

山东航空股份有限公司

2010 年年度报告

SHANDONG AIRLINES CO., LTD.

2010 ANNUAL REPORT

March / Year 2011

Jinan · P.R.C.

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Important Notes:

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

Deputy Chairman Mr. Ma Chonxian absents the Meeting for business and authorized Mr. Zhang Xingfu for voting; Director Mr. Wang Mingyuan absent the Meeting due to business and authorized Director Mr. Xu Guojian for voting; other directors attend the Meeting.

Reanda Certified Public Accountants issued the standard unqualified Auditors' Report for the Company.

Chairman of the Board Mr. Zhang Xingfu, General Manager Mr. Zeng Guoqiang, and Chief Accountant Mr. Xu Guojian of the Company hereby confirm that the Financial Report of the Annual Report is true and complete.

Paraphrases:

The Company: Shandong Airlines Co., Ltd.

SDA: Shandong Aviation Group; the first largest shareholder of the Company

Air China: Air China Limited, the second largest shareholder of the Company

I. Company Profile

(I) Legal Chinese Name of the Company: 山东航空股份有限公司

Legal English Name of the Company: SHANDONG AIRLINES CO., LTD.

(II) Legal Representative: Zhang Xingfu

(III) Secretary of Board of Directors of the Company: Dong Qiantang

Contact Address: 12/F, SDA Bldg., No. 5746, Er Huan East Road, Jinan, Shandong

Tel.: (86) 531-85698229

E-mail: dongqt@shandongair.com.cn

Authorized Securities Affairs Representative: Fan Peng

E-mail: fanp@shandongair.com.cn

Tel.: (86) 531-85698678

Fax: (86) 531-85698679

(IV) Registered Address: Yaoqiang International Airport, Jinan, Shandong

Office Address: SDA Bldg., No. 5746, Er Huan East Road, Jinan, Shandong

Post Code: 250014

Company's Website: <http://www.shandongair.com.cn>

E-mail: zqb@shandongair.com.cn

(V) Newspapers for Disclosing the Information Designated by the Company:

Domestic: China Securities Journal and Securities Times

Overseas: Hong Kong Commercial Daily

Internet Website for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Office of the Board of the Company (Room 1920, SDA Bldg.)

Liaison Tel: (86) 531-85698678

(VI) Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHANHANG B

Stock Code: 200152

(VII) Other Relevant Information of the Company

Initial registration date: Dec. 13, 1999

Registration date after change: Mar. 18, 2011

Registration address: Industrial and Commercial Administration Bureau of Shandong Province

Registered number for enterprise corporation business license: 370000400002351

Registered number for taxation: 370112720721201

Name and address of certified public accountants engaged by the Company:

Reanda Certified Public Accountants

Address: Room 2008 on 20/F, East District of No.1 Building, No.100, Xili Street, Balizhuang, Chaoyang District, Beijing

II. Summary of Financial Highlight and Business Highlight

(I) Main profit index of the Company as of the report year

Unit: RMB

Items	Amount
Operating profit(RMB)	823, 686, 010. 62
Total profit(RMB)	844, 544, 446. 68
Net profit attributable to the shareholders of the listed company (RMB)	634, 364, 547. 92
Net profit attributable to the shareholders of the listed company after deducting non-recurring losses/gains (RMB)	625, 449, 962. 16

Net cash flow arising from operating activities (RMB)	1, 675, 078, 629. 81
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(II) Items of deducting non-recurring gains and losses and the involved amounts are as following:

Unit: RMB

Items of non-recurring gains and losses	Amount
Net profit	634, 575, 287. 43
Add: (1) Gains and losses from the disposal of non-current asset, including the offsetting parts which was made accrual of provision for asset impairment	7, 700, 920. 17
(2) Governmental subsidy calculated into current gains and losses, while closely related with the business of the Company, excluding the fixed-amount or fixed-proportion governmental subsidy according to the unified national standard	-16, 013, 518. 70
(3) Losses/gains from changes of fair values occurred in holding transaction financial assets and transaction financial liabilities, and investment income obtaining from the disposal of transaction financial assets and transaction financial liabilities and financial assets available for sales, excluded effective hedging business relevant with normal operations of the Company	8, 872, 312. 71
(4) Other non-operating income and expenditure except for the aforementioned items	-12, 545, 837. 53
Subtotal	-11, 986, 123. 35
Less: Influenced number of income tax of non-recurring losses/gains	-3, 071, 587. 08
Net profit after deducting non-recurring gains and losses	625, 660, 751. 16
Less: Net profit deducted non-recurring losses/gains attributable to minority shareholder	210, 789
Net profit attributable to shareholder of listed company after deducting non-recurring losses/gains	625, 449, 962. 16

(III) Major accounting data and financial highlights over the previous three years as at the end of the report period

1. Main accounting data

Items	2010	2009	Increase/decrease in this year compared with that in last year (%)	2008
Operating income (RMB)	7, 292, 615, 957. 10	5, 366, 113, 363. 68	35. 90%	5, 049, 391, 116. 47
Total profit (RMB)	844, 544, 446. 68	403, 361, 305. 82	109. 38%	108, 260, 827. 56
Net profit attributable to shareholders of the listed company (RMB)	634, 364, 547. 92	302, 282, 325. 68	109. 86%	80, 981, 442. 68
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses (RMB)	625, 449, 962. 16	203, 597, 306. 19	207. 20%	92, 440, 296. 87
Net cash flow arising from operating activities (RMB)	1, 675, 078, 629. 81	1, 317, 347, 150. 42	27. 16%	1, 059, 833, 106. 56
Items	At the end of 2010	At the end of 2009	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2008
Total assets (RMB)	8, 923, 799, 368. 85	8, 096, 403, 730. 75	10. 22%	7, 844, 104, 901. 47

Owners' Equity attributable to shareholders of listed company (RMB)	1, 406, 659, 169. 90	852, 294, 621. 98	65. 04%	550, 012, 296. 30
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2. Main financial indexes

	2010	2009	Increase/decrease in this year compared with that in last year (%)	2008
Basic earnings per share (RMB/Share)	1. 59	0. 76	109. 86%	0. 20
Diluted earnings per share (RMB/Share)	1. 59	0. 76	109. 86%	0. 20
Basic earnings per share after deducting non-recurring gains and losses (RMB/Share)	1. 56	0. 51	207. 20%	0. 23
Weighted average return on equity (%)	56. 84%	43. 11%	Up13. 73 percentage points	15. 89%
Weighted average return on equity after deducting non-recurring gains and losses (%)	56. 04%	29. 04%	Up27. 00percentage points	18. 14%
Net cash flow arising from operating activities per share (RMB/Share)	4. 19	3. 29	27. 16%	2. 65
	At the end of 2010	At the end of 2009	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2008
Net asset per share attributable to shareholders of listed company (RMB/Share)	3. 52	2. 13	65. 04%	1. 38

(IV) The Company's return on equity and earnings per share as of the year 2010 as calculated based on weighted average method taking Requirements on the Information Disclosure of Companies Publicly Issuing Shares No. 9 as the reference

Profit in the report Period	Weighted average ROE		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	Amount in this period	Amount in same period of last report period	Amount in this period	Amount in same period of last report period	Amount in this period	Amount in same period of last report period
Net profit attributable to common shareholders	56.84%	43. 11%	1.59	0. 76	1.59	0. 76
Net profit attributable to common shareholders after deducting the non-recurring losses and gains	56.04%	29. 04%	1.56	0. 51	1.56	0. 51

III. Changes in Shares Capital and Particulars about the Shareholders

(I) Statement of changes in share

Unit: Share

	Before change	Increase/decrease in this time (+, -)	After change
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		Rati oned share	Bon us share	Conversio n of capital public reserve	Additi onal insura nce	Other s	Subto tal	
I. Unlisted shares	260,000,000							260,000,000
1. Sponsor's shares Including:	168,601,000							168,601,000
State-owned shares	168,402,000							168,402,000
Domestic legal person's shares	199,000							199,000
Foreign legal person's shares								
Others								
2. Raised legal person's shares								
3. Inner employees' shares								
4. Preference shares or other	91,399,000							91,399,000
Total unlisted shares	260,000,000							260,000,000
II. Listed shares	140,000,000							140,000,000
1. RMB ordinary shares								
2. Domestically listed foreign shares	140,000,000							140,000,000
3. Overseas listed foreign shares								
4. Other								
Total listed shares	140,000,000							140,000,000
III. Total shares	400,000,000							400,000,000

(II) Particulars about issuance and listing of shares

1. Issuance and listing of shares

The previous three year ended by the period-end, the Company did not issue shares and derivative securities for trading.

