

**Shandong Airlines Co., Ltd.****2019 Semi-Annual Financial Report****I. Audit report**

The semi-annual financial report has not been audited.

**II. Financial Statement**

Statement in Financial Notes are carried in RMB/CNY

**1. Consolidated Balance Sheet**

Prepared by Shandong Airlines Co., Ltd

2019-06-30

In RMB

Item	2019-6-30	2018-12-31
Current assets:		
Monetary funds	304,193,125.42	840,960,104.09
Settlement provisions		
Capital lent		
Tradable financial assets		
Financial assets measured by fair value and with variation reckoned into current gains/losses		90,488.17
Derivative financial assets		
Note receivable	11,600,000.00	
Account receivable	441,139,307.45	413,726,456.71
Receivable financing		
Accounts paid in advance	264,271,657.37	265,931,342.94
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Other account receivable	260,134,868.61	225,281,412.22
Including: Interest receivable		



Dividend receivable	5,861,939.50	
Buying back the sale of financial assets		
Inventories	101,798,197.70	105,625,519.42
Contractual assets		
Assets held for sale		
Non-current asset due within one year		
Other current assets	208,392,765.74	236,596,457.60
Total current assets	1,591,529,922.29	2,088,211,781.15
Non-current assets:		
Loans and payments on behalf		
Debt investment		
Finance asset available for sales		310,842,965.35
Other debt investment		
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment in other equity instrument	737,640,684.78	
Other non-current financial assets		
Investment real estate		
Fixed assets	7,486,219,644.67	7,770,750,794.37
Construction in progress	5,330,499,256.87	4,790,300,972.13
Productive biological asset		
Oil and gas asset		
Right-of-use assets		
Intangible assets	113,883,021.35	115,541,881.39
Expense on Research and Development		
Goodwill	454,020.13	454,020.13
Long-term expenses to be apportioned	563,904,330.04	573,645,342.64
Deferred income tax asset	1,061,164,741.86	914,231,343.25
Other non-current asset		



Total non-current asset	15,293,765,699.70	14,475,767,319.26
Total assets	16,885,295,621.99	16,563,979,100.41
Current liabilities:		
Short-term loans	700,000,000.00	580,000,000.00
Loan from central bank		
Capital borrowed		
Transactional financial liability	990,989.10	
Financial liability measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Note payable		
Account payable	2,364,556,040.47	2,273,836,607.26
Accounts received in advance	616,440,029.96	787,371,671.33
Selling financial asset of repurchase		
Absorbing deposit and interbank deposit		
Security trading of agency		
Security sales of agency		
Wage payable	306,885,302.53	543,294,439.81
Taxes payable	187,517,958.00	252,717,258.87
Other account payable	725,736,208.84	635,499,470.13
Including: Interest payable	11,991,004.44	10,428,894.80
Dividend payable	80,602,306.96	602,306.96
Commission charge and commission payable		
Reinsurance payable		
Contractual liability		
Liability held for sale		
Non-current liabilities due within one year	1,187,999,792.02	455,840,675.34
Other current liabilities		
Total current liabilities	6,090,126,320.92	5,528,560,122.74
Non-current liabilities:		



Insurance contract reserve		
Long-term loans	916,789,856.70	1,885,556,557.83
Bonds payable		
Including: Preferred stock		
Perpetual capital securities		
Lease liability		
Long-term account payable	4,756,048,059.26	4,368,213,445.33
Long-term wages payable	132,294,665.93	135,224,119.11
Accrual liability		
Deferred income	115,349,049.17	118,279,868.16
Deferred income tax liabilities	190,627,407.57	56,819,008.96
Other non-current liabilities		
Total non-current liabilities	6,111,109,038.63	6,564,092,999.39
Total liabilities	12,201,235,359.55	12,092,653,122.13
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	469,398,778.51	149,300,488.94
Reasonable reserve		
Surplus public reserve	503,999,977.58	503,999,977.58
Provision of general risk		
Retained profit	3,235,251,142.65	3,342,615,148.06
Total owner's equity attributable to parent company	4,684,060,262.44	4,471,325,978.28
Minority interests		
Total owner's equity	4,684,060,262.44	4,471,325,978.28
Total liabilities and owner's equity	16,885,295,621.99	16,563,979,100.41

Legal Representative: Sun Xiujiang



Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

**2. Balance Sheet of Parent Company**

In RMB

Item	2019-6-30	2018-12-31
Current assets:		
Monetary funds	278,439,047.14	804,583,812.57
Transactional financial assets		
Financial assets measured by fair value and with variation reckoned into current gains/losses		90,488.17
Derivative financial assets		
Note receivable	11,600,000.00	
Account receivable	440,475,793.23	412,570,738.01
Receivable financing		
Accounts paid in advance	263,869,262.15	263,658,892.86
Other account receivable	270,169,429.36	239,078,612.04
Including: Interest receivable		
Dividend receivable	5,861,939.50	
Inventories	100,633,977.42	104,444,823.98
Contractual assets		
Assets held for sale		
Non-current assets maturing within one year		
Other current assets	207,928,635.50	236,057,827.36
Total current assets	1,573,116,144.80	2,060,485,194.99
Non-current assets:		
Debt investment		
Available-for-sale financial assets		310,842,965.35
Other debt investment		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	144,101,285.43	144,101,285.43



Investment in other equity instrument	737,640,684.78	
Other non-current financial assets		
Investment real estate		
Fixed assets	7,384,367,240.12	7,667,474,888.84
Construction in progress	5,330,499,256.87	4,790,300,972.13
Productive biological assets		
Oil and natural gas assets		
Right-of-use assets		
Intangible assets	100,911,004.18	102,375,769.20
Research and development costs		
Goodwill		
Long-term deferred expenses	563,439,893.34	572,919,885.06
Deferred income tax assets	1,060,218,808.84	913,510,618.39
Other non-current assets		
Total non-current assets	15,321,178,173.56	14,501,526,384.40
Total assets	16,894,294,318.36	16,562,011,579.39
Current liabilities		
Short-term borrowings	700,000,000.00	580,000,000.00
Transactional financial liability	990,989.10	
Financial liability measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes payable		
Account payable	2,379,549,856.55	2,292,392,127.26
Accounts received in advance	615,394,198.49	785,082,130.23
Contractual liability		
Wage payable	300,685,514.51	532,617,252.72
Taxes payable	183,978,225.86	248,981,430.52
Other accounts payable	788,973,447.85	680,079,759.56
Including: Interest payable	11,991,004.44	10,428,894.80
Dividend payable	80,011,940.00	11,940.00
Liability held for sale		
Non-current liabilities due within	1,187,999,792.02	455,840,675.34



one year		
Other current liabilities		
Total current liabilities	6,157,572,024.38	5,574,993,375.63
Non-current liabilities:		
Long-term loans	916,789,856.70	1,885,556,557.83
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Lease liability		
Long-term account payable	4,756,048,059.26	4,368,213,445.33
Long term employee compensation payable	132,294,665.93	135,224,119.11
Accrued liabilities		
Deferred income	115,349,049.17	118,279,868.16
Deferred income tax liabilities	189,518,940.91	55,645,338.38
Other non-current liabilities		
Total non-current liabilities	6,110,000,571.97	6,562,919,328.81
Total liabilities	12,267,572,596.35	12,137,912,704.44
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	469,398,778.51	149,300,488.94
Special reserve		
Surplus reserve	503,339,273.05	503,339,273.05
Retained profit	3,167,072,501.74	3,284,547,944.25
Total owner's equity	4,626,721,722.01	4,424,098,874.95
Total liabilities and owner's equity	16,894,294,318.36	16,562,011,579.39

Legal Representative: Sun Xiujiang



Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

**3. Consolidated Profit Statement**

In RMB

Item	Semi-annual of 2019	Semi-annual of 2018
I. Total operating income	8,989,068,400.72	8,729,278,564.65
Including: Operating income	8,989,068,400.72	8,729,278,564.65
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	9,090,783,089.32	8,670,223,238.39
Including: Operating cost	8,395,245,086.04	8,021,020,129.22
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	7,772,903.17	7,022,422.74
Sales expense	388,566,377.89	393,527,536.39
Administrative expense	219,351,048.16	201,566,182.20
R&D expense	8,960,946.50	2,127,502.63
Financial expense	70,886,727.56	44,959,465.21
Including: Interest expenses	70,674,180.26	52,548,207.24
Interest income	5,907,298.18	4,577,884.98
Add: other income	32,378,668.41	136,377,656.23
Investment income (Loss is listed with “-”)	6,075,806.95	17,185,078.32





Including: Investment income on affiliated company and joint venture		
The termination of income recognition for financial assets measured by amortized cost(Loss is listed with “-”)		
Exchange income (Loss is listed with “-”)		
Net exposure hedging income (Loss is listed with “-”)		
Income from change of fair value (Loss is listed with “-”)	-1,081,477.27	3,510,568.94
Loss of credit impairment (Loss is listed with “-”)	-752,815.03	
Losses of devaluation of asset (Loss is listed with “-”)		-4,271,098.28
Income from assets disposal (Loss is listed with “-”)	32,155.55	26,470,970.71
III. Operating profit (Loss is listed with “-”)	-65,062,349.99	238,328,502.18
Add: Non-operating income	21,585,703.86	23,590,611.36
Less: Non-operating expense	1,518,515.48	822,099.62
IV. Total profit (Loss is listed with “-”)	-44,995,161.61	261,097,013.92
Less: Income tax expense	-17,631,156.20	57,366,309.27
V. Net profit (Net loss is listed with “-”)	-27,364,005.41	203,730,704.65
(i) Classify by business continuity		
1.continuous operating net profit (net loss listed with “-”)	-27,364,005.41	203,730,704.65
2.termination of net profit (net loss listed with “-”)		
(ii) Classify by ownership		
1.Net profit attributable to owner’s of parent company	-27,364,005.41	203,730,704.65
2.Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income	-39,388,032.24	-3,297,445.81
Net after-tax of other comprehensive income attributable to owners of parent	-39,388,032.24	-3,297,445.81



company		
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-39,388,032.24	
1.Changes of the defined benefit plans that re-measured		
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	-39,388,032.24	
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		-3,297,445.81
1.Other comprehensive income under equity method that can transfer to gain/loss		
2.Change of fair value of other debt investment		
3.gain/loss of fair value changes for available-for-sale financial assets		-3,297,445.81
4.Amount of financial assets re-classify to other comprehensive income		
5.Gain/loss of held-to-maturity investments that re-classify to available-for-sale financial asset		
6.Credit impairment provision for other debt investment		
7.Cash flow hedging reserve		
8.Translation differences arising on translation of foreign currency financial statements		
9.Other		



Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	-66,752,037.65	200,433,258.84
Total comprehensive income attributable to owners of parent Company	-66,752,037.65	200,433,258.84
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	-0.07	0.51
(ii) Diluted earnings per share	-0.07	0.51

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

#### 4. Profit Statement of Parent Company

In RMB

Item	Semi-annual of 2019	Semi-annual of 2018
I. Operating income	8,977,094,417.01	8,705,788,696.40
Less: Operating cost	8,407,682,821.24	8,024,729,324.52
Taxes and surcharge	6,505,227.42	5,698,254.63
Sales expenses	387,368,758.11	390,855,000.75
Administration expenses	210,684,463.59	193,189,730.69
R&D expenses	8,960,946.50	2,127,502.63
Financial expenses	70,919,841.98	44,994,192.39
Including: interest expenses	70,674,180.26	52,565,577.11
Interest income	5,865,471.69	4,540,454.18
Add: other income	32,378,668.41	136,377,656.23
Investment income (Loss is listed with “-”)	6,075,806.95	17,185,078.32
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 “-”)	-1,081,477.27	3,510,568.94
Loss of credit impairment (Loss is listed with “-”)	-712,515.81	
Losses of devaluation of asset (Loss is listed with “-”)		-4,230,286.05
Income on disposal of assets (Loss is listed with “-”)	32,155.55	26,470,970.71
II. Operating profit (Loss is listed with “-”)	-78,335,004.00	223,508,678.94
Add: Non-operating income	21,491,775.88	22,810,217.85
Less: Non-operating expense	1,475,292.76	814,599.62
III. Total Profit (Loss is listed with “-”)	-58,318,520.88	245,504,297.17
Less: Income tax	-20,843,078.37	53,584,198.21
IV. Net profit (Net loss is listed with “-”)	-37,475,442.51	191,920,098.96
(i)continuous operating net profit (net loss listed with “-”)	-37,475,442.51	191,920,098.96
(ii) termination of net profit (net loss listed with “-”)		
V. Net after-tax of other comprehensive income	-39,388,032.24	-3,297,445.81
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-39,388,032.24	
1.Changes of the defined benefit plans that re-measured		
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	-39,388,032.24	
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		-3,297,445.81
1. Other comprehensive income under equity method that can transfer to gain/loss		
2. Change of fair value of other debt investment		
3. gain/loss of fair value changes for available-for-sale financial assets		-3,297,445.81
4. Amount of financial assets re-classify to other comprehensive income		
5. Gain/loss of held-to-maturity investments that re-classify to available-for-sale financial asset		
6. Credit impairment provision for other debt investment		
7. Cash flow hedging reserve		
8. Translation differences arising on translation of foreign currency financial statements		
9. Other		
VI. Total comprehensive income	-76,863,474.75	188,622,653.15
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

**5. Consolidated Cash Flow Statement**

In RMB

Item	Semi-annual of 2019	Semi-annual of 2018
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	9,527,227,600.19	9,450,627,576.50
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	82,716,519.16	83,390,509.60
Other cash received concerning operating activities	112,106,927.26	320,117,399.23
Subtotal of cash inflow arising from operating activities	9,722,051,046.61	9,854,135,485.33
Cash paid for purchasing commodities and receiving labor service	6,916,956,252.90	6,822,788,678.81
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 financial assets held for transaction purposes		
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	1,722,383,558.60	1,703,025,818.36
Taxes paid	446,584,469.95	396,035,113.85
Other cash paid concerning operating activities	92,050,109.48	73,387,711.43
Subtotal of cash outflow arising from operating activities	9,177,974,390.93	8,995,237,322.45
Net cash flows arising from operating activities	544,076,655.68	858,898,162.88
<b>II. Cash flows arising from investing activities:</b>		
Cash received from recovering investment		
Cash received from investment income		
Net cash received from disposal of fixed, intangible and other long-term assets	32,155.55	60,179,426.82
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities	213,867.45	
Subtotal of cash inflow from investing activities	246,023.00	60,179,426.82
Cash paid for purchasing fixed, intangible and other long-term assets	1,221,400,170.90	1,861,780,571.74
Cash paid for investment		
Net increase of mortgaged loans		



Net cash received from subsidiaries and other units obtained		308,439.57
Other cash paid concerning investing activities		23,033.18
Subtotal of cash outflow from investing activities	1,221,400,170.90	1,862,112,044.49
Net cash flows arising from investing activities	-1,221,154,147.90	-1,801,932,617.67
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	590,000,000.00	1,068,235,943.70
Cash received from issuing bonds		
Other cash received concerning financing activities	485,947,232.59	424,203,461.76
Subtotal of cash inflow from financing activities	1,075,947,232.59	1,492,439,405.46
Cash paid for settling debts	664,738,351.88	296,942,824.00
Cash paid for dividend and profit distributing or interest paying	54,073,386.37	28,011,548.45
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	207,230,938.23	112,793,486.52
Subtotal of cash outflow from financing activities	926,042,676.48	437,747,858.97
Net cash flows arising from financing activities	149,904,556.11	1,054,691,546.49
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-9,594,042.56	16,694,919.05
V. Net increase of cash and cash equivalents	-536,766,978.67	128,352,010.75





Add: Balance of cash and cash equivalents at the period -begin	840,860,104.09	543,584,920.30
VI. Balance of cash and cash equivalents at the period -end	304,093,125.42	671,936,931.05

