3,882,745.43

Age	December 31, 2021	December 31, 2020
4-5 years	1,859,618.40	773,009.94
Over 5 years	109,055,375.34	112,978,097.70
Subtotal	285,545,841.11	270,918,695.57
Less: provision for bad debt	105,837,630.60	105,373,730.93
Total	179,708,210.51	165,544,964.64

② Other receivables by nature

Nature	December 31, 2021	December 31, 2020
Deposits receivable	66,697,664.53	63,646,894.09
Amounts due from related parties	133,129,917.60	130,831,535.85
Other receivables	85,718,258.98	76,440,265.63
Subtotal	285,545,841.11	270,918,695.57
Less: provision for bad debt	105,837,630.60	105,373,730.93
Total	179,708,210.51	165,544,964.64

③ Other receivables by bad debt provision method

A. Provision for bad debts recognized based on three stages model as of December 31, 2021 is as follows:

Provision for bad debt in the first stage as of December 31, 2021:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Oher receivables subject to individual impairment assessment					
Oher receivables subject to impairment assessment by group	183,994,123.46	2.33	4,285,912.95	179,708,210.51	
Including: Deposits receivable	66,697,664.53			66,697,664.53	No significant increase on credit risk
Amounts due from related parties	31,578,199.95			31,578,199.95	No significant increase on credit risk
Other receivables	85,718,258.98	5.00	4,285,912.95	81,432,346.03	No significant

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
					increase on credit risk
Total	183,994,123.46	2.33	4,285,912.95	179,708,210.51	

As of December 31, 2021, the Company has no interest receivable, dividends receivable or other receivables recognized in the second stage.

Provision for bad debt in the third stage as of December 31, 2021:

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

B．Provision for bad debt using incurred loss model as of December 31, 2020:

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

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Other receivables subject to individual impairment assessment					
Other receivables subject to impairment assessment by group	169,366,977.92	2.26	3,822,013.28	165,544,964.64	
Including: Deposits receivable	63,646,894.09			63,646,894.09	No significant increase on credit risk
Amounts due from related parties	29,279,818.20			29,279,818.20	No significant increase on

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
					credit risk
Other receivables	76,440,265.63	5.00	3,822,013.28	72,618,252.35	No significant increase on credit risk
Total	169,366,977.92	2.26	3,822,013.28	165,544,964.64	

As of December 31, 2020, the Company has no interest receivable, dividends receivable or other receivables recognized in the second stage.

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

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

④ Changes of provision for bad debt during the reporting period

Category	December 31, 2020	Changes during the reporting period			December 31, 2021
		Provision	Recovery or reversal	Write-off	
Other receivables of individual significance and subject to individual impairment assessment	101,551,717.65				101,551,717.65
Other receivables subject to impairment assessment by credit	3,822,013.28	463,899.67			4,285,912.95

Category	December 31, 2020	Changes during the reporting period			December 31, 2021
		Provision	Recovery or reversal	Write-off	
risk characteristics group					
Total	105,373,730.93	463,899.67			105,837,630.60

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

⑥ Top five closing balances by entity

Entity name	Nature	Balance as at December 31, 2021	Age	Proportion of the balance to the total other receivables (%)	Provision for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	101,551,717.65	Over 5 years	35.56	101,551,717.65
Debtor #1	Deposits	31,257,853.34	Within 1 year	10.95	
Debtor #2	Deposits	14,567,356.48	Within 1 year	5.10	
Debtor #3	Others	14,129,792.80	Within 1 year	4.95	706,489.64
Debtor #4	Deposits	10,503,492.40	Within 3 years	3.68	
Total		172,010,212.67		60.24	102,258,207.29

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

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

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

14.3 Long-term equity investments

14.3.1 Investments in Subsidiaries

Investee	December 31, 2020	Current year increase	Current year decrease	December 31, 2021	Provision recognized	Year-end provision

Investee	December 31, 2020	Current year increase	Current year decrease	December 31, 2021	Provision recognized	Year-end provision
Shandong aviation Logistics Ltd	48,323,205.97			48,323,205.97		
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd	57,677,479.46			57,677,479.46		
Shandong Jinping aviation food Co., Ltd.	7,790,400.00			7,790,400.00		
Shandong Airlines Qingdao Food Co., Ltd.	30,310,200.00			30,310,200.00		
Total	144,101,285.43			144,101,285.43		

14.3.2 Investments in Joint Ventures and Associates

Investee	December 31, 2020	Impairment provision	Changes in the current period (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Investee	Changes in the current period (+, -)			December 31, 2021	Year-end provision
	Declared cash dividends or profits	Provision recognized	Others		

Investee	Changes in the current period (+, -)			December 31, 2021	Year-end provision
	Declared cash dividends or profits	Provision recognized	Others		
Associates					
Shandong Rainbow Commercial Jet Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

14.4 Operating revenues and operating costs

Items	2021		2020	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal activities	11,825,926,931.05	13,513,169,484.99	9,854,672,423.67	12,550,540,262.47
Other activities	643,312,409.54	11,014,671.04	655,331,879.04	4,559,337.10
Total	12,469,239,340.59	13,524,184,156.03	10,510,004,302.71	12,555,099,599.57

14.5 Investment Income

Items	2021	2020
Investment income from held-for-trading financial assets during holding period	-777,605.88	-829,194.39
Dividend income from other equity instrument income during holding period	208,728.00	4,019,690.59
Total	-568,877.88	3,190,496.20

Note 15 SUPPLEMENTARY INFORMATION

15.1 Current non-recurring statement of profit and loss

Items	2021	2020	Description
Gains /(losses) on disposal of non-current assets	64,797,810.76	59,471.65	
Government grants recognized in current profit or loss (except government grants that is closely related to operations and determined based on a fixed scale	155,394,226.24	98,058,606.34	

Items	2021	2020	Description
according to the national unified standard)			
Gains /(losses) arising from changes in fair value of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities and derivative financial liabilities during the holding period and investment income arising from disposal of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, derivative financial liabilities and other debt investment except effective hedging transactions related to the Company's principal activities	6,801.48	-1,565,885.31	
Other non-operating income/expenses except for items mentioned above	21,029,660.26	46,338,437.81	
Other gains or losses satisfying the definition of extraordinary gains or losses	4,867,924.92	2,626,332.77	
Total extraordinary gains/(losses)	246,096,423.66	145,516,963.26	
Less: tax effect	61,534,128.14	36,389,420.55	
Net extraordinary gains/(losses)	184,562,295.52	109,127,542.71	
Less: net extraordinary gains/(losses) attributable to minority interests			
Net extraordinary gains/(losses) attributable to ordinary shareholders	184,562,295.52	109,127,542.71	

15.2 Return on Net Assets and Earnings Per Share (‘EPS’)

15.2.1 Year 2021

Profit for the reporting period	Weighted average return on net assets (%)	EPS	
		Basic	Diluted
Net profit attributable to ordinary shareholders	-9,352.93	-4.53	-4.53
Net profit attributable to ordinary shareholders after extraordinary gains and losses	-10,304.69	-5.00	-5.00

15.2.2 Year 2020

Profit for the reporting period	Weighted average return on net assets (%)	EPS	
		Basic	Diluted
Net profit attributable to ordinary shareholders	-61.31	-5.96	-5.96
Net profit attributable to ordinary shareholders after extraordinary gains and losses	-64.12	-6.23	-6.23

Company Name: Shandong Airlines Co., Ltd

Date: March 29, 2022