2. During the report period, there were no changes in the number and structure of the Company's shares due to bonus share, capital public reserve transferring into share capital, rationed share, additional issuance, share merger, convertible company's bonds transferring shares, disinvestments, listing of inner employees' shares or company's employee's shares, etc. There were no inner employees' shares in the Company.

(III) About Shareholders

1. Total shareholders as at the end of the report period

Up to Dec. 31, 2010, the Company had totally 17,748 shareholders, including 17,742 ones of domestically listed foreign shares. The top ten shareholders of the Company are as following:

Unit: Share

No.	Shareholders' name	Number of shares held at the year-end	Proportion (%)	Type	Number of shares pledged or frozen
1	SHANDONG AVIATION GROUP	168,004,000	42	State-owned legal person's share	Naught

2	AIR CHINA LIMITED	91,200,000	22.8	State-owned legal person's share	Naught
3	CHEN TIAN MING	1,976,072	0.49	Circulation share	Unknown
4	CHEN JING JIAN	1,352,200	0.34	Circulation share	Unknown
5	ZENG JUE HUI	1,110,330	0.28	Circulation share	Unknown
6	GUOTAIJUNAN SECURITIES(HONGKONG) LIMITED	952,000	0.24	Circulation share	Unknown
7	LIU LI YA	918,917	0.23	Circulation share	Unknown
8	BAO XIU ZHEN	879,950	0.22	Circulation share	Unknown
9	OU YAN PING	834,210	0.21	Circulation share	Unknown
10	YAO MING	824,000	0.21	Circulation share	Unknown

Note:

1. Shandong Aviation Group is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares.

2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares.

3. Among the above the top ten shareholders, Air China, shareholders of state-owned legal person's share, is the first largest shareholder of the SDA, and there exists no associated relationship between SDA and Air China and the other shareholders, and they don't belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders. The Company is not aware of their associated relationship among the other shareholders of circulation share, whether belongs to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.

2. The first largest shareholder of the Company

Name of the enterprise: Shandong Aviation Group

Place of SDA: No. 5746, Er Huan East Road, Lixia District, Jinan, Shandong

Legal representative: MA CHONG XIAN

Registered capital: RMB 580 million

Business scope: It was engaged in the domestic and overseas transportation business such as periodic and un-periodic aviation passenger, cargo, letter and baggage; domestic and overseas official flight business; airplane management business; repairing of aerostat; business agent among air companies; ground service and air courier services related with the main operations (excluding letter and articles with the nature of letters); tax-free commodities in airplane.

3. The second largest shareholder of the Company

Name of the enterprise: Air China Limited.

Address: 9F/Sky Mansion, No.28 Building Tianzhu Road, Block A of Tianzhu Airport Industrial Zone, Shunyi District, Beijing.

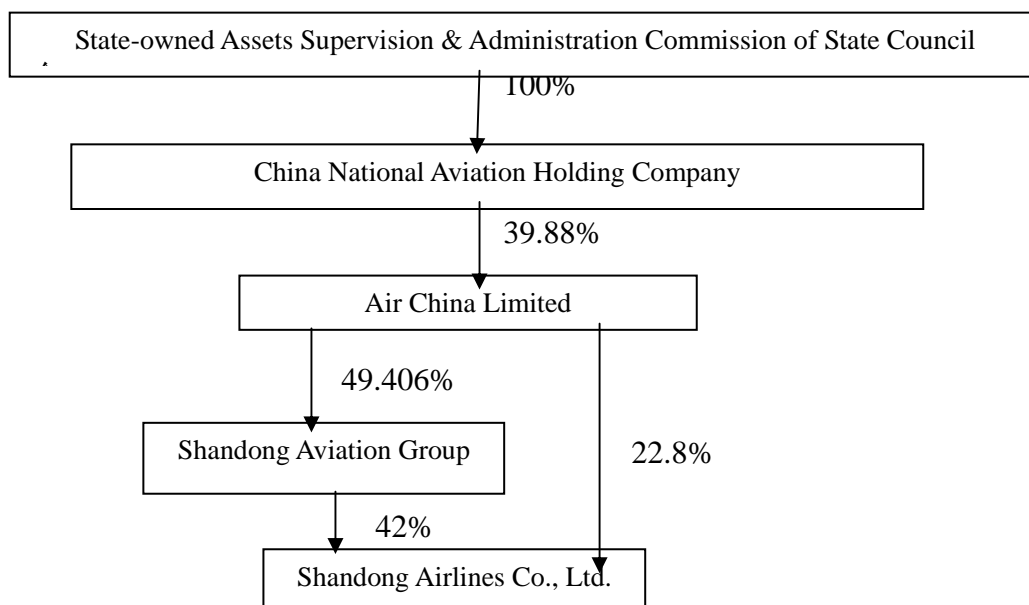
Legal Representative: KONG DONG

Registered capital: RMB12, 892 million

Business scope: It was engaged in the domestic and overseas transportation business such as periodic and un-periodic aviation passenger, cargo, letter and baggage; domestic and overseas official flight business; airplane management business; repairing of aerostat; business agent among

air companies; ground service and air courier services related with the main operations (excluding letter and articles with the nature of letters); tax-free commodities in airplane.

Main shareholders: China National Aviation Group Co., Ltd., which accounted for 39.88% in total shares; Cathay Pacific Airways Ltd., which accounted for 18.54% in total shares.



4. The Company has no shareholders holding over 10% of shares of the Company except for the first largest shareholder SDA and second largest shareholder Air China Limited.

5. Particulars about the top ten shareholders of circulation share

No.	Name of shareholders	Number of shares held at the year-end (share)	Type of shares held
1	CHEN TIAN MING	1,976,072	B-share
2	CHEN JING JIAN	1,352,200	B-share
3	ZENG JUE HUI	1,110,330	B-share
4	GUOTAIJUNAN SECURITIES(HONGKONG) LIMITED	952,000	B-share
5	LIU LI YA	918,917	B-share
6	BAO XIU ZHEN	879,950	B-share
7	OU YAN PING	834,210	B-share
8	YAO MING	824,000	B-share
9	YE QU FA	809,600	B-share
10	WU CHI LI	750,000	B-share

The Company is not aware of their associated relationship among the top ten shareholders of circulation share, and is unknown whether other circulation shareholders belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.

IV. Particulars about Directors, Supervisors, Senior Executives and Employees

(I) Directors, Supervisors and Senior Executives

Name	Sex	Date of birth	Title	Office term	Amounts at the year-begin	Amounts at the year-end
Zhang Xingfu	Male	Apr. 1955	Chairman	June 26, 2009 – June 25, 2012	0	0
Ma Chong	Male	June 1965	Vice Chairman	April 22,	0	0

Xian				2010—June 25, 2012		
Zeng Guoqiang	Male	Oct. 1953	Director, GM	June 26, 2009—June 25, 2012	0	0
Su Zhongmin	Male	March 1954	Director, Standing Deputy General Manager	June 26, 2009—June 25, 2012	0	0
Xu Guojian	Male	Nov. 1964	Director, Deputy General Manager, General Accountant	Jan.29,2010-June 25, 2012	0	0
Wang Mingyuan	Male	Sept. 1965	Director	June 26,2009-June 25, 2012	0	0
Kou Zunxian	Male	Aug. 1955	Director	June 26, 2009 – June 25, 2012	0	0
Wang Jieming	Female	June 1958	Director	June 26, 2009 – June 25, 2012	0	0
Wei Jincai	Male	Feb. 1950	Independent Director	June 26, 2009 – June 25, 2012	0	0
Li Chun	male	March 1957	Independent Director	June 26, 2009 – June 25, 2012	0	0
Qu Wenzhou	Male	June 1972	Independent Director	June 26, 2009 – June 25, 2012	0	0
Wang Fuzhu	Male	June 1953	Chairman of the Supervisory Committee	June 26, 2009 – June 25, 2012	0	0
Xue Ruitao	Male	March 1961	Supervisor	June 26, 2009 – June 25, 2012	0	0
Zhang Kai	Male	May 1965	Supervisor	June 26, 2009 – June 25, 2012	0	0
Miao Liubin	Male	Feb. 1971	Employee Supervisor, GM of Flight Department	June 26, 2009 – June 25, 2012	0	0
Zhou Qiaoyan	Female	Jan. 1975	Employee Supervisor, Deputy GM of Cabin Service Department	June 26, 2009 – June 25, 2012	0	0
Yu Haitian	Male	Sept. 1969	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Song Yuxia	Female	Jan. 1956	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Li Qing'en	Male	Aug. 1955	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Qiu Feng	Male	Jan. 1967	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Zhang Qingshe	Male	Oct. 1958	Chief Pilot	June 26, 2009 – June 25, 2012	0	0
Xiong Jianbo	Male	Jan. 1965	General Engineer	June 26, 2009 – June 25, 2012	0	0
Dong Qiantang	Male	Jan. 1962	Secretary of the Board	June 26, 2009 – June 25, 2012	0	0

Note: 1. there was no change in the number of shares held by directors, supervisors and senior

executives in the report period.