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

## 6. Cash Flow Statement of Parent Company

In RMB

Item	Semi-annual of 2019	Semi-annual of 2018
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	9,508,517,501.17	9,421,086,850.96
Write-back of tax received	82,716,519.16	83,390,509.60
Other cash received concerning operating activities	130,625,833.27	349,582,900.65
Subtotal of cash inflow arising from operating activities	9,721,859,853.60	9,854,060,261.21
Cash paid for purchasing commodities and receiving labor service	6,949,755,088.64	6,863,379,480.88
Cash paid to/for staff and workers	1,694,914,700.43	1,673,930,736.16
Taxes paid	437,444,736.86	387,845,074.05
Other cash paid concerning operating activities	88,175,822.08	73,047,402.40
Subtotal of cash outflow arising from operating activities	9,170,290,348.01	8,998,202,693.49
Net cash flows arising from operating activities	551,569,505.59	855,857,567.72
II. Cash flows arising from investing activities:		
Cash received from recovering		



investment		
Cash received from investment income		
Net cash received from disposal of fixed, intangible and other long-term assets	32,155.55	60,179,426.82
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities	213,867.45	
Subtotal of cash inflow from investing activities	246,023.00	60,179,426.82
Cash paid for purchasing fixed, intangible and other long-term assets	1,218,270,807.57	1,860,537,911.36
Cash paid for investment		
Net cash received from subsidiaries and other units obtained		308,439.57
Other cash paid concerning investing activities		23,033.18
Subtotal of cash outflow from investing activities	1,218,270,807.57	1,860,869,384.11
Net cash flows arising from investing activities	-1,218,024,784.57	-1,800,689,957.29
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	590,000,000.00	1,068,235,943.70
Cash received from issuing bonds		
Other cash received concerning financing activities	485,947,232.59	424,203,461.76
Subtotal of cash inflow from financing activities	1,075,947,232.59	1,492,439,405.46
Cash paid for settling debts	664,738,351.88	296,942,824.00
Cash paid for dividend and profit distributing or interest paying	54,073,386.37	28,011,548.45
Other cash paid concerning financing activities	207,230,938.23	112,793,486.52



Subtotal of cash outflow from financing activities	926,042,676.48	437,747,858.97
Net cash flows arising from financing activities	149,904,556.11	1,054,691,546.49
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-9,594,042.56	16,694,919.05
V. Net increase of cash and cash equivalents	-526,144,765.43	126,554,075.97
Add: Balance of cash and cash equivalents at the period -begin	804,583,812.57	516,216,370.03
VI. Balance of cash and cash equivalents at the period -end	278,439,047.14	642,770,446.00

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

This Period

In RMB

Item	Semi-annual of 2019													Minority interests	Total owners' equity
	Owners' equity attributable to the parent Company														
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit	Other	Subtotal		
	Preferred stock	Perpetual capital securities	Other												
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		149,300,488.94		503,999,977.58		3,342,615,148.06		4,471,325,978.28		4,471,325,978.28
Add: Changes of accounting policy							359,486,321.81						359,486,321.81		359,486,321.81
Error correction of the last period															







		stock	capital				income							
			securities											
I. Balance at the end of the last year	400,000.00				75,410,363.70		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93	4,253,141,013.93
Add: Changes of accounting policy														
Error correction of the last period														
Enterprise combine under the same control														
Other														
II. Balance at the beginning of this year	400,000.00				75,410,363.70		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93	4,253,141,013.93
III. Increase/Decrease in this year (Decrease is listed with "-")							-3,297,445.81				103,730,704.65		100,433,258.84	100,433,258.84
(i) Total comprehensive income							-3,297,445.81				203,730,704.65		200,433,258.84	200,433,258.84
(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														





2. Usage in the report period														
(VI)Others														
IV. Balance at the end of the report period	400,000.00			75,410,363.70		175,197,393.67		471,457,259.99		3,231,509.25		4,353,574.27		4,353,574,272.77

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

This Period

In RMB

Item	Semi-annual of 2019											
	Share capital	Other equity instrument			Capital public reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Other	Total owners' equity
		Preferr ed stock	Perpet ual capital securiti es	Other								
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		149,300,488.94		503,339,273.05	3,284,547,944.25		4,424,098,874.95
Add: Changes of accounting policy							359,486,321.81					359,486,321.81
Error correction of the last period												
Other												
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		508,786,810.75		503,339,273.05	3,284,547,944.25		4,783,585,196.76
III. Increase/Decrease in this year (Decrease is listed with "-")							-39,388,032.24			-117,475,442.51		-156,863,474.75
(i) Total comprehensive income							-39,388,032.24			-37,475,442.51		-76,863,474.75





(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									-80,000,000.00			-80,000,000.00	
1. Withdrawal of surplus reserves													
2. Distribution for owners (or shareholders)									-80,000,000.00			-80,000,000.00	
3. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves conversed to capital (share capital)													
2. Surplus reserves conversed to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Carry-over retained earnings from the defined benefit plans													
5. Carry-over retained earnings from other comprehensive income													
6. Other													



(V) Reasonable reserve												
1. Withdrawal in the report period												
2. Usage in the report period												
(VI)Others												
IV. Balance at the end of the report period	400,000,000.00				86,911,168.71		469,398,778.51		503,339,273.05	3,167,072,501.74		4,626,721,722.01

Last period

In RMB

Item	Semi-annual of 2018											
	Share capital	Other equity instrument			Capital public reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Other	Total owners' equity
		Preferr ed stock	Perpet ual capital securit ies	Other								
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		178,494,839.48		470,796,555.46	3,091,663,485.91		4,227,866,049.56
Add: Changes of accounting policy												
Error correction of the last period												
Other												
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		178,494,839.48		470,796,555.46	3,091,663,485.91		4,227,866,049.56
III. Increase/Decrease in this year (Decrease is listed with "-")							-3,297,445.81			91,920,098.96		88,622,653.15
(i) Total comprehensive income							-3,297,445.81			191,920,098.96		188,622,653.15
(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										-100,000,000.00		-100,000,000.00
1. Withdrawal of surplus reserves												
2. Distribution for owners (or shareholders)										-100,000,000.00		-100,000,000.00
3. Other												
(IV) Carrying forward internal owners' equity												
1. Capital reserves converted to capital (share capital)												
2. Surplus reserves converted to capital (share capital)												
3. Remedying loss with surplus reserve												
4. Carry-over retained earnings from the defined benefit plans												
5. Carry-over retained earnings from other comprehensive income												



6. Other												
(V) Reasonable reserve												
1. Withdrawal in the report period												
2. Usage in the report period												
(VI)Others												
IV. Balance at the end of the report period	400,000.00				86,911,168.71		175,197,393.67		470,796,555.46	3,183,583,584.87		4,316,488,702.71

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 30 June 2019**

**(All amounts are expressed in CNY unless otherwise stated)**

**Note 1 Corporation profile**

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

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

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

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

Legal representative of the Company: SUN, Xiujiang

Place of registration: Shandong Jinan Yaoqiang International Airport



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

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

The scope of the Company's consolidation in the current period has not changed compared with the previous year.

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

## **Note 2 Basis for preparation of the financial statements**

### **2.1 Basis for preparation**

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

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

## **Note 3 Statement of Compliance with Enterprise Accounting Standards**

The financial statements of the company are recognized and measured in accordance with the regulations in the Chinese Accounting Standards for Business Enterprises and they give a true and fair view of the financial position, business result and cash flow of the Company as of June 30 2019. In addition, the financial statements of the company comply, in all material respects, with the revised disclosing requirements for financial statements and the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15—General Provisions on Financial Reports (2014 Revision) issued by China Securities Regulatory Commission (CSRC) in 2014.

## **Note 4 Important Accounting Principles and Accounting Estimates**

The Company and subsidiaries are principally engaged in air transportation. The company and subsidiaries formulate a number of specific



accounting policies and accounting estimates for the revenue recognition and other transactions in accordance with the actual features of production and management, and the relevant provisions of the Accounting Standards. See Note 4.21 “Revenue” for the description. For description of significant accounting judgments and estimates made by management, see Note 4.28 “Significant accounting judgements and estimates”.

#### 4.1 Accounting period

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

#### 4.2 Operating cycle

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

#### 4.3 Monetary Unit

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

#### 4.4 Business combination

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

##### 4.4.1 Business combination involving entities under common control

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

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

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

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

##### 4.4.2 Business combination involving entities not under common control

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

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



date is the date on which the acquirer effectively obtains control of the acquiree.

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

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

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

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

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

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

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

In the individual financial statements, the total value of the book value of the acquiree's equity investment before the acquisition date and the cost of new investment at the acquisition date, as the initial cost of the investment, the acquiree's equity investment before the acquisition date involved in other comprehensive income, in the disposal of the investment will be in other comprehensive income associated with the use of infrastructure and the acquiree directly related to the disposal of assets or liabilities of the same accounting treatment (that is, except in accordance with the equity





method of accounting in the defined benefit plan acquiree is remeasured net changes in net assets or liabilities other than in the corresponding share of the lead, and the rest into the current investment income).

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

#### **4.5 Preparation of the consolidated financial statements**

##### **4.5.1 The scope of consolidation**

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

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

##### **4.5.2 Preparation of the consolidated financial statements**

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

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

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

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

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

Minority interest and the portion in the net profit or loss not attributable to the Company are presented separately in the consolidated balance sheet



within shareholders'/ owners' equity and net profit. Net profit or loss attributable to minority shareholders in the subsidiaries is presented separately as minority interest in the consolidated income statement below the net profit line item.

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

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

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

#### 4.6 Joint arrangement

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

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



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

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

#### 4.7 Cash equivalent

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

#### 4.8 Foreign exchange

##### 4.8.1 Translation in foreign exchange transactions

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

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

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

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

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



#### 4.8.3 The translation of financial statement in foreign currency

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

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

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

Comparatives are disclosed using the translated amounts for the previous period.

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

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

#### 4.9 Financial instruments

A financial asset or financial liability is recognised in the balance sheet when the Company becomes a party to the contractual provisions of a financial instrument.

##### 4.9.1 Classification, recognition and initial measurement of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow



characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income (“FVOCI”), or at fair value through profit or loss (“FVTPL”).

Financial assets are measured at fair value on initial recognition. For FVTPL, the related transaction expense is directly recognised in current profit or loss. For other types of financial assets, related transaction costs are included in the initial recognition amount. For the accounts receivable or notes receivable arising from the sale of products or the provision of labor services that do not contain or consider the significant financing components, the Company shall use the consideration amount that is expected to be received as the initial confirmation amount.

#### 4.9.1.1 Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For these financial assets, the Company adopts the effective interest rate method and performs subsequent measurement according to the amortized cost. The gains or losses arising from amortization or impairment are recognised in profit or loss for the current period.

#### 4.9.1.2 Financial asset at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are measured at fair value and their changes are included in other comprehensive income. The impairment loss or gains, exchange gains and losses and interest income calculated according to the effective interest method are included in the current profit and loss.

In addition, the Company has designated certain non-trading equity instrument investments as FVOCI. The relevant dividend income of such financial assets is included in the current profit and loss, and changes in fair value are included in other comprehensive income. When the financial assets are derecognised, the accumulated gains or losses previously recognised in other comprehensive income are transferred from other comprehensive income to retained earnings, which are not recognised in profit or loss.

#### 4.9.1.3 Financial asset at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### 4.9.2 Classification, recognition and initial measurement of financial liabilities

On initial recognition, a financial liabilities is classified as measured at amortised cost, at fair value through other comprehensive income (“FVOCI”), or at fair value through profit or loss (“FVTPL”).

For financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial liabilities, any related directly attributable transaction costs are included in their initial costs.

#### 4.9.2.1 Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition. Trading financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value and changes



in fair value are recognised in profit or loss except for hedge accounting.

A financial liabilities designated as at FVTPL, its changes in fair value of liabilities arising from changes in the Company's own credit risk are included in other comprehensive income. When the liability is derecognised, the accumulated changes in fair value arising from changes in the credit risk of other comprehensive income are transferred to retained earnings, the changes in value are included in the current profit and loss. If the effects of changes in the credit risk of these financial liabilities are treated as described above, the accounting mismatch in profit or loss will be caused or expanded, and the entire gain or loss of the financial liability (including the amount of the company's own credit risk changes) will be included in the current profit and loss.

#### 4.9.2.2 Other financial liabilities

An entity shall classify all financial liabilities as measured at amortised cost, except for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts. It is subsequently measured at amortised costs and any gains or losses arising from derecognition and amortisation are recognised in profit or loss.

#### 4.9.3 Transfer of financial assets

A financial asset is derecognised is either of the following is present:

- a. the contractual right to receive cash flows associated with this financial asset ceases;
- b. the financial asset is given away and substantially all risks and rewards attached to the ownership of the financial asset is transferred to the transferee;
- c. the financial asset is given away while substantially all risks and rewards attached to the ownership of the financial asset is neither retained nor transferred by the Company, but the Company has given up control of this financial asset.

Where the Company neither retains nor transfer substantially all risks and rewards attached to the ownership of a financial asset and does not give up the control over this financial asset, the Company continues to recognise the financial asset and any financial liability based on the Company continual involvement in the financial asset. The degree of the Company continual involvement in a financial asset is the level of risk faced by the Company arising from change in the value of the financial asset.

Where the transfer of a financial asset satisfies derecognition of the financial asset, the difference between the book value of the financial asset and the sum of the consideration for giving away the financial asset and cumulative other comprehensive income associated with the financial asset is recognised in profit or loss.

Where transfer of a financial asset partly satisfies the de-recognition criteria, the carrying amount of the transferred financial asset is allocated to the de-recognised part and the part of continual involvement with reference to the respective fair value of the two parts; the excess of the sum of the consideration received and the cumulative changes in fair value attributable to the de-recognised part previously recognised in other comprehensive income over the carrying amount allocated to the de-recognised part is recognised in profit or loss for the period during which the transfer occurs.

In terms of a financial asset sold with recourse or a financial asset transferred by endorsement, its de-recognition is subject to assessment of whether substantially all risks and rewards attached to its ownership have been transferred. The financial asset is de-recognised if substantially all risks and rewards attached to its ownership are transferred to the transferee; the Group continues to recognise such financial asset if the Group retains substantially all risks and rewards attached to its ownership; where the Group neither transfers nor retains substantially all risks and rewards attached to the ownership of the financial asset, the Group's control over such financial asset shall be assessed and the financial asset accounted for in accordance with the previous paragraphs accordingly.



#### 4.9.4 Derecognition of financial liabilities

A financial liability is wholly or partly de-recognised when the present obligation attached to it has been wholly or partly released. Where an agreement is entered into by the Group and the creditor(s) which provides for the replacement of the existing financial liabilities by new financial liabilities that are different in substance to the existing financial liabilities, the existing and new financial liabilities are de-recognised and recognised respectively.

When a financial liability is wholly or partly de-recognised, the difference between the consideration paid (including non-monetary assets given away and new financial liabilities assumed) and the book value of the de-recognised part is recognised in profit or loss for the period during which the de-recognition occurs.

#### 4.9.5 Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- 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 financial asset and settle the financial liability simultaneously.

#### 4.9.6 Determination of the fair value of financial assets and financial liabilities

Fair value is the price for which an asset is exchanged or a liability settled in an arm's length transaction between knowledgeable and willing parties. The Group uses the market price as the fair value of a financial instrument if there is an active market for the instrument. A price quoted by an active market is a price which can be easily and regularly obtained from stock exchanges, brokers, industrial associations, pricing agencies, etc. and which is representative of the settlement price of an actual arm's length transaction. The fair value of a financial instrument for which there isn't an active market is determined by the Group using pricing methodology. Applicable pricing methodology includes reference to recent settlement prices in arm's length transactions between knowledgeable and willing parties, reference to the pricing-date fair value of financial instruments which are in substance the same to the pricing subject, future cash flow discounting, and option pricing models. At the time of valuation, the company uses valuation techniques that are available in the current situation with sufficient data and other information to support it. The company selects input values that are consistent with the characteristics of the asset or liability that the market participants consider in the transaction of the relevant asset or liability, and prioritizes the relevant observable inputs as much as possible. Use unallowable values if the relevant observable input values are not available or are not practicable.

#### 4.9.7 Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. It is regarded as change of equity when the Group issues (refinancing inclusive), buys back, sells or cancels an equity instrument. Changes in fair value of equity instruments are not recognised. Costs associated with transactions of equity instruments are deducted from equity.

All types of distribution (excluding stock dividends) made by the Group to holders of equity instruments are deducted from shareholders' equity.

### 4.10 Impairment of financial asset

Financial assets subject to impairment include financial assets measured by amortised cost, debt investments measured by fair value with changes in fair value recognised in other comprehensive income, and lease receivables. These financial assets are presented on the financial statements mainly as notes receivable, accounts receivable, other receivables, debt investments, other debt investments, and long-term receivables. Impairment allowance for and loss from credit impairment of contract assets and certain financial guarantee contracts also follow the policies in this section.

#### 4.10.1 Impairment



Expected credit loss is the basis for impairment assessment. Measurement of expected credit loss, following either the general approach or simplified approach, applicable to a particular financial asset is used for computing impairment allowance for and loss arising from credit impairment of that financial asset, if any.

The credit loss of a particular financial asset is the present value, discounted by the effective interest rate, of the excess of the contractual cash inflows of the financial assets over its expected cash inflows. The effective interest rate applicable to a financial asset which is impaired at inception, either purchase or self-generated, is the effective interest rate after credit adjustment.

Following the general approach, the expected credit loss of a financial asset (also applicable to any contract asset and other applicable asset, same applied below) is computed annually. The computation involves assessment of the credit risk of the financial asset on each balance-sheet date. If the credit risk upon assessment is significantly higher than the credit risk at the inception of the financial asset, impairment allowance for the financial asset is recognised for the expected loss over its life time; if the credit risk upon assessment is not significantly higher than the credit risk at inception, impairment allowance for the financial asset is recognised for the expected loss for the next 12 months. During the assessment of credit risk, the Company considers all reasonable and evidential information, including forward-looking information.

Where a financial asset of which the credit risk is relatively low at a balance-sheet date, the Company measures its impairment allowance for the expected loss for the next 12 months or over its life time depending on whether the credit risk of the financial asset is significantly higher than its credit risk at inception.

#### 4.10.2 Criteria for whether credit risk has increased significantly since inception

The credit risk of a financial asset is significantly higher than its credit risk at inception if the probability of default during its remaining life is distinctively higher than its life-time probability of default at inception upon assessment. Except for exceptional circumstance, the default risk in the next 12 months is used as a reasonable approximation for a financial asset's default risk, upon which the Company assesses whether the credit risk of the financial asset is significantly higher than its credit risk at inception.

#### 4.10.3 Assess expected credit risk on a portfolio basis

A financial asset with distinctive credit loss is individually assessed for credit risk, such as a receivable due to from a related party, a receivable due from a party with which the Company has dispute or in litigation or arbitration, or a receivable due from a party of which the inability of settlement is clearly evidential.

Except for the financial assets which are individually assessed for credit risk, other financial assets are collectively assessed for credit loss by portfolios of similar risk characteristics.

#### 4.10.4 Accounting treatment of financial assets impairment

At the end of the period, the Company calculates the expected credit losses of various financial assets. If the expected credit loss is more than the carrying amount of its current impairment provision, the difference is recognized as the impairment loss; if it is less than the carrying amount of the current impairment provision, The difference is recognized as an impairment gain.

#### 4.10.5 Method for credit loss of various financial assets

##### 4.10.5.1 Notes receivable

The Company measures the loss impairment for the notes receivable in accordance with the amount equivalent to the expected credit loss in the whole duration. Based on the credit risk characteristics of notes receivable, they are divided into different groups:





Category	Reason for determining the groups
Bank acceptance bill	The acceptor is a bank with less credit risk

#### 4.10.5.2 Accounts receivable and contract assets

For accounts receivable and contract assets that do not contain significant financing components, the Company measures the loss impairment in accordance with the amount equivalent to the expected credit loss in the whole duration.

For accounts receivable, contract assets and lease receivables that contain significant financing components, the Company chooses to always measure the loss impairment in accordance with the amount equivalent to the expected credit loss in the whole duration.

Except for accounts receivable and contract assets subject to individual credit risk assessment, other financial assets are classified into different groups based on their credit risk characteristics:

Category	Reason for determining the groups
Receivables due from the clearing centre	The receivables are due from the clearing centre.
Receivables due to from the aviation association	The receivables are due from the aviation association.
Related parties receivables	The receivables are operating receivables due from related parties.
Other receivables	The receivables are operating receivables not included in the above categories.

#### 4.10.5.3 Other receivables

The Company measures the impairment allowance for an other receivable at the expected loss for the next 12 months or over its life time depending on whether the credit risk of the other receivable is significantly higher than its credit risk at inception. Except for other receivables subject to individual credit risk assessment, other other receivables are categorised into below portfolios of similar risk characteristics.

Category	Reason for determining the groups
Deposits	Deposit receivables
Related parties	Operating receivables due from related parties
Others	Operating receivables not included in the above categories

#### 4.10.5.4 Debt investment

Debt investments mainly include for bond investments in bonds measured at amortized cost, etc.. In accordance with whether the credit risk of debt investment has significantly increased since initial recognition, the company utilizes the amount equivalent to the expected credit loss in the next 12 months or the whole duration to measure the impairment loss. The Company measures the impairment allowance for a debt investment at the expected loss for the next 12 months or over its life time depending on whether the credit risk of the other receivable is significantly higher than its credit risk at inception.



#### 4.10.5.5 Other debt investment

Other debt investments mainly include bond investments in bonds measured at fair value with change in fair value recognised in other comprehensive income. The Company measures the impairment allowance for a debt investment in this category at the expected loss for the next 12 months or over its life time depending on whether the credit risk of the other receivable is significantly higher than its credit risk at inception.

#### 4.10.5.6 Long-term receivable (Except for accounts receivable and lease receivables that contain significant financing components)

The Company measures the impairment allowance for a long-term receivable in this category at the expected loss for the next 12 months or over its life time depending on whether the credit risk of the other receivable is significantly higher than its credit risk at inception.

### 4.11 Inventories

#### 4.11.1 Classification of inventory

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

#### 4.11.2 Valuation method of inventories upon delivery

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

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

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

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

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

#### 4.11.4 The perpetual inventory system is maintained for stock system.

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

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

### 4.12 Assets and disposal groups held for sale

The company classify an asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Specific standards are as follows, which should be satisfied at the same time: the asset is immediately sellable at its current condition according to the practice; the company has completed official decision to dispose the asset and has acquired firm purchasing commitments; and the sales will be completed within one year. The disposal group refers to a group of assets that are sold as a whole



or disposed of in a transaction as a whole, and the liabilities directly related to those assets transferred in the transaction at the same time. If the assets group or asset group combination of the disposal group share the goodwill obtained in the business combination according to CAS 8 - Asset Impairment, and the disposal group shall include the goodwill allocated to the disposal group.

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

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

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

#### **4.13 Long-term equity investments**

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

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

##### **4.13.1 Determination of investment cost**

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



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

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

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

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

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

#### 4.13.2 Subsequent measurement

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

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

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is



recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

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

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

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

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

#### 3) Acquisition of minority interest

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

#### 4) Disposal of long-term equity investment

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



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

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

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

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

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



#### 4.14 Fixed assets

##### 4.14.1 The conditions of recognition

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

##### 4.14.2 The method for depreciation

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

Category	Expected useful life	Estimated residual value (%)	Depreciation (%)
Houses and building	20-33	5.00	2.88-4.75
Key components and power supports of aircraft engine	15-20	5.00	4.75-6.33
Replacement parts of engine	3-7	0.00	14.29-33.33
Equipments, electronic devices and furniture	4-10	5.00	9.5-23.75
High value rotables	15-18	0.00	5.56-6.67

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

##### 4.14.3 Measurement and recognition of fixed assets

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

##### 4.14.4 Fixed Assets under finance leases

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

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

##### 4.14.5 Others

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



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

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

#### **4.15 Construction in progress**

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

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

#### **4.16 Borrowing costs**

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

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

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

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

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

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

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

#### **4.17 Intangible assets**

##### **4.17.1 Intangible asset**

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

The intangible assets are initially measured by its cost. Expenses related to intangible assets, if the economic benefits related to intangible assets





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

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

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

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

#### 4.17.2 the expenditure of research and development

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

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

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

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

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

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

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

### 4.18 Deferred charges

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

### 4.19 Impairment of long-term assets

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



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

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

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

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

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

#### **4.20 Employee benefits**

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

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

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

When the Company terminates the labor relationship with employees prior to the employment contracts, or encourages employees to accept



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

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

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

#### 4.21 Revenue

##### 4.21.1 Revenue from rendering of service

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

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

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

##### 4.21.2 Royalty Revenue

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

##### 4.21.3 Interest Income

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

#### 4.22 Government grants

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

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

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



grant measured at a nominal amount is recognized immediately in profit or loss for the period.

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

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

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

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

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

#### **4.23 Deferred tax assets and deferred tax liabilities**

##### **4.23.1 Income tax for the current period**

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

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

##### **4.23.2 Deferred income tax assets and liabilities**

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



liabilities are recognized using the balance sheet liability method.

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

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

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

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

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

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

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

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

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

#### 4.23.3 Income tax expenses

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

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

#### 4.23.4 Income tax offset

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

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



present net value after the offset of deferred income tax asset and deferred income tax liability.

#### **4.24 Leases**

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

##### **4.24.1 The Company as Lessee under operating Lease**

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

##### **4.24.2 The Company as lessor under operating Lease**

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

##### **4.24.3 The Company as Lessee under financing Lease**

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

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

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

##### **4.24.4 In the case of the lessor of a financing lease**

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

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

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

#### **4.25 Regular repair and substantial repair**

Regular repair expenditure of own aircrafts and aircrafts acquired under a financial lease is accounted for through profit or loss for the period in which it is incurred. Substantial repair expenditure eligible for capitalization is capitalized when incurred and recognized as replacement cost of non-current assets and depreciated over a reasonable length of time. Substantial repair expenditure of aircrafts under an operating lease incurred



before the lease expiry date is amortized on the basis of air hours over the lease period.

#### 4.26 Changes in major accounting policies and accounting estimates

##### 4.26.1 Changes of accounting policies

On March 3, 2017, the Ministry of Finance issued the "Chinese Accounting Standards for Business Enterprises No.22 - Determination and measurement of financial instruments (Revised in 2017)" (Accounting [2017] No. 7), "Accounting Standards for Business Enterprises No. 23" Transfer of Financial Assets (Revised in 2017) (Accounting [2017] No. 8), "Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017)" (Accounting [2017] No. 9). On May 2 2017, the Ministry of Finance issued "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation (Revised in 2017)" (Accounting [2017] No. 14) (the above-mentioned guidelines are collectively referred to as the "New Financial Instruments Guidelines"), and domestic listed companies are required to implement it from January 1, 2019.

After the resolution of the 4th meeting of the 6th Board of Directors of the Company on March 21, 2019, the company will implement the above new financial instrument guidelines from January 1, 2019.

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

On the implementation date of the new financial instrument standard, the business model of managing financial assets is evaluated based on the facts and circumstances of the company on the implementation date. According to the contractual cash flow characteristics on the financial assets, which are evaluated based on the facts and circumstances at the initial recognition of the financial assets, financial assets are classified into three categories: measured at amortised cost, measured at fair value through other comprehensive income, and measured at fair value through profit or loss. In case of an equity instrument investment measured at fair value through other comprehensive income, when the financial asset is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is transferred to retained earnings, rather than profit and loss.

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

The Company retrospective applies the new financial instrument guidelines, but in terms of classification and measurement (including impairment) involving inconsistency between the previous comparative financial statement data and the new financial instrument guidelines, the company chooses not to restate. Therefore, for the cumulative impact on the first implementation of the guideline, the Company adjusts retained earnings or other comprehensive income of the opening of 2019 and other relevant items in the financial statement. The financial statements for 2018 were not restated.

The main changes and effects of the Company's implementation of the new financial instrument guidelines are as follows:

On or after January 1 2019, the Company designated part of non-trading equity investment as financial assets measured at fair value through other comprehensive income, which disclosed as other equity instruments investment.

The Company will reclassify financial assets measured at fair value through profit or loss into financial assets held for trading.

A. Financial assets classification and measurement comparison table before and after the first implementation date



## a. The effects on consolidated financial statements

31/12/2018 (before changes)			01/01/2019 (after changes)		
Category	Classification	Net carrying amount	Category	Classification	Net carrying amount
Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss	90,488.17	Financial assets held for trading	Measured at fair value through profit or loss	90,488.17
Financial assets available for sale	Measured at fair value through other comprehensive income	229,180,865.35	Other investments in equity instruments	Measured at fair value through other comprehensive income	790,158,061.10
	Measured at cost	81,662,100.00			

## b. The effects on the company's financial statements

31/12/2018 (before changes)			01/01/2019 (after changes)		
Category	Classification	Net carrying amount	Category	Classification	Net carrying amount
Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss	90,488.17	Financial assets held for trading	Measured at fair value through profit or loss	90,488.17
Financial assets available for sale	Measured at fair value through other comprehensive income	229,180,865.35	Other investments in equity instruments	Measured at fair value through other comprehensive income	790,158,061.10
	Measured at cost	81,662,100.00			

B. Adjustment table showing the net carrying amount of the original financial assets is adjusted to the net carrying amount of the new financial assets in accordance with the new financial instrument guidelines on the first implementation date.