2. Particulars about directors, supervisors holding the post in Shareholding Company:

Name	Name of the Shareholding Company	Position in the Shareholding Company	Draw remuneration and allowance from the Shareholding Company (Yes or no)
Ma Chongxian	Air China	Member of Party Committee, vice President	Yes
	SDA	Chairman, President, Vice-Secretary of Party Committee	
Zhang Xingfu	SDA	Secretary of Party Committee, Vice-president	Yes
Wang Fuzhu	SDA	Chief Accountant	Yes
Xue Ruitao	SDA	General Manager of Financial Department	Yes
Wang Mingyuan	Air China	Director of Commerce Commission	Yes
Zhang Kai	Air China	Senior Management of Investment Enterprise Management of Assets Management Department	Yes

(II) Main work experiences in the near five years of the directors, supervisors and senior executives, as well as particulars of their full time or part time posts in other units other than the shareholding companies

Name	Main work experience	Full-time or part-time posts in other units other than the shareholding companies
Zhang Xingfu	01/2004-12/2005, Deputy Mayor in Yantai; 12/2005 till now, Party Secretary, Vice-president of SDA; 03/2006 till now, Chairman of the Board of the Company.	Chairman of Taikoo Shandong Aircraft Engineering Co., Ltd.
Ma Chongxian	09/2004-07/2006, Secretary of the Party Committee, Vice General Manager in China Airline Zhejiang Branch; 07/2006-06/2009, General Manager, Vice Secretary of the Party Committee in China Airline Zhejiang Branch; 06/2009-04/2010, General Manager, Vice Secretary of the Party Committee in China Airline Hubei Branch; 04/2010-now, Vice President of China International Airline Co., Ltd, Chairman, President and Vice Secretary of the Party Committee in Shangdong Airline Group; 04/2010-now, Vice Chairman of the Company	
Zeng Guoqiang	01/2004 till now, Director and General Manager of the Company.	
Su Zhongmin	01/2004 till now, Director and Standing Deputy General Manager of the Company.	Chairman of the Board of Qingdao International Logistics Centre Co., Ltd.
Xu Guojian	09/2002-10/2007, Administrative and Financial Director in Macau International Airport Management Limited; 10/2007-01/2010, General Manager of Financial Dividend in Air China Engineer Technology Branch; 01/2010-now, Vice General Manager and Chief Accountant of the Company; 04/2010-now, director, vice general manager and chief	

	accountant of the Company.	
Wang Mingyuan	01/2004-06/2005, Deputy General Manager of Sales & Marketing Department of Air China; 06/2005-07/2008, Commissary of Commerce Commission, General Manager of Network Proceedings Department of Air China ; 07/2008-02/2011, Director of Commerce Commission Air China; 03/2006, Director of the Company.	
Kou Zunxian	01/2004-03/2007, Director of Asset Management Department of Shandong Economic Development and Investment Company; 03/2007 till now, Deputy General Manager of Shandong Economic Development and Investment Company; 04/2005 till now, Director of the Company.	
Wang Jieming	01/2004 till now, Director of Planning Financial Department of Shandong Economic Development and Investment Company; 03/2006 till now, Director of the Company.	
Wei Jincai	01/2004-10/2008, Party Secretary of Civil Aviation Management Institute of China; 10/2008 till now, President of Civil Aviation Management Institute of China; 03/2006 till now, Independent Director of the Company.	Independent director of China Southern Airlines
Li Chun	Served as the president of Shenzhen Lawyers Association before; recently occupy as the deputy director of All China Lawyers Association Development & Strategy Committee; Chief Researcher of the China Law Research Center of Risk Investment; Executive president of Guohao Research Institution and Executive partner of Guohao Law Group. Serve as the independent director of the Company since June of 2009.	Independent director of Shenzhen Laibao Hi-Tech Co., Ltd.
Qu Wenzhou	Served as the manager of Investment Bank Department in Xiamen Jianfa Entrust Investment Co.,; Post doctorate of Tsinghua University and researcher of the bond products in work stop of Shenhzen Stock Exchange. Recently, serve as the deputy director of the Institution of Financial Management and Account of Xiamen University and deputy department head of Financial Department of Management College of Xiamen University. Serve as the independent director of the Company since June of 2009.	Independent director of Xiamen International Airport Co., Ltd., Susino Umbrella Co., Ltd., Zhonghe Co., Ltd., and Shenzhen Laibao Hi-Tech Co., Ltd. respectively.
Wang Fuzhu	01/2004-04/2005, Director of the Company; 01/2004 till now, Chief Accountant of SDA; 05/2005 till now, Chairman of Supervisory Committee of the Company.	
Xue Ruitao	2004-03/2009, Minister of the Finance Department of the Company; 03/2009 till now, General Manager of Finance Department of Shandong Aviation Group. 06/2009 till now, Supervisor of the Company.	
Zhang Kai	07/2004-12/2005, Enterprise Management Department	

	of Air China Limited; 01/2006 till now, Senior Manager of Assets Management Department of Air China Limited; 06/2009 till now, Employee Supervisor of the Company.	
Miao Liubin	04/2004-08/2007, Captain of the First Flying Brigade; 08/2007 till now, General Manager of the Flight Department of the Company; 06/2009 till now, Employee Supervisor of the Company.	
Zhou Qiaoyan	01/2004 till now, Deputy Head of Cabin Service Department of the Company; 03/2006 till now, Employee Supervisor of the Company.	
Yu Haitian	01/2004 till now, Deputy General Manager of the Company.	
Song Yuxia	01/2004-04/2005, Director of the Company; 01/2004-05/2005, General Manager of Qingdao Branch of the Company; 01/2004 till now, Deputy General Manager of the Company.	Chairwoman of the Board of Qingdao Feisheng International Aero Technical Training Co., Ltd.
Li Qing'en	01/2004-08/2005, Chief Accountant of the Company; 01/2005-03/2009, Secretary of Board of Directors of the Company; 01/2005 till now, Deputy General Manager of the Company.	
Qiu Feng	07/2005-03/2009, Deputy GM of Network Proceedings Department of Air China; 03/2009 till now, Deputy GM of the Company.	
Zhang Qingshe	01/2004 till now, Chief Pilot of the Company.	
Xiong Jianbo	01/2004-05/2008, Minister of Aircraft Engineering Department; 05/2008-12/2009, General Manager of Engineering Technology Company of the Company; 12/2009 till now, Chief Engineer of the Company.	
Dong Qiantang	01/2004-02/2009, Minister of Enterprise Planning and Development Department of Shandong Aviation Group; 02/2009 till now, General Manager of Enterprise Management of the Company; 06/2009 till now, Secretary of the Board of Directors.	

(III) Particulars about annual payment

The payments of the directors, supervisors and senior executives of the Company were determined according to the performances and results salary system. The allowance for each independent director was RMB 50,000 per year individually as the basic number plus an extra allowance of RMB 600 for every working day.