## a. The effects on consolidated financial statements

Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)





Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
<b>Amortised cost:</b>				
<b>Accounts receivable</b>	413,726,456.71			
Add: adjustment of implementing the new income guidelines				
Less: transfer to accounts receivable financing				
Remeasurement: impairment of expected credit loss				
Closing balance disclosed by the new financial instrument guidelines				413,726,456.71
<b>Other receivables</b>	225,281,412.22			
Remeasurement: impairment of expected credit loss				
Closing balance disclosed by the new financial instrument guidelines				225,281,412.22
<b>Measured at fair value through profit or loss:</b>				
<b>Financial assets measured at fair value through profit or loss (the original guidelines)</b>	90,488.17			
Less: transfer to financial assets held for trading		90,488.17		
Closing balance disclosed by the new financial instrument guidelines				
Financial assets held for trading				
Add: transfer from financial assets measured at fair value through profit or loss (the original guidelines)		90,488.17		
Closing balance disclosed by the new				90,488.17



Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
financial instrument guidelines				
<b>Measured at fair value through other comprehensive income:</b>				
<b>Financial assets available for sale (the original guidelines)</b>	310,842,965.35			
Less: transfer to other investments in equity instruments		310,842,965.35		
Closing balance disclosed by the new financial instrument guidelines				
<b>Other equity instruments investment</b>				
Add: transfer from financial assets available for sale (the original guidelines)		310,842,965.35		
Remeasurement: measured at fair value			479,315,095.75	
Closing balance disclosed by the new financial instrument guidelines				790,158,061.10

## b. The effects on the company's financial statements

Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
<b>Amortised cost:</b>				
<b>Accounts receivable</b>	412,570,738.01			
Add: adjustment of implementing the new income guidelines				
Less: transfer to accounts receivable financing				
Remeasurement: impairment of expected credit loss				
Closing balance disclosed by the new financial instrument guidelines				412,570,738.01



Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
<b>Other receivables</b>	239,078,612.04			
Remeasurement: impairment of expected credit loss				
Closing balance disclosed by the new financial instrument guidelines				239,078,612.04
<b>Measured at fair value through profit or loss:</b>				
<b>Financial assets measured at fair value through profit or loss (the original guidelines)</b>	90,488.17			
Less: transfer to financial assets held for trading		90,488.17		
Closing balance disclosed by the new financial instrument guidelines				
Financial assets held for trading				
Add: transfer from financial assets measured at fair value through profit or loss (the original guidelines)		90,488.17		
Closing balance disclosed by the new financial instrument guidelines				90,488.17
<b>Measured at fair value through other comprehensive income:</b>				
<b>Financial assets available for sale (the original guidelines)</b>	310,842,965.35			
Less: transfer to other investments in equity instruments		310,842,965.35		
Closing balance disclosed by the new financial instrument guidelines				
<b>Other investments in equity instruments</b>				
Add: transfer from financial assets available		310,842,965.35		



Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
for sale (the original guidelines)				
Remeasurement: measured at fair value			479,315,095.75	
Closing balance disclosed by the new financial instrument guidelines				790,158,061.10

## C. Table of adjustment of impairment provisions of financial assets

## a. The effects on consolidated financial statements

Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
<b>Amortised cost</b>				
Impairment provisions of accounts receivable	23,742,916.71			23,742,916.71
Impairment provisions of other receivables	108,981,379.40			108,981,379.40

## b. The effects on the company's financial statements

Category	31/12/2018 (before changes)	Reclassification	Remeasurement	01/01/2019 (after changes)
<b>Amortised cost</b>				
Impairment provisions of accounts receivable	20,867,525.52			20,867,525.52
Impairment provisions of other receivables	108,973,871.13			108,973,871.13

## D. The effects on retained earnings and other comprehensive income of January 1 2019

Category	Consolidated retained earnings	Consolidated surplus reserves	Consolidated other comprehensive income
31/12/2018	3,342,615,148.06	503,999,977.58	149,300,488.94
Reclassify financial assets available for sale into other investments in equity instruments and remeasure			359,486,321.81



Category	Consolidated retained earnings	Consolidated surplus reserves	Consolidated other comprehensive income
Remeasurement of impairment of accounts receivable			
01/01/2019	3,342,615,148.06	503,999,977.58	508,786,810.75

#### B. Execution of the Ministry of Finance "Notice on Amending the Issuance of the 2019 Annual General Financial Statements of Enterprises "

On April 30, 2019, the Ministry of Finance issued the "Notice on Amending the Format of the 2019 Annual General Enterprise Financial Statements" (Accounting [2019] No. 6), and adjusted the financial statement format of the enterprise accordingly. The Company prepares the 2019 interim financial statements in accordance with the new regulations and uses the retrospective adjustment method to change the presentation of relevant financial statements.

The affected consolidated balance sheet and parent company's balance sheet items as of December 31, 2018 are as follows:

Consolidated report item	Before change	After change	Change amount
Notes receivable and accounts receivable	413,726,456.71		-413,726,456.71
Accounts receivable		413,726,456.71	413,726,456.71
Notes payable and accounts payable	2,273,836,607.26		-2,273,836,607.26
Accounts payable		2,273,836,607.26	2,273,836,607.26
Parent company report item	Before change	After change	Change amount
Notes receivable and accounts receivable	412,570,738.01		-412,570,738.01
Accounts receivable		412,570,738.01	412,570,738.01
Notes payable and accounts payable	2,292,392,127.26		-2,292,392,127.26
Accounts payable		2,292,392,127.26	2,292,392,127.26

#### 4.26.1.2 Changes in other accounting policies

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

#### 4.26.2 Changes of accounting estimates

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

#### 4.27 Correction of prior period errors

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

#### 4.28 Significant account judgement and estimates



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

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

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

#### 4.28.1 Classification of lease

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

#### 4.28.2 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.

#### 4.28.3 Impairment of inventories

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

#### 4.28.4 The fair value of financial instruments

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



instruments. 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.

#### 4.28.5 Impairment of non-financial, non-current assets

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

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

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

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

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

#### 4.28.6 Depreciation and amortization

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

#### 4.28.7 Deferred tax assets

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

#### 4.28.8 Income tax

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



period during the final determination.

#### 4.28.9 Aircraft operating lease and engine overhaul expenses

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

#### 4.28.10 Defined benefit plan

The defined benefit plan implemented and maintained by the Company includes post-employment benefits plan. The provided welfare costs under the above defined benefit plan was calculated by expected cumulative unit credit method according to various actuarial assumptions and were recognized during the employee service providing period. Actuarial Assumptions include but not limited to discount rate, mortality rate, and etc. The discount rate is on the basis of management's review of national debt, and mortality rate depends on the mortality rate adopted by the China life insurance industry. Supplemental information of defined benefit plan refer to Note 6.28.

### Note 5 Taxation

#### 5.1 Major taxes and tax rate

Tax	Tax rate (%)
Enterprise income tax	Business tax is calculated according to the taxable income(Note1)
Value added tax	The VAT is calculated as the difference between output tax (11% of the taxable revenue) and deductible input tax for the period, and the tax rates are 6%, 9%, 10%, 13% or 16% (Note 2). The output tax is calculated using the sales of goods and taxable services income (including transportation and ground services revenue).
Property tax	Property tax is calculated by the nature of house property and is collected by ad valorem or specific duties according to the tax rules.
Urban maintenance and construction tax	Urban maintenance and construction tax are calculated at 7% of turnover tax.
Education surcharge	Education surcharge is calculated at 3% of turnover tax.
Local education surcharge	Local education surcharge is calculated at 2% of turnover tax.
Civil aviation development Fund	Civil aviation development fund shall be calculated using the collection standard of the relevant category of flight routes, maximum departure weight and flight distance adopted by the civil aviation industry. According to "Interim measures for the administration of the administration of civil aviation development fund" 《民航发展基金征收使用管理暂行办法》.

Note 1: According to the provision of National Development and Reform Commission ([2014]15) and Announcement of the State Administration of





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

Note 2: The applicable tax rate for VAT-taxable sales or imported goods of the Company during the period from January to March 2019 is 16%/10%. According to the "Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Deepening the Policies Related to Value-Added Tax Reform" (Ministry of Finance, State Administration of Taxation, General Administration of Customs [2019] No. 39) regulations, the applicable tax rate is adjusted from April 1 2019 to 13%/9%. At the same time, the company as a taxpayer of production and living service industry, from April 12019 to December 312021, can deduct the taxable amount according to the current deductible input tax plus 10%.

## 5.2 Tax incentives

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

5.2.2. According to the Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》)(State Administration of Taxation [2012]12), Chongqing Branch of the Company meets the conditions for reduction and exemption in the development of the western region, could enjoy the preferential policy of reducing enterprise income tax by 15% in 2018.

## Note 6 Notes to significant elements of the consolidated financial statements

Unless otherwise stated, the meaning of "B/f", "C/f","Current period", "Prior period" in the following notes (incl. Notes to elements of the separate financial statements) is "January 1 2019", "June 30 2019", "January – June 2019", and "January – June 2018" respectively.

### 6.1 Monetary funds

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Cash at hand	292,210.71	291,347.27
Bank deposit	303,800,914.71	840,568,756.82



Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Other monetary funds	100,000.00	100,000.00
Total	304,193,125.42	840,960,104.09
Including: the total amount of deposit abroad	5,697,543.38	2,047,660.50

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

## 6.2 Financial assets at fair value through profit or loss

Category	Closing balance as of 31/12/2018
Interest rate swaps	90,488.17
Total	90,488.17

## 6.3 Notes receivable

Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Bank acceptance bill	11,600,000.00	
Commercial acceptance bill		
Subtotal	11,600,000.00	
Less: allowance for bad debt		
Total	11,600,000.00	

As of June 30 2019, there are no notes receivable have been pledged, no notes receivable have been endorsed or discounted and have not yet expired as of June 30 2019, no defaulted notes receivable transferred to accounts receivable.

## 6.4 Accounts receivable

### 6.4.1 Disclosure by age

Age	Closing balance as of 30/06/2019
Within 1 year	439,730,722.39
1 to 2 years	13,292,116.90
2 to 3 years	550,936.59



Age	Closing balance as of 30/06/2019
3 to 4 years	233,707.19
4 to 5 years	8,138,874.25
Over 5 years	3,357,063.14
Subtotal	465,303,420.46
Less: allowance for bad debt	24,164,113.01
Total	441,139,307.45

## 6.4.2 Disclosure by category

Category	Closing balance as of 30/06/2019				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable subject to individual impairment assessment	10,823,117.90	2.33	10,823,117.90	100.00	
Accounts receivable subject to group impairment assessment	454,480,302.56	97.67	13,340,995.11	2.94	441,139,307.45
Total	465,303,420.46	100.00	24,164,113.01	5.19	441,139,307.45

(Continued)

Category	Closing balance as of 31/12/2018				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	105,366,572.73	24.08			105,366,572.73
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	258,395,976.09	59.07	12,919,798.81	5.00	245,476,177.28
Accounts receivable of individual insignificance but subject to individual impairment	73,706,824.60	16.85	10,823,117.90	14.68	62,883,706.70



Category	Closing balance as of 31/12/2018				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
assessment					
Total	437,469,373.42	100.00	23,742,916.71	5.43	413,726,456.71

## 6.4.2.1 Accounts receivable subject to individual impairment assessment

Debtor	Closing balance as of 30/06/2019			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
Kun Peng Airlines Co., Ltd	1,849,400.00	1,849,400.00	100.00	Impairment upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	Impairment upon individual assessment
Total	10,823,117.90	10,823,117.90	100.00	

## 6.4.2.2 Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio

Category	Closing balance as of 30/06/2019		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Settlement center receivables	63,402,786.48		
Aviation agreement receivables	112,310,498.33		
Related parties receivables	11,947,115.55		
Other receivables	266,819,902.20	13,340,995.11	5.00
Total	454,480,302.56	13,340,995.11	2.94

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

## 6.4.3 Allowance for bad debt

Category	Opening balance	Current period movement	Closing balance
----------	-----------------	-------------------------	-----------------



	as of 01/01/2019	Recognition	Recovery or reversal	Used or written off	as of 30/06/2019
Accounts receivable subject to individual impairment assessment	10,823,117.90				10,823,117.90
Accounts receivable subject to impairment assessment by portfolio	12,919,798.81	421,196.30			13,340,995.11
Total	23,742,916.71	421,196.30			24,164,113.01

#### 6.4.4 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarized by debtors as at the end of current period is CNY 227,380,706.33, accounting for 48.87% of the total accounts receivable as at the end of current period, the total corresponding allowance for bad debt is CNY 4,735,150.33.

#### 6.5 Prepayments

##### 6.5.1 Disclosure by age

Age	Closing balance as of 30/06/2019		Closing balance as of 31/12/2018	
	Amount	%	Amount	%
Within 1 year	263,672,663.77	99.77	265,432,349.34	99.81
1 to 2 years	100,000.00	0.04		
2 to 3 years				
Over 3 years	498,993.60	0.19	498,993.60	0.19
Total	264,271,657.37	100.00	265,931,342.94	100.00

##### 6.5.2 Details of top five prepayments

The total amount of top five prepayments as at the end of current period is CNY 91,227,849.40, accounting for 34.52% of prepayments.

#### 6.6 Other receivables

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Interests receivable		
Dividend receivable	5,861,939.50	
Other receivables	254,272,929.11	225,281,412.22



Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Total	260,134,868.61	225,281,412.22

**6.6.1 Dividend receivable**

Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Sichuan Airlines	2,352,700.00	
TravelSky Technology Limited	3,509,239.50	
Subtotal	5,861,939.50	
Less: allowance for bad debt		
Total	5,861,939.50	

**6.6.2 Other receivables**

6.6.2.1 Disclosure by age

Age	Closing balance as of 30/06/2019
Within 1 year	179,558,284.93
1 to 2 years	41,160,979.15
2 to 3 years	4,633,549.64
3 to 4 years	5,724,542.80
4 to 5 years	1,945,024.44
Over 5 years	130,563,546.28
Subtotal	363,585,927.24
Less: allowance for bad debt	109,312,998.13
Total	254,272,929.11

6.6.2.2 Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Deposits	78,339,708.42	82,454,112.14
Related parties	126,505,985.67	120,294,948.78
Others	158,740,233.15	131,513,730.70
Subtotal	363,585,927.24	334,262,791.62



Less: allowance for bad debt	109,312,998.13	108,981,379.40
Total	254,272,929.11	225,281,412.22

## 6.6.2.3 Recognition of allowance for bad debt

Allowance for bad debt	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss for the next 12 months	Expected credit loss for the whole duration(no credit impairment)	Expected credit loss for the whole duration(Credit impairment has occurred)	
Opening balance as of 01/01/2019		7,429,661.75	101,551,717.65	108,981,379.40
Carrying amount of other receivables in current period as of 1/1/2019				
- Turn to stage 2				
- Turn to stage 3				
- Turn back to stage 2				
- Turn back to stage 1				
Recognition		331,618.73		
Reversal				
Used				
Written off				
Other movements				
Closing balance as of 30/06/2019		7,761,280.48	101,551,717.65	109,312,998.13

## 6.6.2.4 Allowance for bad debt

Category	Opening balance as of 1/1/2019	Current period movement			Closing balance as of 30/6/2019
		Recognition	Recovery or reversal	Recognition	
Subject to individual impairment assessment	101,551,717.65				101,551,717.65



Subject to impairment assessment by credit risk characteristics of a portfolio	7,429,661.75	331,618.73			7,761,280.48
Total	108,981,379.40	331,618.73			109,312,998.13

There is no allowance for bad debt amount is reversed or recovered in this period.

#### 6.6.2.5 Top five other receivables

Debtor	Nature	Closing balance as of 30/06/2019	Age	%	Allowance for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	27.93	101,551,717.65
Debtor #1	Others	65,219,505.07	Within 4 years	17.94	3,260,975.25
Debtor #2	Deposits	64,132,796.01	Within 1 year	17.64	
Debtor #3	Others	25,885,715.72	Over 5 years	7.12	1,294,285.79
Shandong Air New Media Co., Ltd.	Others	17,845,676.45	Within 2 years	4.91	
Total		274,635,410.90		75.54	106,106,978.69

### 6.7 Inventories

#### 6.7.1 Disclosure by category

Category	Closing balance as of 30/06/2019		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipment	95,236,422.44		95,236,422.44
Low-value consumables	3,964,424.84		3,964,424.84
Materials	2,597,350.42		2,597,350.42
Total	101,798,197.70		101,798,197.70

(Continued)

Category	Closing balance as of 31/12/2018		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipment	99,169,118.33		99,169,118.33
Low-value consumables	3,870,289.81		3,870,289.81





Category	Closing balance as of 31/12/2018		
	Gross carrying amount	Impairment allowance	Net carrying amount
Materials	2,586,111.28		2,586,111.28
Total	105,625,519.42		105,625,519.42

**6.8 Other current assets**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
VAT deductible	208,392,765.74	236,596,457.60
Total	208,392,765.74	236,596,457.60

**6.9 Financial assets available for sale**

Category	Closing balance as of 31/12/2018		
	Carrying amount	Impairment	Net carrying amount
Equity instruments available for sale	310,842,965.35		310,842,965.35
Including: measured by fair value	229,180,865.35		229,180,865.35
measured by cost	81,662,100.00		81,662,100.00
Total	310,842,965.35		310,842,965.35

**6.10 Long-term equity investments**

Category	Opening balance as of 01/01/2019	Allowance as of 01/01/2019	Currency period movement (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	22,500,000.00					



Category	Opening balance as of 01/01/2019	Allowance as of 01/01/2019	Currency period movement (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Total	22,500,000.00	22,500,000.00					

(Continued)

Category	Currency period movement (+, -)			Closing balance as of 30/06/2019	Allowance closing balance as of 30/06/2019
	Declared cash dividends or profits	Allowance recognized	Others		
Associates					
Shandong Rainbow Commercial Jet Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

**6.11 Other equity instrument investment****6.11.1 General information**

Category	Closing balance as of 30/06/2019
Non-trading equity instrument investment	737,640,684.78
Total	737,640,684.78

**6.11.2 General information of non-trading equity instrument investment**



Item	Dividend income in current period	Cumulative gain	Cumulative loss	Other comprehensive income transferred into retained earnings	Reasons for being measured at fair value and its changes are included in other comprehensive income	Reasons for other comprehensive income transferred into retained earnings
TravelSky Technology Limited	3,509,239.50	169,973,489.03			Non-trading financial assets	
Sichuan Airlines	2,352,700.00	471,133,003.87			Non-trading financial assets	
Jinan International Airport		8,182,091.88			Non-trading financial assets	
Total	5,861,939.50	649,288,584.78				

#### 6.12 Fixed assets

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Fixed assets	7,486,219,644.67	7,770,750,794.37
Disposal of fixed assets		
Total	7,486,219,644.67	7,770,750,794.37

#### 6.12.1 General information

Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at 31/12/2018	571,843,775.78	11,991,421,728.96	718,099,224.08	80,330,794.46	227,422,996.75	13,589,118,520.03
1.2 Increased in current period		136,786,299.25	24,279,370.50	640,636.64	7,235,926.62	168,942,233.01



Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(1) Purchase		136,786,299.25	24,279,370.50	640,636.64	7,235,926.62	168,942,233.01
(2) Transferred from construction in-progress						
(3) Transferred from merger and acquisitions						
(4) Others						
1.3 Decreased in current period		94,132,130.40	267,085.74	1,048,283.42	5,593,197.04	101,040,696.60
(1) Disposal or scrap		94,132,130.40	267,085.74	1,048,283.42	5,593,197.04	101,040,696.60
(2) Others						
1.4 Balance as at 30/06/2019	571,843,775.78	12,034,075,897.81	742,111,508.84	79,923,147.68	229,065,726.33	13,657,020,056.44
2. Accumulated Depreciation						
2.1 Balance as at 31/12/2018	113,760,776.16	5,284,241,593.74	241,303,561.80	48,642,854.82	128,424,317.82	5,816,373,104.34
2.2 Increased in current period	8,864,297.45	410,403,128.33	19,812,944.42	3,017,793.77	10,053,204.98	452,151,368.95
(1) Accrual	8,864,297.45	410,403,128.33	19,812,944.42	3,017,793.77	10,053,204.98	452,151,368.95
(2) Transferred from merger and acquisitions						
2.3 Decreased in current period		94,132,130.40	99,681.61	868,344.32	4,606,006.44	99,706,162.77
(1) Disposal or		94,132,130.40	99,681.61	868,344.32	4,606,006.44	99,706,162.77



Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
scrap						
(2) Others						
2.4. Balance as at 30/06/2019	122,625,073.61	5,600,512,591.67	261,016,824.61	50,792,304.27	133,871,516.36	6,168,818,310.52
3. Impairment allowance			1,994,621.32			1,994,621.32
3.1 Balance as at 31/12/2018			1,994,621.32			1,994,621.32
3.2 Increased in current period						
(1) Accrual						
(2) Transferred from merger and acquisitions						
3.3 Decreased in current period			12,520.07			12,520.07
(1) Disposal or scrap			12,520.07			12,520.07
(2) Others						
3.4 Balance as at 30/06/2019			1,982,101.25			1,982,101.25
4.1 Carrying amount as at 30/06/2019						
4.2 Carrying amount as at 31/12/2018	449,218,702.17	6,433,563,306.14	479,112,582.98	29,130,843.41	95,194,209.97	7,486,219,644.67
4.1 Carrying	458,082,999.62	6,707,180,135.27	474,801,040.96	31,687,939.64	98,998,678.93	7,770,750,794.37



Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
amount as at 30/06/2019						

**6.12.2 Fixed assets acquired under financial leases**

Category	Cost	Accumulated Depreciation	Impairment allowance	Carrying amount
Aircrafts and engines	3,633,328,127.95	1,418,563,984.90		2,214,764,143.05
Total	3,633,328,127.95	1,418,563,984.90		2,214,764,143.05

**6.12.3 Fixed assets pending ownership registration**

Category	Carrying amount	Reason for pending
Jinan cargo arrival and departure warehouses	11,695,217.58	Land rented from Jinan Air Control, not eligible for ownership registration
Buildings of Jinping Food Co., Ltd.	12,201,542.38	Land use rights belonging to Shandong SDA Group, not eligible for ownership registration

Note: impairment allowance of fixed assets is CNY 1,982,101.25 as at June 30 2019, with no additional amount of allowance for fixed assets impairment recognized during current period.

**6.13 Construction in progress**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Construction in progress	5,330,499,256.87	4,790,300,972.13
Construction material		
Total	5,330,499,256.87	4,790,300,972.13

**6.13.1 General information**

Category	Closing balance as of 30/06/2019			Closing balance as of 31/12/2018		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Factory building project	480,577,208.48		480,577,208.48	337,399,330.36		337,399,330.36
Prepayment	4,772,631,378.09		4,772,631,378.09	4,444,647,787.88		4,444,647,787.88



Category	Closing balance as of 30/06/2019			Closing balance as of 31/12/2018		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
for aircrafts						
Construction of information system	1,898,373.42		1,898,373.42	1,874,609.59		1,874,609.59
Simulator	75,392,296.88		75,392,296.88	6,379,244.30		6,379,244.30
Total	5,330,499,256.87		5,330,499,256.87	4,790,300,972.13		4,790,300,972.13

## 6.13.2 Significant projects

Project	Budget	Opening balance as of 01/01/2019	Current period increase	Transferred to fixed assets in current period	Other decrease	Closing balance as of 30/06/2019
Dining area of Jiaodong airport	84,478,748.00	32,219,746.74	22,990,084.79			55,209,831.53
Freight area of Jiaodong airport	144,614,600.00	40,525,078.89	34,474,921.11			75,000,000.00
Maintenance area of Jiaodong airport	361,793,762.00	126,091,135.85	22,281,176.15			148,372,312.00
Auxiliary production office area	333,439,610.00	138,563,368.88	62,452,625.32			201,015,994.20
Aircraft asset introduction project	10,432,388,610.26	4,444,647,787.88	850,574,394.28		522,590,804.07	4,772,631,378.09
Total	11,356,715,330.26	4,782,047,118.24	992,773,201.65		522,590,804.07	5,252,229,515.82

(Continued)



Project	Weight of cost to date in budgeted cost (%)	Stage of completion	Cumulative interests capitalised	Including: Transferred into leaseback assets during the current period	Including: Transferred into fixed assets during the current period	Including: interests capitalized during the current period	Capitalisation rate applicable to the current period	Source of finance
Dining area of Jiaodong airport	65.35	Not yet completed						Working capital
Freight area of Jiaodong airport	51.86	Not yet completed						Working capital
Maintenance area of Jiaodong airport	41.01	Not yet completed						Working capital
Auxiliary production office area	60.29	Not yet completed						Working capital
Aircraft asset introduction project	45.75	Not applicable	119,090,478.89			20,105,026.50	3.1172-4.2466	Loans from financial institution
Total			119,090,478.89			20,105,026.50		

Note: The cumulative amount of interests capitalized as at January 1 2019 is CNY 98,985,452.39, the amount of current period is CNY 20,105,026.50, including CNY 0 transferred into fixed assets and CNY 0 transferred into leaseback assets during the current period, the cumulative amount of interests capitalized as at June 30 2019 is CNY 119,090,478.89.

## 6.14 Intangible assets

### 6.14.1 General information

Category	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31/12/2018	108,347,341.13	45,805,422.86	154,152,763.99
1.2 Increased in current period		2,811,320.73	2,811,320.73
(1) Purchase			
(2) Diversion of construction		2,811,320.73	2,811,320.73
(3) Increased from business			





Category	Land rights	Software	Total
combination			
1.3 Decreased in current period			
(1) Disposal			
1.4 Balance as at 30/06/2019	108,347,341.13	48,616,743.55	156,964,084.72
2. Accumulated amortization			
2.1 Balance as at 31/12/2018	18,391,975.29	20,218,907.31	38,610,882.60
2.2 Increased in current period	1,201,791.44	3,268,389.33	4,470,180.77
(1) Accrual	1,201,791.44	3,268,389.33	4,470,180.77
(2) Increased from business combination			
2.3 Decreased in current period			
(1) Disposal			
2.4 Balance as at 30/06/2019	19,593,766.73	23,487,296.64	43,081,063.37
3. Impairment allowance			
3.1 Balance as at 31/12/2018			
3.2 Increased in current period			
(1) Accrual			
(2) Increased from business combination			
3.3 Decreased in current period			
(1) Disposal			
3.4 Balance as at 30/06/2019			
4. Carrying amount			
4.1 Carrying amount as at 30/06/2019	88,753,574.40	25,129,446.95	113,883,021.35
4.2 Carrying amount as at 31/12/2018	89,955,365.84	25,586,515.55	115,541,881.39

#### 6.14.2 Land rights with pending ownership registration



No case of land rights with pending ownership registration was identified as of June 30 2019.

## 6.15 Goodwill

### 6.15.1 General information

Investee	Opening balance as of 01/01/2019	Current period increase		Current period decrease		Closing balance as of 30/06/2019
		From business combination				
Qingdao Feisheng	10,220,816.22					10,220,816.22
Shandong Jinping Food Co., Ltd.	454,020.13					454,020.13
Total	10,674,836.35					10,674,836.35

### 6.15.2 Impairment allowance

Investee	Opening balance as of 01/01/2019	Current period increase		Current period decrease		Closing balance as of 30/06/2019
		Accrual		Disposal		
Qingdao Feisheng	10,220,816.22					10,220,816.22
Total	10,220,816.22					10,220,816.22

## 6.16 Deferred charges

Category	Opening balance as of 01/01/2019	Current period increase	Current period amortization	Other decrease	Closing balance as of 30/06/2019
Pilot training	560,825,591.19	36,488,608.59	44,527,976.75		552,786,223.03
Decoration expenditure	5,998,919.63		1,498,068.48		4,500,851.15
Modification costs for aircraft leasing	6,820,831.82		203,575.96		6,617,255.86
Total	573,645,342.64	36,488,608.59	46,229,621.19		563,904,330.04

## 6.17 Deferred tax assets and deferred tax liabilities

### 6.17.1 Deferred tax assets

Category	Closing balance as of 30/06/2019		Closing balance as of 31/12/2018	
	Deductible temporary	Deferred tax assets	Deductible temporary	Deferred tax assets



	difference		difference	
Allowance for bad debt	133,477,111.12	33,369,277.78	132,724,296.11	33,181,074.03
Impairment allowance for fixed assets	1,982,101.25	495,525.31	1,994,621.32	498,655.33
Fair value movement of financial liabilities held for trading	990,989.10	247,747.28		
Provisions	4,043,627,722.70	1,010,906,930.68	3,480,184,220.23	870,046,055.05
Employment benefits payable	40,410,859.50	10,102,714.88	17,131,763.99	4,282,941.00
Deferred income	23,309,650.33	5,827,412.58	24,890,471.35	6,222,617.84
Others	860,533.40	215,133.35		
Total	4,244,658,967.40	1,061,164,741.86	3,656,925,373.00	914,231,343.25

**6.17.2 Deferred tax liabilities**

Category	Closing balance as of 30/06/2019		Closing balance as of 31/12/2018	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Asset evaluation increment from Enterprise merger under the different control	4,433,866.64	1,108,466.66	4,694,682.30	1,173,670.58
Changes in fair value of financial assets held for trading			90,488.17	22,622.04
Changes in fair value of financial assets available for sale			222,490,865.36	55,622,716.34
Changes in fair value of other equity instruments investment	649,288,584.78	162,322,146.20		



Others (Note)	108,787,178.84	27,196,794.71		
Total	762,509,630.26	190,627,407.57	227,276,035.83	56,819,008.96

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

#### 6.18 Short-term borrowing

Category	Closing balance as of 30/6/2019	Closing balance as of 31/12/2018
Credit loan	700,000,000.00	580,000,000.00
Total	700,000,000.00	580,000,000.00

#### 6.19 Financial liabilities at fair value through profit or loss

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
Interest rate swaps		990,989.10		990,989.10
Total		990,989.10		990,989.10

As of June 30 2019, the principal amount of the interest rate swap contract held by the company is USD12,000,000.00, and the bank confirmed the market value of the interest rate swap contract as CNY -990,989.10.

#### 6.20 Accounts payable

##### 6.20.1 Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Aircraft maintenance costs	580,087,681.73	560,449,992.31
Fuel cost	443,522,439.71	327,714,163.12
Landing fee	478,213,259.44	446,878,244.86
Aircraft service cost	414,494,186.08	570,352,031.53
Flight catering	105,462,983.70	109,165,990.89
Computer booking fee	193,232,943.12	135,371,372.00
Lease rental	7,674,561.21	5,602,184.13
Others	141,867,985.48	118,302,628.42
Total	2,364,556,040.47	2,273,836,607.26

**6.20.2 No significant accounts payable due for more than 1 year as at the reporting date.****6.21 Advance from customers**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Ticket clearing	598,271,489.57	761,881,379.16
Advanced payment for tickets	4,291,389.50	4,286,573.58
Others	13,877,150.89	21,203,718.59
<b>Total</b>	<b>616,440,029.96</b>	<b>787,371,671.33</b>

**6.22 Employee benefits payable****6.22.1 Disclosure by classification**

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
1. Short-term employee benefits	543,294,439.81	1,361,953,409.96	1,598,362,547.24	306,885,302.53
2. Post-employment benefits		123,568,217.57	123,568,217.57	
3. Termination benefits		166,564.62	166,564.62	
4. Other long-term employee benefits within one year				
<b>Total</b>	<b>543,294,439.81</b>	<b>1,485,688,192.15</b>	<b>1,722,097,329.43</b>	<b>306,885,302.53</b>

**6.22.2 Disclosure by classification of short-term employee benefits**

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
1. Wages, salaries and subsidies	493,926,676.47	1,192,952,869.39	1,438,741,672.97	248,137,872.89
2. Employee welfare		9,856,327.78	9,856,327.78	
3. Social insurance:		53,572,526.77	53,572,526.77	
Including: Medical insurance		47,210,468.77	47,210,468.77	
Employment injury insurance		1,846,975.93	1,846,975.93	
Maternity insurance		4,515,082.07	4,515,082.07	
4. Housing provident fund	2,544.00	51,370,139.48	51,372,683.48	



Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
5. Labour union fee and employee education fee	17,202,010.55	35,976,546.54	12,656,127.45	40,522,429.64
6. Short-term paid absences	32,163,208.79	18,225,000.00	32,163,208.79	18,225,000.00
7. Short-term profit-sharing plan				
Total	543,294,439.81	1,361,953,409.96	1,598,362,547.24	306,885,302.53

### 6.22.3 Disclosure by defined contribution plan

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
1. Basic pension		77,021,111.43	77,021,111.43	
2. Unemployment insurance		3,080,512.66	3,080,512.66	
3. Annuity payment		43,466,593.48	43,466,593.48	
Total		123,568,217.57	123,568,217.57	

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

### 6.23 Taxes and fees payable

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
VAT	1,686,737.56	1,550,891.34
Urban construction and maintenance tax	284,039.12	203,034.68
Education surcharge	121,731.06	144,777.29
Enterprise income tax	40,234,428.40	108,855,883.31
Property tax	188,184.37	207,271.63
Land tax	250,754.28	284,502.66
Personal income tax	8,775,124.18	8,016,428.72
Stamp duty	2,004,492.76	1,754,447.96
Civil aviation development fund	133,484,301.80	131,301,180.63



Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Others	488,164.47	398,840.65
Total	187,517,958.00	252,717,258.87

**6.24 Other payables**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Interest payable	11,991,004.44	10,428,894.80
Dividend payable	80,602,306.96	602,306.96
Other payables	633,142,897.44	624,468,268.37
Total	725,736,208.84	635,499,470.13

**6.24.1 Interest payable**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Interest on long-term borrowings with repayment by installments	5,987,240.47	6,875,927.06
Accrued interest on short-term borrowings	6,003,763.97	3,552,967.74
Total	11,991,004.44	10,428,894.80

**6.24.2 Dividend payable**

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Dividend on common shares	80,602,306.96	602,306.96
Total	80,602,306.96	602,306.96

**6.24.3 Other payables**

## 6.24.3.1 Disclosure by nature

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Payable for construction projects	237,369,058.63	241,249,024.10
Payable for down payments	141,960,472.78	133,300,822.32
Payables associated with aircraft purchase	3,949,505.02	3,949,505.02
Taxes deducted at source	103,925,265.15	102,180,386.82
Others	145,938,595.86	143,788,530.11
Total	633,142,897.44	624,468,268.37



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

#### 6.25 Non-current liabilities due within one year

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Long-term borrowings due within one year (Note 6.26)	890,069,479.49	116,076,320.00
Long-term payables due within one year (Note 6.27)	288,305,564.69	330,554,355.34
Long-term employee benefits payable due within one year (Note 6.28)	9,624,747.84	9,210,000.00
<b>Total</b>	<b>1,187,999,792.02</b>	<b>455,840,675.34</b>

#### 6.26 Long-term borrowings

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Secured loans	867,261,920.99	982,509,309.37
Credit loans	939,597,415.20	1,019,123,568.46
Less: Long-term borrowings due within one year (Note 6.25)	890,069,479.49	116,076,320.00
<b>Total</b>	<b>916,789,856.70</b>	<b>1,885,556,557.83</b>

Note: ① Class and amount of mortgage assets see Note 6.53 assets with imposed restriction on ownership.