Name	Title	Total amount of annual remuneration in 2010 (RMB'0000, before tax)
Zeng Guoqiang	Director, General Manager	99.69
Su Zhongmin	Director, Standing Deputy General Manager	81.19
Xu Guojian	Director, Deputy General Manager, Chief Accountant	50.88
Wei Jincai	Independent Director	5.90
Li Chun	Independent Director	5.90
Qu Wenzhou	Independent Director	5.90
Miao Liubin	Employee Supervisor, GM of Flight Department	46.73

Zhou Qiaoyan	Employee Supervisor, Deputy Head of Cabin Service Department	28.15
Yu Haitian	Deputy General Manager	78.29
Song Yuxia	Deputy General Manager	81.08
Li Qing'en	Deputy General Manager	74.19
Qiu Feng	Deputy General Manager	63.20
Zhang Qingshe	Chief Pilot	88.39
Xiong Jianbo	General Engineer	60.30
Dong Qiantang	Secretary of Board of Directors	37.86
Total		807.65

Note: Director Mr. Zhang Xingfu, Supervisor Mr. Wang Fuzhu, together with Supervisor Mr. Xue Ruitao drew their remunerations from SDA, the controlling shareholder, not from the Company; Director Mr. Ma Chongxian, Mr. Wang Mingyuan and Supervisor Mr. Zhang Kai drew their remunerations from Air China, not from the Company; Director Mr. Kou Zunxian and Director Ms. Wang Jieming drew their remunerations from Shandong Economic Development and Investment Company, not from the Company. Director Mr. Xu Guojian drew his remunerations from the Company since May 2010.

(IV) Particulars about changes of directors, supervisors and senior executive

1. Due to change of work, Mr. Xiao Feng designed the position of vice general manager and chief accountant of the Company on Jan. 26 of 2010, and on Jan. 29 of 2010, the Company engaged Mr. Xu Guojian as vice general manager and chief accountant of the Company.

2. Due to work change, Mr. Feng Gang designed the position of director and vice chairman of the Board of the Company on Apr. 12 of 2010, and on Mar. 24 of 2010, Mr. Xiao Feng designed the position of the Company; on Apr. 22 of 2010, the Company engaged Mr. Ma Choangxian and Xu Guojian as directors of the Company, and on the following 2010 the 3rd extraordinary meeting of the 4th Board of Directors elected Mr. Ma Chongxian as vice chairman of the Board of the Company.

(V) Personnel

By the end of the report period, the Company had 4,762 employees in total. The staff structure is as follows:

Type of employee	Number	Proportion to the total employees
Flight personnel	567	12%
Aircraft crew and maintenance personnel	919	19%
Marketing personnel (market and freight)	815	17%
Air host and hostess	980	21%
Ground attendant	382	8%
Financial personnel	138	3%
Others	961	20%

By the end of the report period, there were 54 retirees in the Company.

V. Administration Structure of the Company

(I) Corporate governance

In 2010 the Company strictly in accordance with requirements of documents of the Company Law, Security Law and the Governance Rules of Listed Companies, insisted standardized operation, constantly perfected governance structure of internal legal persons, completed internal control

system, thus normalized behavior of the Company. We strictly conducted information disclosure management system, defined the charger of information disclosure, formulated procedure of report, submission, audit and disclosure of major events, ensured the information disclosure was real, accurate, complete, timely and fair; in order to enhance mutual contact with investors, we further defined the functional department and charger of investors relationship management, and organized and carried out daily management work of investors relationship; based on basic rules and specific guidance of internal control issued by relevant department, we formulated the Management System for Filing of Internal Information Insiders and Submission of External Information and the Accountability System for Major Errors of Information Disclosure, focused on completion and perfection of internal control system, improved internal control management.

Corporate governance structure and operation mechanism are becoming completer, internal control mechanism are gradually built and completed, interest of shareholders gets full assurance, and the governance structure meets the relevant documents about governance of listed companies made by CSRC.

(II) Performance of Independent Directors

Independent directors Mr. Wei Jincai, Li Chun and Ou Wenzhou carefully implemented the Work Rules for Independent Directors strictly in accordance with laws and rules of the Company Law, the Guidance for Construction of Independent Directors in Listed Companies, and they actually implemented relevant duties with attitude of diligence and responsibility, and they attended meetings on time, learned, searched and reviewed relevant meeting materials before meetings, thus laid full preparation for important decision made in Board of Directors and Shareholders' General Meeting. They reviewed and discussed each proposal carefully on meetings, actively participated in discussion and raised up reasonable opinions, carefully learned and appraised 2010 annual operating activities, took effective appraisal and supervision on related transaction and engagement of senior personnel, and issued independent opinion, fully played the function of independent directors, thus protected legal interests of all the shareholders especially the medium and small shareholders.

1. Particulars about Independent Directors' Attending the Board of Directors

Name of independent directors	Present times for the Board of Directors this year	Presenting in person (Times)	Entrusted presence (Times)	Absent (Times)	2009 Annual Shareholders' General Meeting	2010 Extraordinary Shareholders' Meeting ^{1st}
Wei Jincai	9	9	0	0	Attendance	Attendance
Li Chun	9	9	0	0	Attendance	Attendance
Qu Wenzhou	9	9	0	0	Attendance	Attendance

2. Objections on the related terms of the Company offered by the independent directors:

In the report period, there was no objection made by independent directors on related matters.

(III) Separation of the Company and holding shareholder in business, personal, assets, organization and finance.

The Company and SDA, the first largest shareholder, have been made "Five Separations" in business, personal, assets, organization and finance. The Company possesses the independent and complete business and operates independently.

(IV) Evaluation and encouragement mechanism of senior executives

According to the internal Temporary Rules for Performance Appraisal, the Company conducted evaluation on completion of personal performance contract, and took the appraisal result as basis of cashing performance pay, thus improved motivational effect.

(V) Particulars about establishment and perfection of the Company's internal control system

1. Construction and implementation of internal control system

According to rules of the Company Law, the Securities Law and the Basic Standards for Corporate Internal Control as well as related laws, rules and documents of normalizing corporate governance structure issued by CSRC, combining operating ways, assets structure as well as its own trait and

development demands of aviation transport industry, the Company gradually built internal control system covering the basic various compliant, complete and effective operating stages of the Company, managed risks existing in operating activities of the Company, ensured the operation management was lawful and compliant, assets were safe, financial report and related information were real and complete, thus boost operating efficiency and result and promoted the realization of developing strategy of the Company. The Company will at once take rectification measurements when internal control defects are organized because the Company set up supervision and checking mechanism in internal control of the Company. The Board of Directors and its subordinate special committee exerted function, in charge of reviewing operating strategy and significant decision, while the operating management personnel took charge in daily production and operation activities within authorized scope of Board of Directors, and relationship between liability and rights was clear. Various internal control system were complete, and inspection of internal control has been included in daily work and perfected, thus promised normal production and standardized operation.

2. Construction and implementation of control system for financial report

The Company has complete financial calculation and supervision system and divides the various financial management functions clearly including capitals management, accounting calculation, cost management, financial report, operation analysis and assets management. In accordance with the Corporations Accounting Rules, the Corporations Financial Rules and other financial regulations, the Company formulated calculation methods and procedure suitable for the Company, and built corresponding inner accounting basic rules including position operation rules for personnel as well as financial dealing procedure and system, internal check system, internal audit, original certificate management system, property inventory system, financial revenue and expenditure audit system and records management standards, etc.

The division of personnel of accounting institution is clear-cut with post duty system, thus each post can distract each other and approval, execution and record function can be divided.

In order to complete corporate governance mechanism, enhance internal control of financial report and do a better job in compiling financial report, the Company formulated the Audit Report Work Rules for Independent Directors, Annual Report Work Rules for Audit Committee and the Accountability System for Major Error Made in Information Disclosure and other rules and regulations, thus fully played the appraisal and supervision function of independent directors and audit committee.

Audit Committee of Board of Directors and independent directors supervise compiling and audit procedure of financial report. They arrange audit plan before audit, fully discuss problems found during audit process and major events, after completion of compiling of financial audit, the committee reviews and approves the financial statement and audit report, and then submits it to Board of Directors after appraisal.

All the periodic reports were timely disclosed, no delay took place, and annual audit report was issued unqualified opinion, no major defects were found.

3. Self-assessment summary on implementation effectiveness of internal control system of the Company in this year from the board of directors:

The Board of Directors believed that the Company built a completer legal person governance structure, internal control system was complete and rational, internal control system had covered various aspects and stages of business activities and internal management, conforming to relevant laws and rules and requirements of security supervision ministry. From Jan. 1 of 2010 to the period-end, the internal control system was complete, was effectively conducted, and there were no control defect, problems and abnormal events with significant influence in aspects of corporate governance, administrative management and development.