② Interest rates as at June 30 2019 of the above-mentioned long-term borrowings range from 3.30%-4.41%.

#### 6.27 Long-term payables

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Long-term payables	4,756,048,059.26	4,368,213,445.33
Specific payable		
<b>Total</b>	<b>4,756,048,059.26</b>	<b>4,368,213,445.33</b>

#### 6.27.1 Long-term payables by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Financial lease rental payables	1,696,813,582.98	1,872,324,694.55
Maintenance payables for aircrafts and engines held under operating lease	3,927,627,722.70	3,380,184,220.23
Less: Financial lease rental payables due within one year (Note 6.25)	288,305,564.69	330,554,355.34
Less: Maintenance payables for aircrafts and engines held under	580,087,681.73	553,741,114.11





Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
operating lease due within one year (Note 1)		
Total	4,756,048,059.26	4,368,213,445.33

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

## 6.28 Long-term employee benefits payable

### 6.28.1 General information

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Post-employment benefits-net defined benefit liability	141,919,413.77	144,434,119.11
Less: long-term staff remuneration payable due within one year (Note 6.25)	9,624,747.84	9,210,000.00
Total	132,294,665.93	135,224,119.11

### 6.28.2 Movements

#### 6.28.2.1 Defined benefit obligation

Category	Current period	Prior period
(1) Net Defined Benefit Asset/(Liability) at End of Prior Period	144,434,119.11	119,031,000.00
(2) Defined benefit costs recognized into current profit or loss	2,300,000.00	1,584,500.00
1. Current Service Cost		
2. Past Service Cost		
3. Settlement (Gain)/Loss		
4. Net Interest/(Income) on Net Defined Benefit Liability/(Asset)	2,300,000.00	1,584,500.00
(3) Defined benefit costs recognized into other comprehensive income		
1. Actuarial gains/(losses)		
(4) Other movements	4,814,705.34	4,160,850.58
1. Settlement payment		
2. Benefits Paid Directly by Employer	4,814,705.34	4,160,850.58
(5) Net defined benefit asset/(liability) at end of current period	141,919,413.77	116,454,649.42

#### 6.28.2.2 Actuarial Assumptions

Category	2019-06-30	2018-12-31
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Category	2019-06-30	2018-12-31
Discount Rate	3.25%	3.25%
Mortality Rate	China Life Insurance Mortality Rate 2010-2013 (Annuity)	
Cost of Living Adjustments for Retired Cadres and Retirees	0.00%	
Cost of Living Adjustments for Internal Retirees	0.00%	
Cost of Living Adjustments for Dependants	0.00%	

**6.29 Deferred income**

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019	Causes
Unrealized gains and losses of operating lease from aircraft leaseback	93,389,396.81	599,193.98	1,949,191.95	92,039,398.84	The aircraft sale-leaseback disposal profits and losses
Designated subsidy for snow disaster	491,458.34		249,750.00	241,708.34	Asset related subsidies
Designated subsidy for civil aviation energy-saving program	10,876,065.40		488,250.06	10,387,815.34	Asset related subsidies
Designated subsidy for HUD and repackage project	13,522,947.61		842,820.96	12,680,126.65	Asset related subsidies
Total	118,279,868.16	599,193.98	3,530,012.97	115,349,049.17	

## Details of government grants:

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease				Closing balance as of 30/06/2019	Asset /Income Related
			Non-operating income	Other income and gain	Reduce cost	Other decrease		
Designated subsidy for snow disaster	491,458.34			249,750.00			241,708.34	Asset related subsidies
Designated	10,876,065.40			488,250.06			10,387,815.34	Asset



Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease				Closing balance as of 30/06/2019	Asset /Income Related
			Non-operating income	Other income and gain	Reduce cost	Other decrease		
subsidy for civil aviation energy-saving program								related subsidies
Designated subsidy for HUD and repackaging project	13,522,947.61			842,820.96			12,680,126.65	Asset related subsidies
Total	24,890,471.35			1,580,821.02			23,309,650.33	

## 6.30 Share capital

Category	Opening balance as of 01/01/2019		Currency period movement (+, -)					Closing balance as of 30/06/2019	
	Amount	%	Share issue	Bonus issue	Conversion from reserves	Others	Subtotal	Amount	%
1. Shares with restriction on disposal									
1.1 State-held shares									
1.2 Shares held by state-owned entities	259,801,000.00	64.95						259,801,000.00	64.95
1.3 Shares held by other domestic investors	199,000.00	0.05						199,000.00	0.05
Including: Held by institutional	199,000.00	0.05						199,000.00	0.05



Category	Opening balance as of 01/01/2019		Currency period movement (+, -)					Closing balance as of 30/06/2019	
	Amount	%	Share issue	Bonus issue	Conversion from reserves	Others	Subt otal	Amount	%
investors									
Held by non-institutional investors									
1.4 Shares held by foreign investors									
Including: Held by institutional investors									
Held by non-institutional investors									
Subtotal of shares with restriction on disposal	260,000,000.00	65.00						260,000,000.00	65.00
2. Floating shares									
2.1 Ordinary shares issued in CNY									
2.2 Shares issued in domestic stock market in foreign currency	140,000,000.00	35.00						140,000,000.00	35.00
2.3 Shares issued in foreign market in foreign currency									
2.4 Others									
Subtotal of floating shares	140,000,000.00	35.00						140,000,000.00	35.00
Total	400,000,000.00	100.00						400,000,000.00	100.00

**6.31 Capital reserves**

Category	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
Share premium	67,618,282.54			67,618,282.54
Other capital reserves	7,792,081.16			7,792,081.16
Total	75,410,363.70			75,410,363.70

**6.32 Other comprehensive income**

Category	Closing balance as of 31/12/2018	Opening balance as of 01/01/2019	Total amount in current period					Closing balance as of 30/06/2019
			Amount for the period before tax	Less: previously recognized in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
1. Other comprehensive income will be reclassified into income or loss in the future	-17,567,660.07	508,786,810.75	-52,517,376.32		-13,129,344.08	-39,388,032.24	469,398,778.51	
Including: remeasurement of net assets or net liabilities of defined benefit plans	-17,567,660.07	-17,567,660.07					-17,567,660.07	
Changes in fair value of other equity instruments investment		526,354,470.82	-52,517,376.32		-13,129,344.08	-39,388,032.24	486,966,438.58	
2. Other comprehensive income reclassifiable to profit or loss in subsequent periods	166,868,149.01							
Gains and losses from changes in fair value of financial assets available for sale	166,868,149.01							



Category	Closing balance as of 31/12/2018	Opening balance as of 01/01/2019	Total amount in current period				Closing balance as of 30/06/2019
			Amount for the period before tax	Less: previously recognized in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	
Total of other comprehensive income	149,300,488.94	508,786,810.75	-52,517,376.32		-13,129,344.08	-39,388,032.24	469,398,778.51

### 6.33 Surplus reserves

Category	Closing balance as of 31/12/2018	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019
Statutory surplus reserve	503,999,977.58	503,999,977.58			503,999,977.58
Total	503,999,977.58	503,999,977.58			503,999,977.58

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

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

### 6.34 Retained earnings

Category	Current period	Prior period
Pre-adjustment balance brought forward	3,342,615,148.06	3,127,778,550.76
Total adjustment to retained earnings b/f (+, -)		
Retained earnings b/f after adjustment	3,342,615,148.06	3,127,778,550.76
Add: Net profit attributable to shareholders of the parent	-27,364,005.41	347,379,314.89
Less: Appropriation to statutory surplus reserve		32,542,717.59
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared	80,000,000.00	100,000,000.00
Bonus issue		



Category	Current period	Prior period
Closing balance as of 30/6/2019	3,235,251,142.65	3,342,615,148.06

**6.35 Operating revenues and costs**

Category	Current period		Prior period	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	8,662,501,912.54	8,393,542,113.46	8,458,681,796.83	8,019,627,238.03
Other business	326,566,488.18	1,702,972.58	270,596,767.82	1,392,891.19
Total	8,989,068,400.72	8,395,245,086.04	8,729,278,564.65	8,021,020,129.22

**6.36 Tax and surcharges**

Category	Current period	Prior period
Urban maintenance and construction tax	1,660,551.31	1,667,845.17
Education surcharge and others	6,112,351.86	5,354,577.57
Total	7,772,903.17	7,022,422.74

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

**6.37 Sales expenses**

Category	Current period	Prior period
Agency fees	108,172,942.32	126,855,350.48
Employment benefits	110,084,846.82	120,529,476.85
Computer booking	90,439,234.30	77,540,018.08
Online payment	18,500,546.84	18,331,136.28
System and network	13,504,168.24	6,797,220.84
Lease rental	11,132,987.19	8,031,295.30
Advertisement fees	10,721,524.81	8,602,671.37
Travel expenses	3,393,070.01	2,273,329.64
BSP data processing	5,891,147.19	4,734,359.24
Administrative office expenses	1,402,463.77	2,042,889.71
Depreciation	719,021.50	730,459.96
Sales expense of annual tickets	269,133.07	778,232.75



Category	Current period	Prior period
Others	14,335,291.83	16,281,095.89
Total	388,566,377.89	393,527,536.39

**6.38 General and administrative expenses**

Category	Current period	Prior period
Employment benefits	113,804,877.27	111,343,130.41
Lease rental	12,190,868.44	8,596,970.11
Outsourcing fee	14,929,468.74	6,840,371.69
Depreciation	9,978,743.53	7,873,115.99
Water, electricity charges	6,131,159.05	6,359,946.07
Amortization of intangibles	4,470,180.77	4,078,005.18
Business entertainment costs	2,588,901.12	2,261,491.60
Administrative office expenses	5,271,841.62	4,189,367.23
Technology development costs	972,633.38	1,456,524.25
Others	49,012,374.24	48,567,259.67
Total	219,351,048.16	201,566,182.20

**6.39 Research and development costs**

Category	Current period	Prior period
Employment benefits	8,960,946.50	2,127,502.63
Total	8,960,946.50	2,127,502.63

**6.40 Financial costs**

Category	Current period	Prior period
Interest expenses	70,674,180.26	52,548,207.24
Less: Interest income	5,907,298.18	4,577,884.98
Exchange difference	5,354,159.74	-3,892,927.19
Bank charges and others	765,685.74	882,070.14
Total	70,886,727.56	44,959,465.21

**6.41 Other income and gain**





Category	Current period	Prior period	Included in current period non-recurring profit and loss
Government subsidies	32,120,370.10	130,079,158.92	32,120,370.10
Including: Route subsidy	30,431,871.97	118,358,337.90	30,431,871.97
Designated subsidy for HUD and repackage project	842,820.96	842,820.96	842,820.96
Designated subsidy for civil aviation energy-saving program	488,250.06	488,250.06	488,250.06
Designated subsidy for snow disaster	249,750.00	249,750.00	249,750.00
Other government subsidy	107,677.11	10,140,000.00	107,677.11
Other projects related to daily activities	258,298.31	6,298,497.31	258,298.31
Including: Withholding fee refund	258,298.31	6,298,497.31	258,298.31
Total	32,378,668.41	136,377,656.23	32,378,668.41

**6.42 Investment income**

Category	Current period	Prior period
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss		-23,033.18
Income from holding of financial assets available for sale		17,208,111.50
Income from holding of financial assets at fair value through profit or loss	213,867.45	
Income from holding of other equity instrument investments	5,861,939.50	
Total	6,075,806.95	17,185,078.32

**6.43 Gain from changes in fair value**

Source	Current period	Prior period
Interest rate swaps	-1,081,477.27	3,510,568.94
Total	-1,081,477.27	3,510,568.94

**6.44 Expected credit loss**

Category	Current period	Prior period



Category	Current period	Prior period
Bad debt allowance for accounts receivable	-421,196.30	
Bad debt allowance for other receivables	-331,618.73	
Total	-752,815.03	

**6.45 Loss on asset impairment**

Category	Current period	Prior period
Allowance for bad debt		-4,271,098.28
Total		-4,271,098.28

**6.46 Gain on disposal of non-current assets**

Category	Current period	Prior period	Included in current period non-recurring profit and loss
Disposal of fixed assets	32,155.55	26,470,970.71	32,155.55
Total	32,155.55	26,470,970.71	32,155.55

**6.47 Non-operating income**

Category	Current period	Prior period	Included in current period non-recurring profit and loss
Transferred income from pilot	13,443,396.23	13,679,245.28	13,443,396.23
Others	8,142,307.63	9,911,366.08	8,142,307.63
Total	21,585,703.86	23,590,611.36	21,585,703.86

**6.48 Non-operating expenses**

Category	Current period	Prior period	Included in current period non-recurring profit and loss
Loss on non-current asset disposals	1,322,013.76	531,113.22	1,322,013.76
Others	196,501.72	290,986.40	196,501.72
Total	1,518,515.48	822,099.62	1,518,515.48

**6.49 Income tax expenses****6.49.1 Income tax expenses**

Category	Current period	Prior period
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Category	Current period	Prior period
Current income tax expense	102,193,273.66	164,428,600.55
Deferred tax expense	-119,824,429.86	-107,062,291.28
Total	-17,631,156.20	57,366,309.27

**6.49.2 Reconciliation of account profit and income tax expenses**

Category	Current period
Profit before tax	-44,995,161.61
Income tax computed in accordance with the applicable tax rate	-11,248,790.40
Impact of income tax in the previous period	-5,669,018.64
Impact of non-taxable income	-1,465,484.87
Impact of non-deductible costs, expenses and losses	537,004.36
Impact of the deductible loss of deferred income tax assets not recognized in the previous period	215,133.35
Income tax expenses	-17,631,156.20

**6.50 Other comprehensive income**

Please see Note 6.32 for detail.

**6.51 Notes to the consolidated statement of cash flows****6.51.1 Other cash receipts relating to operating activities**

Category	Current period	Prior period
Government grants	30,531,871.97	128,498,337.90
Refund of withholding tax payment	258,298.31	6,298,497.31
Interest income on bank deposit	5,907,298.18	4,577,884.98
Cash receipts from non-operating income	21,438,805.97	23,590,611.36
Cash receipts from operating balance	53,970,652.83	157,152,067.68
Total	112,106,927.26	320,117,399.23

**6.51.2 Other cash payments relating to operating activities**

Category	Current period	Prior period
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Bank charges	765,685.74	882,070.14
Cash payments for non-operating expenses	196,501.72	290,986.40
Cash payments for operating balance	58,258,275.51	44,365,617.32
Cash payments for sales and general and administrative expenses	32,829,646.51	27,849,037.57
Total	92,050,109.48	73,387,711.43

**6.51.3 Other cash receipts relating to investing activities**

Category	Current period	Prior period
Cash receipts of settlement of interest rate swaps	213,867.45	
Total	213,867.45	

**6.51.4 Other cash payments relating to investing activities**

Category	Current period	Prior period
Cash payments of settlement of interest rate swaps		23,033.18
Total		23,033.18

**6.51.5 Other cash receipts relating to financing activities**

Category	Current period	Prior period
Cash receipts for aircraft transfer of sale and leaseback deals	485,947,232.59	424,203,461.76
Total	485,947,232.59	424,203,461.76

**6.51.6 Other cash payments relating to financing activities**

Category	Current period	Prior period
Cash payments for aircraft financial lease rental	207,230,938.23	112,793,486.52
Total	207,230,938.23	112,793,486.52

**6.52 Supplementary information to the consolidated statement of cash flows****6.52.1 Supplementary information to the statement of cash flows**



Category	Current period	Prior period
<b>① Reconciliation of cash flows from operating activities to net profit:</b>		
<b>Net profit</b>	-27,364,005.41	203,730,704.65
Add: Loss on asset impairment	752,815.03	4,271,098.28
Depreciation of fixed assets, oil and gas assets, biological assets held for production	452,151,368.95	399,553,160.85
Amortization of intangible assets	4,470,180.77	4,078,005.18
Amortization of Long-term deferred expenditure	46,229,621.19	45,884,088.41
Loss on non-current assets disposal (gain presented by "-" prefix)	-32,155.55	-26,470,970.71
Loss on scrap of fixed assets (gain presented by "-" prefix)	1,322,013.76	531,113.22
Loss on fair value changes (gain presented by "-" prefix)	1,081,477.27	-3,510,568.94
Financial costs (gain presented by "-" prefix)	82,422,633.27	44,313,606.32
Investment loss (gain presented by "-" prefix)	-6,075,806.95	-17,185,078.32
Decrease of deferred tax assets (increase presented by "-" prefix)	-146,933,398.61	-106,997,087.36
Increase of deferred tax liabilities (increase presented by "-" prefix)	27,108,968.75	-65,203.92
Decrease of inventories (increase presented by "-" prefix)	3,827,321.72	1,955,226.92
Decrease of operating receivables (increase presented by "-" prefix)	-67,153,349.11	18,269,625.14
Increase of operating payables (decrease presented by "-" prefix)	177,083,675.94	294,701,293.74
Others	-4,814,705.34	-4,160,850.58
<b>Net cash flows generated from operating activities</b>	<b>544,076,655.68</b>	<b>858,898,162.88</b>
<b>② Significant investing and financing activities involve no cash:</b>		
Debt-to-capital conversion		
Convertible loan due within one year		
Fixed assets acquired under financial lease		
<b>③ Movement of cash and cash equivalents:</b>		
Cash as at 30/6/2019	304,093,125.42	671,936,931.05
Less: Cash as at 31/12/2018	840,860,104.09	543,584,920.30



Category	Current period	Prior period
Add: Cash equivalents as at 30/6/2019		
Less: Cash equivalents as at 31/12/2018		
Net increase of cash and cash equivalents	-536,766,978.67	128,352,010.75

#### 6.52.2 Composition of cash and cash equivalents

Category	Closing balance as of 30/06/2019	Opening balance as of 01/01/2019
<b>①Cash</b>	304,093,125.42	840,860,104.09
Including: Cash at hand	292,210.71	291,347.27
Demand bank deposit	303,800,914.71	840,568,756.82
Demand other monetary funds		
Demand deposit in the Central Bank		
Deposit in peer firms		
Loan to peer firms		
<b>②Cash equivalents</b>		
Including: Debt instrument matured within three months		
<b>③Cash and cash equivalents as at 30/6/2019</b>	304,093,125.42	840,860,104.09
Including: restricted cash and cash equivalents in parent company or subsidiary		

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

#### 6.53 Assets with imposed restriction on ownership

Category	Closing balance as of 30/06/2019	Reason of restriction
Assets pledged as security	1,565,789,674.81	
Aircrafts and engines	1,565,689,674.81	Pledge as security for borrowings
Bank deposit	100,000.00	Guarantee deposit
Other form of restriction:	2,214,764,143.05	
Aircrafts and engines	2,214,764,143.05	Assets acquired under financial lease
Total	3,780,553,817.86	

#### 6.54 Foreign currency monetary items



Item	Original amount as at 30/06/2019	Foreign exchange rate	Translated amount as at 30/6/2019
Monetary funds			
Including: -USD	9,544,050.31	6.8747	65,612,482.67
-CAD	10.00	5.2490	52.49
-Hwan	356,182,029.00	0.0059	2,101,473.97
-TWD	14,036,004.00	0.2220	3,115,992.89
-JPY	6,177,291.00	0.0638	394,111.17
-THB	396,028.10	0.2234	88,472.68
-EUR	5,042.00	7.8170	39,413.31
Other receivables			
Including: -USD	15,808,960.17	6.8747	108,681,858.48
Accounts payable			
Including: -USD	14,924,315.50	6.8747	102,600,191.77
-GBP	7,885.33	7.8170	61,639.62
-JPY	2,618,255.00	0.0638	167,044.67
Other payables			
Including: -USD	11,138.56	6.8747	76,574.26
Non-current liabilities due within one year			
Including: -USD	113,884,087.69	6.8747	782,918,937.64
Long-term borrowings			
Including: -USD	81,776,638.50	6.8747	562,189,856.70



Item	Original amount as at 30/06/2019	Foreign exchange rate	Translated amount as at 30/6/2019
Long-term payables			
Including: -USD	45,734,976.54	6.8747	314,414,243.22

## 6.55 Government grants

### 6.55.1 Basic information on government grants initially recognized this period

Category	Amount	Presentation	Amount in current profit and loss
Airline grants	30,431,871.97	Other income and gain	30,431,871.97
Other government grants	107,677.11	Other income and gain	107,677.11
Total	30,539,549.08		30,539,549.08

### 6.55.2 The company did not returned government subsidies this period.

## Note 7: Change of scope of consolidation

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

## Note 8: The equity in other main entities

### 8.1 The equity in subsidiaries

#### 8.1.1 The construction of the group

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





Co., Ltd. (hereinafter referred to as "Qingdao Food")	Shandong	Shandong	food processing			combination not under common control
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## 8.2 The equity in joint ventures and associates

### 8.2.1 Significant joint ventures and associates

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

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

Category	Closing balance as of 30/06/2019 / current period	Closing balance as of 30/12/2018 / prior period
Current assets	1,803,040.67	1,803,040.67
Non-current assets	20,620.72	23,120.72
Total assets	1,823,661.39	1,826,161.39
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	-165,942,151.94	-165,939,651.94
Pro rata share of the net assets calculated		
Adjusting events		
- Goodwill		
-Unrealized profits from internal transaction		
-Others		
Book value of equity investments in associates		
Fair value of publicly quoted equity investments in associates		



Category	Closing balance as of 30/06/2019 / current period	Closing balance as of 30/12/2018 / prior period
Operating income		
Net profit	-2,500.00	-1,503.88
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividends received from associates during the year		

### 8.2.3 Excess loss occurred by joint ventures and associates

joint ventures and associates	Cumulative unrecognized losses of prior year	Unrecognized losses of current period (Share of net profit of current period)	Cumulative unrecognized losses of current period
Shandong Rainbow Commercial Jet Co., Ltd.	-74,672,803.39	-1,125.00	-74,673,928.39

## Note 9 The risk associated with financial instruments

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

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

### 9.1 The targets and policies of risks management

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

**9.1.1 Market Risk****(1) Foreign exchange risk**

Foreign exchange risk refers to the risk of loss due to exchange rate fluctuations. The company bears the foreign exchange risk primarily concerned with USD, and uses USD settlement in main financing transactions, operating leases, and financing leasing. On June 30 2019, except the following assets or liabilities in Note 6.54 are recorded in foreign currency, the others are recorded in CNY. Foreign exchange risk of the assets and liabilities in foreign currencies may have an impact on the Company's performance of operation.

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

The risk of changes in cash flows of a financial instrument due to interest rate is mainly concerned with the floating rate of bank borrowings (see Note 6.18, 6.25, 6.26, 6.27). The company's policy is to maintain a floating interest rate on the borrowings.

**(3) Other price risk**

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

**9.1.2. Credit Risk**

As of June 30 2019, the maximum risk that could cause the Company's financial losses mainly comes from default of the other party of the contract, which includes:

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

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

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

**9.1.3 Liquidity risk**

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

**Note 10 Disclosure of the fair value****10.1 The fair value at the end of current period of assets and liabilities which are measured by fair value**

Category	The fair value as of 30/06/2019
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	The 1 <sup>st</sup> level measured by fair value	The 2 <sup>nd</sup> level measured by fair value	The 3 <sup>rd</sup> level measured by fair value	Total
1. Continuous measurement by fair value				
1.1 Other equity instrument investments	176,663,489.03		560,977,195.75	737,640,684.78
<b>Total amount of assets continuous measurement by fair value</b>	176,663,489.03		560,977,195.75	737,640,684.78
2. Financial liabilities at fair value through profit or loss		990,989.10		990,989.10
2.1 Interest rate swaps		990,989.10		990,989.10
<b>Total amount of liabilities continuous measurement by fair value</b>		990,989.10		990,989.10

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

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

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

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

#### 10.4 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 11 Related parties and related party transaction

#### 11.1 Major parent companies



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

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

### 11.2 Subsidiaries

See Note 8.1 for subsidiaries.

### 11.3 Joint ventures and associates

See Note 8.2 for joint ventures and associates.

### 11.4 Other related parties

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



Other related parties	Relationship to the Company
Chengdu Fukai Aircraft Engineering Services Limited	Controlled by major investors
Beijing Aircraft Maintenance and Engineering Corporation	Controlled by major investors
Air China Cargo Co., Ltd.	Controlled by major investors
China Aviation Group Finance Co., Ltd.	Controlled by major investors
Shenzhen Airlines Co., Ltd.	Controlled by major investors
Dalian Airlines Co., Ltd.	Controlled by major investors
China International Airlines Inner Mongolia Co., Ltd.	Controlled by major investors
Kunming Airlines Ltd	Controlled by major investors
Sichuan international aero engine maintenance Co., Ltd.	jointly operated by major investors
SkyWorks Capital Asia Ltd.	jointly operated by major investors
Shanghai Pudong International Airport West Public Cargo Terminal Co., Ltd.	jointly operated by major investors
Ji'an Beijing Aviation Asset Management Co., Ltd.	jointly operated by major investors
Shanghai International Airport Ground Service Co., Ltd.	jointly operated by major investors
Shandong Airlines Rainbow Auto Service Co., Ltd.	Controlled by major investors
Chongqing Golden Phoenix Aviation Service Co., Ltd.	Controlled by major investors
Shenzhen Airport Catering Company Limited	Controlled by major investors

## 11.5 Related party transactions

### 11.5.1 Purchase of goods and services

Related party	Transaction	Current period	Prior period
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	87,204,401.98	23,790,721.47
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials	90,670.21	132,352.80
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	7,918,216.40	8,861,602.53
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	958,601.38	948,497.85
Chengdu Fukai Aircraft Engineering Services Limited	Repairment	3,226,680.49	3,191,715.93
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	2,795,638.44	6,609,748.39



Related party	Transaction	Current period	Prior period
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	84,319,157.89	63,241,646.33
Taikoo (Shandong) Aircraft Engineering Company Limited	Measurement fee for measuring instruments		119,155.29
Shandong XiangYu Air Technology Co., Ltd.	Repairment	40,603,685.76	26,495,726.50
Shandong XiangYu Air Technology Co., Ltd.	Purchase / lease of aircraft materials	85,831.54	16,035.36
SDA Group	Office lease rental and catering	21,387,861.95	15,563,685.19
SDA Group	Irregular flight	16,480.00	32,740.00
SDA Group	Group fee	4,335,054.65	6,850,000.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Vehicle rental fee and maintenance fee	41,140,535.12	37,473,015.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Group fee	1,488,340.00	
Shandong Airlines Rainbow Auto Service Co., Ltd.	Irregular flight	340,640.00	311,460.00
Shenzhen Airlines Co., Ltd.	Agency service	677,857.68	1,569,683.70
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	71,015.05	
Shenzhen Airlines Co., Ltd.	Catering	889,287.46	778,267.42
Shenzhen Airlines Co., Ltd.	Irregular flight	133,800.00	
Shenzhen Airlines Co., Ltd.	Ground service		105,800.00
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	19,750.00	69,304,693.34
Air China	Ground service	7,640,745.45	7,704,204.49
Air China	Purchase / lease of aircraft materials	114,588.32	2,295,962.83
Air China	Agency service	344,641.04	15,013,495.74
Air China	Irregular flight and group fee	13,342,127.56	11,648,333.78
Air China Cargo Co., Ltd.	Ground service	1,292,788.25	3,693,595.62
Kunming Airlines Ltd	Agency service	4,096.70	7,349.43



Related party	Transaction	Current period	Prior period
Dalian Airlines Co., Ltd.	Irregular flight	144,240.00	
Shanghai International Airport Ground Service Co., Ltd.	Ground service	108,849.06	
Total		320,695,582.37	305,759,488.99

## 11.5.2 Sales of goods and rendering of services

Related party	Transaction	Current period	Prior period
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	706,594.15	89,192.04
Dalian Airlines Co., Ltd.	Ground service	396,256.38	492,068.00
Dalian Airlines Co., Ltd.	Non-routine maintenance/machinery service		19,060.73
Kunming Airlines Ltd	Ground service	56,600.00	37,500.00
Kunming Airlines Ltd	Locomotive service income	71,320.00	22,773.59
Kunming Airlines Ltd	Agency service	6,389.15	8,930.09
Shandong Air New Media Co., Ltd.	Media resource fee	6,099,996.00	5,640,000.00
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	154,216.00	127,361.16
Taikoo (Shandong) Aircraft Engineering Company Limited	Training fee	34,197.00	
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	283,444.97	136,343.25
Shenzhen Airlines Co., Ltd.	Agency service	597,123.55	683,627.58
Shenzhen Airlines Co., Ltd.	Ground service	30,900.00	84,900.00
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	17,669.00	
Shenzhen Airlines Co., Ltd.	Irregular flight expenditure	88.50	
Shenzhen Airlines Co., Ltd.	Freight income	26,611.25	44,696.19
Air China	Ground service	3,495,904.21	2,519,550.67
Air China	Simulator maintenance / House rental income	2,242,714.31	1,719,132.11
Air China	Sale /rent of aircraft materials	26,375.00	28,337.05
Air China	Irregular flight expenditure	9,103.54	