Details were on the Self-assessment Report on Internal Control of Board of Directors of Shangdong Airline Co., Ltd (2010 annual)

4. Opinions given by Supervisory Committee on Self-assessment for The Company Internal Control

According to Basic Standard for Enterprise Internal Control, The Company earnestly checked the internal control system of the Company in 2010, and drew conclusions that: the Company has built completer internal control system and it was conducted effectively, and the self-assessment report of internal control was real and objective in reflecting construction and operation of the internal control system of the Company. In 2010, the Company has no such status case which violated the Guideline of Internal Control for the Listed Companies of Shenzhen Stock Exchange or the internal control system of the Company.

5. Independent Opinion given by Independent Board of Directors on Self-assessment for The Company Internal control

In 2010, the Company revised and perfected internal control system in accordance with the Basic Rules for Internal Control and its guidance, and independent directors carefully checked 2010 annual internal control with standpoint of independent judgment, believed: the Company had built governance structure and internal control system conforming to self actual condition of the Company in accordance with the Company Law, Governance Rules for Listed Companies and the Basic Standardization for Corporate Internal Control and relevant national laws and rules. The system operated well and was complete and effective, and no major defects were found in aspects of internal control design and execution.

VI. Brief introduction to the Shareholders' General Meeting

In the report period, the Company held two Shareholders' General Meetings, the Annual Shareholders' General Meeting of 2009 and 1st Extraordinary Shareholders' General Meeting 2010.

(I) Annual Shareholders' General Meeting of 2009.

1. Notification, convening and holding of the Shareholders' General Meeting

On Apr. 22, 2010, at time of 9:00, the Company held its 2009 Annual Shareholders' General Meeting on 31/F conference room of SDA Building. The Company notified the shareholders of the meeting by means of Public Notice, and the notification of the meeting was published in China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Mar. 26 and Apr. 13 of 2010. Totally 8 shareholders and shareholder's proxies with authorization from shareholders representing 260,543,426 shares of the Company presented at the meeting, taking 65.14% of total shares with voting right; including 259,801,000 shares of state-owned corporate shares took 64.95% of total shares; 199,000 shares of domestic corporate share took 0.05% of total shares; 543,426 shares of domestically listed foreign shares (B stock) took 0.14% of total shares of the Company.

Chairman of the Board, Mr. Zhang Xingfu presided the meeting. The directors, supervisors and senior executives of the Company attended the meeting. The convening and holding of the Meeting accorded with the regulations of Company Law, Rules for Shareholders' General Meeting of Listed Company and Articles of Association of the Company.

2. The resolutions passed by the Shareholders' General Meeting and the disclosure of public notice on resolutions

Following proposals were examined item-by-item and approved by means of roll call vote in the meeting:

- (1)Work Report of 2009 Board of Directors of Shandong Airline Co., Ltd;
- (2)Work Report of 2009 Independent Directors of Shandong Airline Co., Ltd;
- (3)Work Report of 2009 Board of Supervisors of Shandong Airline Co., Ltd;
- (4)2009 Annual Report of Shandong Airline Co., Ltd;
- (5)2009 Annual Financial Statement of Shandong Airline Co., Ltd;
- (6)2009 Annual Profit Distribution Plan of Shandong Airline Co., Ltd;
- (7)Proposal of 2010 Annual Daily Related Transaction
- (8)Proposal of Change of Persons Elected of Directors of Shandong Airline Co., Ltd;
- (9)Proposal of Increase of Operating Scope of Shandong Airline Co., Ltd;
- (10)Proposal of Rectification of the Charter of Shandong Airline Co., Ltd;
- (11)Proposal of Continue-Recruit of Certified Public Accountants and Payment for It;

(12) Proposal of Transferring Two B737-800 Airplanes to Air China Limited;
(13) Proposal Shandong Stock Competed to Purchase 100% Equity of Qingdao Feisheng Transfer-listed by Shandong Airline Group.

Decision notice of the meeting was published in China Securities Journal, Securities Times and Hong Kong Commercial Daily on Apr. 23 of 2010.

2. Notification, convening and holding of the Extraordinary Shareholders' General Meeting

On Aug. 28, 2010, at time of 9:30, the Company held its 2010 Annual Extraordinary Shareholders' General Meeting on 31/F conference room of SDA Building. The Company notified the shareholders of the meeting by means of Public Notice, and the notification of the meeting was published in China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Aug. 12 of 2010. Totally 6 shareholders and shareholder's proxies with authorization from shareholders representing 260,972,700 shares of the Company presented at the meeting, taking 65.24% of total shares with voting right; including 259,801,000 shares of state-owned corporate shares took 64.95% of total shares; 199,000 shares of domestic corporate share took 0.05% of total shares; 972,700 shares of domestically listed foreign shares (B stock) took 0.24% of total shares of the Company.

Chairman of the Board, Mr. Zhang Xingfu presided the meeting. The directors, supervisors and senior executives of the Company attended the meeting. The convening and holding of the Meeting accorded with the regulations of Company Law, Rules for Shareholders' General Meeting of Listed Company and Articles of Association of the Company.

2. The resolutions passed by the Shareholders' General Meeting and the disclosure of public notice on resolutions

Following proposals were examined item-by-item and approved by means of roll call vote in the meeting:

- (1) Proposal of Surplus Part of 2009 Annual Daily Related Transaction;
- (2) Proposal of Bring in Airplanes Plan of 2010;
- (3) Proposal of Applying 0.5 Billion of Financing Credit from China Airline Group Finance LLC;
- (4) Proposal of Increase of Operating Scope of Shandong Airline Co., Ltd.;
- (5) Proposal of Rectification of Charter of Shandong Airline Co., Ltd.;

Decision notice of the meeting was published in China Securities Journal, Securities Times and Hong Kong Commercial Daily on Aug. 31 of 2010.

VII. Report of the Board of Directors

(I) Discussion and analysis to the operation

2010 was the key transition period breaking new ground for the future. Under support and leadership of various shareholder units, the Company deeply conducted scientific thought of development, overarched guideline to entire work, enhanced leading of strategy, seized management one hand and development another hand, made overall arrangements and gave top priority to what is the most important, scientifically and carefully decided, strongly promoted the arrange of fixed work, successfully realized fabulous operation and management performance which ensured 16 years of safe flight, made historic breakthrough in safe operation, comprehensive interest and innovated development etc.

1. Situation of safe production kept stable, safe management improved in stability

In 2010, the Company ensured safe flight 172,000 hours plus 94,700 flights, respectively up 14.2% and 8.9% over the same period of last year, no insecurity events beyond transport accidents symptom arising from the Company; smoothly passed the SMS supplementary appraisal of civil aviation administration, and became the first series of airline companies which got SMS operating standards; for the second time awarded with the Top Reliability Award for Mission CRJ-200 Fleet in Bombardier Asian Area, and put an end to parking in air of engine for 9 years; realized safe flight for 16 years and got the One Star of Safe Flight of national civil aviation.

2. Scientifically organized production, and the interest level climbed on a historic height

In 2010, the Company completed total traffic mileage 1.178 billion kilometers, passengers transport volume 9.346 million persons, goods and mail transport volume 99,800 tons, respectively up 21.4%, 19.6% and 22.7% over the same period of last year; realized operating income of RMB 7.293 billion, up 35.90% over the same period of last year; total profit amount of RMB 0.845 billion, up 109.38% over the same period of last year;

3. Started construction of service system of entire procedure, and the service quality was constantly improved

On-schedule rate of flights in 2010 was 79.02%, ranking the 3rd position of the entire civil aviation; degree of satisfaction of passengers was 89.78%, upper than average level of the industry; complaint rate of passengers was 0.021 time per 10,000 persons, down 0.003 time over the same period of last year; luggage error rate was 0.362 time per 1,000 pieces, down 0.07 time over the same period of last year; successfully accomplished service guarantee tasks of World Expo, Asian Games and Asian Games for Disabled; ranked the 150th in evaluation of the 500 Most Valuable Brands in China, up 10 positions comparing with last year.

4. Completed main projects of organization transformation, internal control and management was preliminarily built

Comprehensively completed installation of personnel and posts as well as payment reform, set up and completed order installation of posts, realized multiple channels development of staffs. On basis of increment reform, regulated optimization of remuneration structure, gave prominence to value of posts, enhanced remuneration motivation effect. Conducted and organized innovated looking back activities, further divided and defined responsibility of function department.

(II) Particular about operational in report period

1. Main business scope and its operational status

Approved business scope of the Company: business of air passenger/freight transportation of international/domestic; hotel catering(sub-organization only); maintenance of air equipment; personnel training of civil air; insurance agent(air accident insurance; business permit for concurrent-business insurance agency expired at September 3, 2012); agent between the airlines; ground business related to main business; sales of air materials, general merchandise(food excluded),craft and souvenir; retail of tobacco products(Qingdao Red Crowned Crane Hotel only); air materials lease; business service; conference service; transport agent service; air cargo storage; labor provided(provided flight service to air lines in China)(limited commodity of state trading not involved in the business scope)

2. Constitution of main business of the Company

(1) Main business classified by industries

Unit: RMB'0000

Main business classified by industries						
Industry or products	Operation income	Operation cost	Gross profit(%)	Operation income increased or decreased compared to same period of last year (%)	Operation cost increased or decreased compared to same period of last year (%)	Gross profit increased or decreased compared to same period of last year (%)
Aviation transportation service	717,330.54	545,972.00	23.89%	36.00%	33.62%	Up 1.36 percentage point
Logistics transportation service	1,337.88	246.53	81.57%	90.71%	29.05%	Up 8.8 percentage point

Hotel and food service	2,541.41	2,081.58	18.09%	10.57%	8.53%	Up 1.54 percentage point
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(2) Main business classified by areas

Unit: RMB' 0000

Area	Operating income	Operating income increased or decreased comparing to same period of last year (%)
Domestic	694,311.49	34.56%
Overseas	12,942.22	45.66%
Area	13,956.12	150.98%

3. Operations and achievements of holding and share-join companies

(1) Qingdao Feisheng International Aviation Technology Development Co., Ltd.

In reporting period, controlled subsidiary Qingdao Feisheng International Aviation Technology Development Co., Ltd. realized net profit RMB 3,474,500. Till period-end total assets was RMB 62,920,900, net profit RMB 47,001,700.

(2) Qingdao International Airlines Logistics Center Co., Ltd.

In reporting period controlled subsidiary Qingdao International Airlines Logistics Center Co., Ltd. realized net profit RMB 702,500. Till period-end total assets was RMB 48,636,900 and net assets was RMB 44,141,800.

(3) Shandong Airlines Rainbow Jets Co., Ltd.

In reporting period, controlled subsidiary Shandong Airlines Rainbow Jets Co., Ltd. realized net profit RMB -45,226,100. Till period-end total assets was RMB 15,940,200 and net assets was RMB -163,325,600.

(4) Sichuan Airlines Co., Ltd.

In reporting period, controlled subsidiary Sichuan Airlines Co., Ltd. realized net profit RMB 295,073,900. Till period-end total assets was RMB 13,790,576,100 and net assets was RMB 956,528,500.

(5) Travelsky Technology Limited

Travelsky Technology Limited, which the Company joined shares in, has not finished the 2010 audit work till now.

(6) Jinan International Airport Co., Ltd.

Jinan International Airport Co., Ltd., which the Company joined shares in, has not finished the 2010 audit work till now.

4. Main suppliers and customers

The total amount of purchases to the top five suppliers took up 38.55% (mainly were purchase of jet fuel, aircraft and aircraft catering) of the total annual amount of sales of the Company. The total amount of sales to the top five customers took up 9.42% of the total annual amount of sales of the Company.

(III) Investment of the Company

1. In the report period, there was no proceeds raised or application of proceeds raised in the previous period but lasted to this report period in the Company.

2. In the report period, the Company had no investment with non-raised proceeds.

(IV) Financial status of the Company in the report period

1. There was no change of accounting policy and accounting estimation, and correction of accounting error in reporting period.

2. Assets constitution and reasons for the changes

(1) Significant change in assets constitution of the Company compared to that of the same period of

last year during the report period

Unit: RMB

Items	2010-12-31		2009-12-31		Increase or decrease scope in amount compared to that of last year (%)	Scope of change in proportion
	Amount	Proportion	Amount	Proportion		
Monetary assets	333,572,647.76	3.74%	194,065,742.69	2.40%	71.89%	Up 1.34 percentage points
Interest receivable	1,409,528.13	0.02%	-	0.00%		Up 0.02 percentage points
Dividends receivable	-	0.00%	1,617,642.00	0.02%	-100.00%	Down 0.02 percentage points
Accounts receivable	192,444,914.49	2.16%	142,545,895.96	1.76%	35.01%	Up 0.4 percentage points
Other accounts receivable	224,905,440.68	2.52%	160,552,013.99	1.98%	40.08%	Up 0.54 percentage points
Construction in progress	937,253,250.34	10.50%	422,277,445.58	5.22%	121.95%	Up 5.29 percentage points
Deferred income tax assets	126,735,195.78	1.42%	91,836,911.34	1.13%	38.00%	Up 0.29 percentage points
Short-term loan	1,001,269,036.73	11.22%	739,819,020.88	9.14%	35.34%	Up 2.08 percentage points
Accounts received in advance	202,453,668.78	2.27%	117,956,240.43	1.46%	71.63%	Up 0.81 percentage points
Remuneration of staffs payable	236,150,660.44	2.65%	135,033,537.40	1.67%	74.88%	Up 0.98 percentage points
Interests payable	9,656,528.23	0.11%	4,001,134.66	0.05%	141.34%	Up 0.06 percentage points
Other un-current liability	73,390,628.74	0.82%	27,718,573.00	0.34%	164.77%	Up 0.48 percentage points

(2) Reason for change

Item	Explanations
Monetary assets	Corresponding guarantee money for financing of Huilida term of money management increased.
Interest receivable	Interest income within 1 year arising from guaranty money for deposits.
Dividends receivable	Dividend receivable form Travelsky Technology Limited had arrived.
Accounts receivable	Sales increased and partial affiliated income from China Airline hadn't been calculated.
Other accounts receivable	Leased airplanes increased, produced import guarantee for airplane maintenance and purchased airplanes.
Construction in progress	Payment by installments for purchasing airplanes
Deferred income tax assets	Withholding assets for overhaul fees increased.

Short-term loan	The Company applied payments by agreement this year thus short-term financing increased.
Accounts received in advance	Transportation of the Company increased, average ticket price improved as well as spring festival arrived.
Remuneration of staffs payable	Withholding year-end bonus at year-end increased.
Interests payable	Settle interest's period of partial short financing of the Company lasts 1 year.
Other un-current liability	Interests from bonus point for frequent flyer of this period increased, and special subsidies for civil aviation energy-saving and emission-reducing project arrived.

3. Changes on the main financial data of the Company occurred in the report period

Unit: RMB

Item	2010	2009	Increase or decrease scope (%)	Reason for change
Operating income	7,292,615,957.10	5,366,113,363.68	35.90%	Transportation capacity increased, average ticket price and passenger load factor increased over the same period of last year.
Operating cost	5,487,590,890.83	4,110,033,275.19	33.52%	Transportation capacity increased, average jet fuel increased over the same period of last year.
Sales expense	480,347,949.12	346,387,720.51	38.67%	Income increased and corresponding commission charge for ticket reservation service increased.
Administration expense	136,465,813.62	228,619,847.42	-40.31%	Due to the management expenses calculation of employees' social insurance and house public reserve last year. According to the department employees served in during the year in aspect of operation cost, sales expense and management expenses, all resulted in a dramatically down in management expenses.
Financial expense	150,515,922.36	251,871,219.83	-40.24%	RMB appreciated thus exchange earnings increased substantially.
Loss from assets devaluation	1,163,320.01	239,449.15	385.83%	Provision for bad debts according to accounting policy.
Interest from change of fair value	-5,916,809.38	-12,118,965.63	-51.18%	Change range of fair value of tradable financial assets decreased over last year.
Investment income	-1,720,112.18	3,715,867.94	-146.29%	Investment earnings produced from actual delivery of tradable financial assets in this period decreased over last year.
Non-revenue receipt	29,012,243.89	155,122,260.87	-81.30%	Funds return of basic facilities construction about civil aviation of last year.

Income tax expense	209,969,159.25	100,618,103.42	108.68%	Earnings of this period increased.
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4. Measurement attributes adopted for the main assets

The Company started to implement the new Accounting Standard for Enterprise since Jan. 1st of 2007. In the report period, no significant change had happened to the measurement attributes adopted for the main assets of the Company. Details of the measurement attributes are available in Notes to Financial Report.