Related party	Transaction	Current period	Prior period
Air China	Agency service	111,207.26	1,428,144.75
Air China	Catering		39,379.30
Air China Cargo Co., Ltd.	Freight income		606,293.84
Air China Cargo Co., Ltd.	Warehouse rent income		2,641.51
Shandong Airlines Rainbow Auto Service Co., Ltd.	Storage income	179,481.05	
Shandong Airlines Rainbow Auto Service Co., Ltd.	Property fee income	13,754.72	
Beijing Airlines Co., Ltd.	Ground service	60,539.14	
China International Airlines Inner Mongolia Co., Ltd.	Ground service	7,116.00	
Total		14,627,601.18	13,729,931.86

## 11.5.3 Related Party borrowing funds demolition

Related Party	Borrowing money	Beginning date	Due date	Description
Borrowing:				
China Aviation Group Finance Co., Ltd.	296,000,000.00	2016-6-20	2026-6-20	Balance as at 30/06/2019 CNY 207,200,000.00

## 11.5.4 Remuneration to key management personnel

Category	Current period	Prior period
Key management personnel compensation	CNY 6.2940 million	CNY 6.7757 million

## 11.5.5 Other related party transactions

Related party	Transaction	Current period	Prior period
Air China	Code sharing		2,548,476.84
Air China	Frequent flyer cooperation	16,000,000.00	50,000,000.00
Air China Cargo Co., Ltd.	Code sharing for cargo	1,914,426.62	2,968,207.05
Total		17,914,426.62	55,516,683.89

## 11.6 Related party balances

## 11.6.1 Receivables



Related party	Closing balance as of 30/06/2019		Closing balance as of 31/12/2018	
	Carrying amount	Allowance for bad debt	Carrying amount	Allowance for bad debt
Accounts receivable				
Air China	11,914,565.55		8,564,966.57	
Air China Cargo Co., Ltd.			907,509.39	
Dalian Airlines Co., Ltd.			87,473.50	
Taikoo (Shandong) Aircraft Engineering Company Limited	32,550.00		8,400.00	
Total	11,947,115.55		9,568,349.46	
Other receivables				
Air China	5,513,385.30		6,033,885.98	
Shenzhen Airlines Co., Ltd.	100.00		50,787.34	
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.	328,796.17		50,712.31	
Taikoo (Shandong) Aircraft Engineering Company Limited	179,031.30		235,380.70	
Shandong Air New Media Co., Ltd.	17,845,676.45		11,745,680.45	
Beijing Aircraft Maintenance and Engineering Corporation	832,351.69		169,241.85	
Dalian Airlines Co., Ltd.	113,145.00		241,412.00	
Kunming Airlines Ltd	46,660.00		202,090.00	
Shandong Airlines Rainbow Auto Service Co., Ltd.	95,122.11		14,040.50	
Total	126,505,985.67	101,551,717.65	120,294,948.78	101,551,717.65

## 11.6.2 Payables

Related party	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018



Related party	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	18,064,187.64	8,707,204.12
Taikoo (Shandong) Aircraft Engineering Company Limited	62,142,012.62	45,732,196.37
Air China	157,145,093.02	138,532,747.16
Air China Cargo Co., Ltd.	3,699,156.66	507,357.91
Beijing Golden Phoenix Human Resources Service Co., Ltd.	492,927.79	350,189.85
Shenzhen Airlines Co., Ltd.	519,194.30	686,733.52
Beijing Aircraft Maintenance and Engineering Corporation	43,330,065.79	25,913,065.74
Sichuan International Aero Engine Maintenance Co., Ltd.	4,237,163.40	7,343,500.43
Shandong Air New Media Co., Ltd.	7,665,497.44	5,567,055.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	6,627,145.00	4,602,800.00
Dalian Airlines Co., Ltd.	22,200.00	31,200.00
Chengdu Fukai Aircraft Engineering Services Limited	2,680,363.34	3,130,432.94
Shanghai International Airport Ground Service Co., Ltd.	20,460.00	34,557.70
Total	306,645,467.00	241,139,040.74
Other payables		
Air China		
SDA Group	6,883,965.37	1,648,781.43
Taikoo (Shandong) Aircraft Engineering Company Limited	484,291.74	484,291.74
Shandong Air New Media Co., Ltd.	9,191,912.89	7,094,412.89
Total	16,560,170.00	9,227,486.06

## Note 12 Commitments

### 12.1 Significant commitments

#### 12.1.1 Capital commitment

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Signed but not yet confirmed in the financial		



statements		
- Commitment to acquire non-current assets	7,161,207,637.70	8,514,239,377.41
- large outsourcing contracts		
- External investment commitments		
Total	7,161,207,637.70	8,514,239,377.41

#### 12.1.2 Operating lease

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

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Minimum lease rental for irrevocable operating lease contracts		
Within one year from the reporting date	2,929,369,048.28	2,940,809,183.76
Within two years from the reporting date	2,727,963,988.42	2,868,211,237.17
Within three years from the reporting date	2,531,618,658.26	2,616,077,071.91
Subsequent years	10,762,900,402.82	11,464,973,122.44
Total	18,951,852,097.78	19,890,070,615.28

#### 12.1.3 Other commitment

No other significant commitments of the Company need to be disclosed as of 30/06/2019.

#### Note 13 Post balance sheet date events

No post balance sheet date events of the Company need to be disclosed as of 30/06/2019.

#### Note 14 Comparative data

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

#### Note 15 Other significant events

##### 15.1 Pension Plan

No significant change of the annuity program occurred for current period, see note 6.22, 6.28.

#### Note 16 Notes to elements of the separate financial statements

##### 16.1 Notes receivable



## 16.1.1 Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Bank acceptance bill	11,600,000.00	
Commercial Acceptance Bill		
Subtotal	11,600,000.00	
Less: bad debt allowance		
Total	11,600,000.00	

As of 30/06/2019, there are no notes receivable have been pledged, no notes receivable have been endorsed or discounted and have not yet expired as of 30/06/2019, no defaulted notes receivable transferred to accounts receivable.

## 16.2 Accounts receivable

## 16.2.1 Disclosure by age

Age	Closing balance as of 30/06/2019
Within 1 year	438,939,690.66
1 to 2 years	13,292,116.90
2 to 3 years	550,936.59
3 to 4 years	233,707.19
4 to 5 years	8,138,874.25
Over 5 years	591,155.09
Subtotal	461,746,480.68
Less: allowance for bad debt	21,270,687.45
Total	440,475,793.23

## 16.2.2 Disclosure by category

Category	Closing balance as of 30/06/2019				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%		%	
Accounts receivable subject to individual impairment assessment	8,057,209.85	1.74	8,057,209.85	100.00	
Accounts receivable subject to group impairment assessment	453,689,270.83	98.26	13,213,477.60	2.91	440,475,793.23
Total	461,746,480.68	100.00	21,270,687.45	4.61	440,475,793.23



(Continued)

Category	Closing balance as of 31/12/2018				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	105,366,572.73	24.31			105,366,572.73
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	256,206,313.25	59.11	12,810,315.67	5.00	243,395,997.58
Accounts receivable of individual insignificance but subject to individual impairment assessment	71,865,377.55	16.58	8,057,209.85	11.21	63,808,167.70
Total	433,438,263.53	100.00	20,867,525.52	4.81	412,570,738.01

## 16.2.2.1 Accounts receivable subject to individual impairment assessment

Debtor	Closing balance as of 30/06/2019			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Debtor 1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
Total	8,057,209.85	8,057,209.85	100.00	

## 16.2.2.2 Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio

Category	Closing balance as of 30/06/2019		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Settlement center receivables	63,402,786.48		
Aviation agreement receivables	112,310,498.33		
Related parties receivables	13,706,434.05		
Other receivables	264,269,551.97	13,213,477.60	5.00
Total	453,689,270.83	13,213,477.60	2.91

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

## 16.2.3 Allowance for bad debt



Category	Opening balance as of 01/01/2019	Current period movement			Closing balance as of 30/06/2019
		Recognition	Recovery or reversal	Used or written off	
Accounts receivable subject to individual impairment assessment	8,057,209.85				8,057,209.85
Accounts receivable subject to group impairment assessment	12,810,315.67	403,161.93			13,213,477.60
Total	20,867,525.52	403,161.93			21,270,687.45

#### 16.2.4 Top five accounts receivable by debtors

The total amount of top five accounts receivable summarized by debtors as at the end of current period is 227,380,706.33, accounting for 49.24% of the total accounts receivable as at the end of current period, the total corresponding allowance for bad debt is CNY 4,735,150.33.

#### 16.3 Other receivables

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Interest receivable		
Dividend receivable	5,861,939.50	
Other receivables	264,307,489.86	239,078,612.04
Total	270,169,429.36	239,078,612.04

##### 16.3.1 Dividend receivable

Project (or investee)	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Sichuan Airlines	2,352,700.00	
TravelSky Technology Limited	3,509,239.50	
Subtotal	5,861,939.50	
Less: bad debt allowance		
Total	5,861,939.50	

##### 16.3.2 Other receivable

###### 16.3.2.1 Other receivable

Disclosure by age

Age	Closing balance as of 30/06/2019
Within 1 year	189,685,472.56



Age	Closing balance as of 30/06/2019
1 to 2 years	41,133,479.15
2 to 3 years	4,633,549.64
3 to 4 years	5,686,142.80
4 to 5 years	1,893,524.44
Over 5 years	130,558,546.28
Subtotal	373,590,714.87
Less: allowance for bad debt	109,283,225.01
Total	264,307,489.86

## 16.3.2.2 Disclosure by category

Category	Closing balance as of 30/06/2019	Closing balance as of 31/12/2018
Deposits	78,339,708.42	82,454,112.14
Related parties	140,620,859.28	134,434,805.80
Others	154,630,147.17	131,163,565.23
Subtotal	373,590,714.87	348,052,483.17
Less: bad debt allowance	109,283,225.01	108,973,871.13
Total	264,307,489.86	239,078,612.04

## 16.3.2.3 Recognition of allowance for bad debt

	Stage 1	Stage 2	Stage 3	Total
Allowance for bad debt	Expected credit loss for the next 12 months	Expected credit loss for the whole duration(no credit impairment)	Expected credit loss for the whole duration(Credit impairment has occurred)	
Opening balance as of 1/1/2019		7,422,153.48	101,551,717.65	108,973,871.13
Carrying amount of other receivables in current period on 1/1/2019				
- Turn to stage 2				
- Turn to stage 3				





	Stage 1	Stage 2	Stage 3	
Allowance for bad debt	Expected credit loss for the next 12 months	Expected credit loss for the whole duration(no credit impairment)	Expected credit loss for the whole duration(Credit impairment has occurred)	Total
- Turn back to stage 2				
- Turn back to stage 1				
Recognition		309,353.88		
Reversal				
Used				
Written off				
Other movements				
Closing balance as of 30/6/2019		7,731,507.36	101,551,717.65	109,283,225.01

## 16.3.2.4 Allowance for bad debt

Category	Opening balance as of 01/01/2019	Current period movement			Closing balance as of 30/06/2019
		Recognition	Recovery or reversal	Used or written off	
Subject to individual impairment assessment	101,551,717.65				101,551,717.65
Subject to impairment assessment by credit risk characteristics of a portfolio	7,422,153.48	309,353.88			7,731,507.36
Total	108,973,871.13	309,353.88			109,283,225.01

There is no allowance for bad debt amount is reversed or recovered in this period.

## 16.3.2.5 Top five other receivables

Debtor	Nature	Closing balance as of 30/06/2019	Aging	%	Allowance for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	27.18	101,551,717.65



Debtor	Nature	Closing balance as of 30/06/2019	Aging	%	Allowance for bad debt
Debtor #1	Others	65,219,505.07	Within 4 years	17.46	3,260,975.25
Debtor #2	Deposits	64,132,796.01	Within 1 year	17.17	
Debtor #3	Others	25,885,715.72	Over 5 years	6.93	1,294,285.79
Shandong Air New Media Co., Ltd.	Others	17,845,676.45	Within 2 years	4.78	
Total		274,635,410.90		73.51	106,106,978.69

## 16.4 Long-term equity investments

### 16.4.1 Disclosure by category

Category	Closing balance as of 30/06/2019			Closing balance as of 31/12/2018		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Investments in subsidiaries	144,101,285.43		144,101,285.43	144,101,285.43		144,101,285.43
Investments in associates	22,500,000.00	22,500,000.00		22,500,000.00	22,500,000.00	
Total	166,601,285.43	22,500,000.00	144,101,285.43	166,601,285.43	22,500,000.00	144,101,285.43

### 16.4.2 Investments in subsidiaries

Investee	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019	Allowance recognized	Period-end allowance
Shandong aviation Logistics Ltd	48,323,205.97			48,323,205.97		
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd	57,677,479.46			57,677,479.46		
Shandong Jinping aviation food Co., Ltd.	30,310,200.00			30,310,200.00		
Shandong Airlines Qingdao	7,790,400.00			7,790,400.00		



Investee	Opening balance as of 01/01/2019	Current period increase	Current period decrease	Closing balance as of 30/06/2019	Allowance recognized	Period-end allowance
Food Co., Ltd.						
Total	144,101,285.43			144,101,285.43		

## 16.4.3 Investments in joint ventures and associates

Investee	Opening balance as of 01/01/2019	Impairment allowance	Current period movement (+, -)			
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment
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	Current period movement (+, -)			Closing balance as of 30/06/2019	Year-end allowance
	Declared cash dividends or profits	Allowance recognized	Others		
Associates					
Shandong Rainbow Commercial Jet Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

## 16.5 Operating revenues and costs

Category	Current period		Prior period	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	8,650,608,567.79	8,405,979,848.66	8,437,476,769.18	8,023,468,231.34
Other business	326,485,849.22	1,702,972.58	268,311,927.22	1,261,093.18



Category	Current period		Prior period	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Total	8,977,094,417.01	8,407,682,821.24	8,705,788,696.40	8,024,729,324.52

**16.6 Investment income**

Category	Current period	Prior period
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss		-23,033.18
Income from holding of financial assets available for sale		17,208,111.50
Income from holding of financial assets at fair value through profit or loss	213,867.45	
Income from holding of other equity instrument investments	5,861,939.50	
Total	6,075,806.95	17,185,078.32

**Note 17 Supplementary information****17.1 Non-recurring profit and loss**

Category	Current period	Description
Gains from disposals of non-current assets after expending impairment provisions	-1,289,858.21	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief		
Government grants recognized through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations	32,120,370.10	
Financial resource usage fees charged on non-financial institution recognized through profit or loss for the current reporting period		
Gains arising from bargain purchase in business combination and investments in associates and joint ventures		
Non-monetary asset exchange		
Consigned investment and asset management		
Impairment provision resulting from force majeure, eg. natural disasters		
Reorganization		



Category	Current period	Description
Reorganization expenditure		
Unfair transactions		
Net profits or losses achieved by an acquired under-common-control entity during the period from the start of the period to the acquisition date		
Gains or losses arising from contingent events unconnected with the Company's daily operating activities		
Fair value changes of tradable financial assets and tradable financial liabilities held and gains or losses arising from disposals of tradable financial assets, tradable financial liabilities and available-for-sale financial assets, excluding hedging contracts relevant to the Company's daily operating activities	-867,609.82	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment		
Gains or losses arising from consigned borrowings		
Fair value changes of property investments subsequently measured at fair value		
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations		
Consignment income arising from consigned operations		
Income and expenses other than items listed above	21,389,202.14	
Other gains or losses satisfying the definition of extraordinary gains or losses	258,298.31	
Subtotal	51,610,402.52	
Less: Impact of income tax	12,943,704.13	
Less: Impact on non-controlling interest		
Total	38,666,698.39	

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

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

#### 17.2 Rate of return on net assets and earnings per share

Types of Profit	Weighted average rate	Earnings per share (CNY/share)
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	of RONA	Basic EPS	Basic EPS
Net profit attributable to ordinary shareholders	-0.61%	-0.07	-0.07
Recurring profit or loss attributable to ordinary shareholders	-1.48%	-0.17	-0.17