5. Constitution of cash flow of the Company, and particulars about the items which received significant changes compared to those of last year and reasons for the changes

(1) Constitution of the cash flow

Unit: RMB

Item	2010	2009	Increase or decrease occurred in this year compared to that of last year (%)
Net cash flow arising from operating activities	1,675,078,629.81	1,317,347,150.42	27.16%
Net cash flow arising from investment activities	-1,141,365,886.06	-672,532,927.01	69.71%
Net cash flow arising from financing activities	-434,317,159.48	-640,382,266.73	-32.18%
Influence on cash and cash equivalents from change of exchange rate	-122,729.57	-35,585.75	244.88%
Net increase in cash and cash equivalents	99,272,854.70	4,396,370.93	2158.06%

(2) Particulars about the significant changes in cash flow compared to that of last year and reasons for the changes during the report period

Unit: RMB

Items	2010	2009	Increase or decrease occurred in this year compared to that of last year (%)	Reason for change
Cash received from selling goods and offering labors	7,352,842,476.95	5,372,538,176.19	36.86%	Amount of tickets sale increased.
Other received cash relevant to operating activities	97,024,882.28	144,094,051.53	-32.67%	Funds return of basic facilities construction about civil aviation of last year.
Cash paid for purchasing goods and accepting labors	4,295,519,127.79	3,288,589,954.21	30.62%	Transportation capacity increased, corresponding cost expense increased.
Cash paid to and for staffs	827,331,854.08	614,147,622.35	34.71%	Number of staff increased thus remuneration increased.
Various paid taxes	497,696,065.27	199,428,230.46	149.56%	Income and earnings increased by a large margin, corresponding taxes increased.

Other paid cash relevant to operating activities	154,241,682.28	97,119,270.28	58.82%	Sales scale expanded thus cash for corresponding sales and management expense increased.
Cash from earnings of investment	2,853,033.15	2,098,225.94	35.97%	Equity of both last year and this year were regained in current period.
Net amount of cash from disposal of fixed assets, intangible assets and other long-term assets	26,880.00	327,572,914.09	-99.99%	Transferred the purchasing airline right in last year.
Net amount of cash paid for purchase of subsidiary and other operating units	43,095,223.17	-		Purchased equity of Feisheng.
Cash paid for other investment activities	15,902,881.83	-		Deposit paid for purchasing airplanes and loss from actual deliver of Interest Rate Swaps.
Cash paid for other financing activities	11,459,417.00	-		Reflected current notes financing and corresponding revenue and expenditure of deposit.
Cash paid for debts	1,543,956,930.32	2,345,081,757.10	-34.16%	Accounts paid for loans of this period decreased.

(V) Influence on the Company brought by change in operation environment, macro-policy and laws and regulations

1. From view of external environment, the macro economic environment and industry developing environment will constantly go on well, but bigger uncertainty still exists, and disequilibrium and disequilibria development will be focused. Development of global economy will recover possibly, development of emerging economies is still strong; our country will implement active finance policy and stable monetary policy, steady rapider growth will keep in economy; domestic civil aviation transport possibly keep a growth with 2 double figure, entire industry turns out favorable tendency of demands exceeding supply.

2. At the same time we should see that domestic pressure of inflation is constantly expanding, expectations of raising interest seem obvious, financing environment is tightening; Expectation of price of jet fuel is high; airspace, airlines, traffic rights and time resources are becoming tight; industry supervision administration will conduct server regulation policy; security situation of air force will be more rigorous.

(VI) Explanation of the Board of Directors on interpretative explanatory paragraph in the auditors' report

Reanda Certified Public Accountants audited Financial Report 2010 of the Company and presented standard unqualified Auditor's Report.

(VII) Prospects of the future development of the Company and work plan of the Board of Directors for year 2011

2011 is the opening year of the Twelfth Five-Years Plan and the basic year of leaping development realization. Work and quality of this year will determine the medium and long-term remaining ability and competitiveness of the Company. Therefore we should find the focus of work, grasp the core, and firm the development base. Faced with complicated and changeable operating environment, we should positively and carefully deal with them, conduct effective operation tactics, and more important, work hard in internal performance, improve the core competitiveness, and build constant competitiveness.

Work plans for the Board of Directors of the Company in 2011:

1. Constantly seize the system construction, and further improve corporate governance level
Rapid development of China security market and gradual completion of supervision system asked for new requirements for the governance of the Company, and also brought new developing opportunity and challenge for the Company. The Company should further enhance construction of various management systems, and tease, revise, enrich and complete internal control system of the Company comprehensively and systemically, strengthen management function, constantly improve corporate governance and boost health and stable development of the Company.

2. Play the function of special committee, further complete function of the Board of Directors
Various subordinate special committees of the Board of Directors consist of senior accountants as well as experts in law and civil aviation. In 2011, we should further play the function of various special committees, and play a positive role in internal control and corporate governance.

3. Enhance internal control construction, further improve internal control level
In 2011 the Company will further perfect relevant system of internal control, complete corporate governance structure, improve governance level, gradually involve the internal control in present management system, further boost implementation capacity and operation and production level and anti-risk capacity, promote the sustainable development of the Company.

(VIII) Capital needs in realizing operation plan, using plan and capital source

In 2011, the existed financial structure and loans arrangement from bank could satisfy capital need in normal operations of the Company.

(IX) Routine work of the Board of Directors

1. The Board of Directors of the Company totally held 9 meetings in 2010

(1) On Jan.8, 2010, the Company held the 2010 1st Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Jan.9, 2010.

(2) On Jan.29, 2010, the Company held the 2010 2nd Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Jan.30, 2010.

(3) On Mar. 24, 2010, the Company held the 2010 4th Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Mar. 26, 2010.

(4) On Apr. 22, 2010, the Company held the 2010 3rd Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Apr. 23, 2010.

(5) On Aug. 10, 2010, the Company held the 2010 4th Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Aug. 11, 2010.

(6) On Aug. 28, 2010, the Company held the 2010 5th Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Aug. 31, 2010.

(7) On Sep. 29, 2010, the Company held the 2010 6th Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Sep. 30, 2010.

(8) On Oct. 25, 2010, the Company held the 2010 7th Extraordinary Meeting of the 4th Board of

Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Oct. 26, 2010.

(9) On Dec. 22, 2010, the Company held the 2010 8th Extraordinary Meeting of the 4th Board of Director voting in communication. The public notice of the resolutions of the Meeting was published on China Securities Journal, Securities Times and Hong Kong Commercial Daily dated Dec. 24, 2010.

2. The implementation of the resolutions of Shareholders' General Meeting by the Board of Directors

In the report period, according to the requirements of the relevant laws and regulations of Company Law, Securities Law and Articles of Association, the Board of Directors of the Company seriously implemented various resolutions approved by Shareholders' General Meeting strictly in compliance with the resolutions and authorization of Shareholders' General Meeting.

(1) The implementation of profit distribution of the Company of 2009

The Shareholders' General Meeting 2009 was held on April 22, 2010 for approved the Pay-out Plan for Bonus and Dividend of 2009: Based on total share capital of the Company 400,000,000 shares, distributed RMB 2.00 (tax included) in cash for each 10 shares to all shareholders of the Company. Total dividend amounting to RMB 80 million and completed on June 18, 2010.

Particulars about the cash bonus of the Company in previous three years

Unit: RMB

	Amount of cash bonus (tax included)	Net profit attributable to shareholders of listed company in consolidated statement of bonus year	Ratio of net profit attributable to shareholders of listed company in consolidated statement	Profit available for distribution in the year
2009	80,000,000.00	302,282,325.68	26.47%	308,668,390.11
2008	0.00	80,981,442.68	0.00%	36,471,405.69
2007	0.00	68,171,958.24	0.00%	-39,938,895.93

(2) The Board of Directors of the Company strictly implemented other various resolutions approved by Shareholders' General Meeting, actively arranged the production and operation, investment disposal, fundamental construction and aircraft introduce etc..

(X) Profit Distribution Preplan or Preplan on Converting Capital Public Reserve into Share Capital Audited by Reanda Certified Public Accountants accordance with Accounting Standards for Business Enterprise, the Company realized net profit of RMB 633.69 million in 2010. Till end of the December 31, 2010, profit of RMB 858.42 million was available for distribution for parent company.

In order to return the shareholder's supports for many years, and meanwhile, consider the long-term development of the Company, the Board plans to submit the 2010 profit distribution plan to the shareholders' general meeting, as follows:

1. Withdrawal of current statutory surplus reserve amounts to RMB 63.37 million.
2. Plans to distribute cash bonus amounting to RMB 120.00 million, taking the total shares 400,000,000 of the Company ended as Dec. 31, 2010 as the base, the cash bonus for each 10 share is RMB 3.00(Tax included).

The profit distribution preplan would be handed into the 2010 Shareholders' General Meeting of the Company for examination and discussion.

(XI) Duty implementation of the Audit Committee of the Board of Directors

In the report period, according to the requirements of Articles of Association and Work Rules of Audit Committee of Shandong Airlines Co., Ltd., the Audit Committee issued opinions on the various periodic reports and event about the re-engagement of certified public accountant. The following conclusion on the 2010 auditing work as:

1. Audit committee and auditors of public accounting firm fully contacted as for audit plan and work arrangement, ensured the issue date of audit report. In process of audit, audit committee urged public accounting firm to submit audit report in due time according to audit plan. After audit accountants issued preliminary audit opinion and before the Board of Directors audited annual report, audit committee communicated with registered accountants, and learned there was no major problem in audit process. After appraisal, audit committee believed that there was no major difference between the financial statement before audit and the one after audit, and the latter one really reflected the financial condition of the Company.

2. Audit Committee believed, the financial statement after audit and financial report were conforming to accounting rules and relevant rules of the Corporate Accounting Rules, and it could faithfully reflect production and operation of the Company, financial data was accurate, leaking no major information, thus agreed to submit it to the Board of Directors. Audit Committee issued conclusion report as for audit of authorized auditing firm, thought that auditors carefully and responsibly accomplished annual audit, and proposed to the Board of Directors. Reanda Certified Public Accountants will be engaged by the Company in 2011.

(XII) Duty implementation of the Remuneration Committee of the Board of Directors

The Remuneration Committee made examination on the remuneration of the directors, supervisors and senior executives of the Company disclosed in the 2010 Annual Report and offered the following opinions: the present remuneration system of the Company was made according to the regulated decision-making procedure; the remuneration of the directors, supervisors and senior executives of the Company was in compliance with relevant regulations; the remuneration of relevant personnel disclosed in the 2010 Annual Report of the Company was real and accurate.

VIII. Report of the Supervisory Committee

(I) Particulars about the work of Supervisory Committee

In 2010, the Supervisory Committee exerted the duties authorized by Company Law of the P.R.C. and the Articles of Association of the Company according to laws with assiduity and responsibility, actively implemented supervision functions on the Company's operating decision-making, financial status, the responsibility and behaviors of directors and senior managers in the period and tried to safeguard the rights and interests of the shareholders.

The Supervisory Committee had hold five meetings of the Supervisory Committee and attended all Shareholders' General Meetings and meetings of the Board in 2010.

In the report period, particular about the Meetings of Supervisory Committee and comments:

1. On January 8, 2010, the Supervisory Committee held a meeting to comment on the Proposal of Accounting Estimation Alteration of Shandong Airlines Co., Ltd., which was proposed by the 1st Extraordinary Shareholders' General Meeting 2010 of the 4th session of the Board.

2. The 2nd meeting of the 4th session of Supervisory Committee was held by the Company on March 24, 2010. The meeting examined and approved the following proposals:

- (1) The 2009 Working Report of Supervisory Committee of Shandong Airlines Co., Ltd.;
- (2) The 2009 Annual Report and Summary of Shandong Airlines Co., Ltd.;
- (3) Self-Evaluation Report on Internal Control of the Company (2009)

Announcement resolutions of the meeting were published at China Securities Journal, Securities

Times and Hong Kong Commercial Daily dated March 26, 2010.

3. The meeting of Supervisory Committee was held by the Company on April 22, 2010, and approved the 1st Quarterly Report 2010 of Shandong Airlines Co., Ltd.

4. The meeting of Supervisory Committee was held by the Company on August 28, 2010, and approved the Semi-Annual Report 2010 of Shandong Airlines Co., Ltd and its Summary.

5. The meeting of Supervisory Committee was held by the Company on October 25, 2010, and approved the 3rd Quarterly Report 2010 of Shandong Airlines Co., Ltd.

(II) Independent Opinions of the Supervisory Committee on relevant events in 2010

1. Operation according to laws

In 2010 the Company operated according to relevant national laws and rules, provision of Company Charter as well as decision and authorization of Shareholders' General Meeting and the Board of Directors; major decision was scientific and reasonable, deciding process was lawful; directors and senior executives were diligent and responsible when performing their duties, and no behaviors against law, rules as well as company charter or doing harm to interest of the Company and shareholders were found; operators of the Company carefully performed various decisions of the Board of Directors, tightly seized opportunity, got over various difficulties, exceedingly completed production and operation plan made at year-begin and profiting goals, and no behaviors against rules was found in operation.

2. Finance management of the Company

In 2010, the board of supervisors carefully investigated finance system, internal control system and financial condition of the Company, and audited accounting statement and financial information of the Company, believed: compiling of the financial statement conformed to relevant rules of the Corporate Accounting System and the Corporate Accounting Rules, the internal control system of financial accounting was complete, no major information was left out and no false information was recorded. The financial condition and operating performance as well as cash flow were in a better situation, the 2010 annual report could truthfully reflect financial condition and operation performance of the Company.

3. Particular about external guarantee and fund occupation

In 2010, the Company no external guarantee occurred, and no fund occupation on non-operating capitals by largest shareholders and no other violation of shareholders' interest occurred either.

4. Opinions on self-evaluation on internal control of the Company from Supervisory Committee

The Supervisory Committee believes that: a perfection internal control system was established by the Company with an effective-ness execution. The self-evaluation report on the internal control of the Company shows a true and objective situation on the establishment and execution of the internal control system of the Company.

IX. Significant Events

(I) The Company has not been involved in significant lawsuits or arbitrations in the report period.

(II) The Company has no bankruptcy and reforming in the report period.

(III) The Company holds 8,697,000 shares of Chinese Information Network Incorporation of Civil Aviation which is listed in Hong Kong Exchanges and Clearing Limited. The nature of these shares is non-circulating domestic shares.

The Company holds no share equity of other listed companies, or equity of financial enterprises such as joint stock commercial banks, securities companies, insurance companies, trust companies and futures companies.

(IV) Purchase and sale of assets and merger of the Company in the report period

1. The first biggest shareholder Shangdong Airline Group sold 100% equity of holding Qingdao Feisheng International Aviation Technology Development Training Co., Ltd (Qingdao Feisheng) with sticker price of RMB 50,740,053 in Shanghai United Assets and Equity Exchange on Dec. 21 of 2009. The Company successfully applied the bid with RMB 50,740,053 (Details on notice

2010-07). On Nov. 29 of 2010, the Company completed the industry and commerce registration procedure about equity change of Qingdao Feisheng in Chengyang District Trade and Industry Bureau of Qingdao City. Thus Qingdao Feisheng became the wholly-owned subsidiary of the Company.

2. The 2010 4th extraordinary meeting of the 4th board of directors held on Aug. 10 of 2010 reviewed and approved the Proposal of Disposal of Assets of Yantai Red Crowned Crane Hotel (details on notice 2010-21), and planed to dispose property and land of Red Crowned Crane Hotel as well as relevant affiliated facilities in way of public auction, which was in process of disposal.

3. The 6th extraordinary meeting of the 4th board of directors held on Sep. 29 of 2010 reviewed and approved the Proposal of Purchase of 30% Equity of Qingdao International Aviation Airline Logistic Center Co., Ltd. (details on notice 2010-27), which decided to 30 equity of Qingdao International Aviation Airline Logistic Center Co., Ltd. (Qingdao Logistic) held by Fuji International Investment Co., Ltd. with RMB 24.51 million. After the completion of purchase, Qingdao Logistic will become the wholly-owned subsidiary of the Company, which is in industry and commerce registration change procedure.

(V) There is no implementation of stock option incentive plan of the Company in the report period.

(VI) Significant related transaction

The Company has some related transactions with its major shareholders and their subordinate companies at present. These related transactions are necessity for the Company and are unavoidable. Before the transactions, the Company has already fully considered the quality, price and efficiency of the services and goods provided by the related parties and also made analysis and comparison on the market environment. The independent directors of the Company presented opinions on the related transactions which believed that the Company and the related parties made the deals with market principles of open, equality and justice, the transaction price was fair and there was no behavior hurting profit of other shareholders.

1. Purchasing and selling merchandise, providing and accepting service

(1) In the report period, airplane maintaining fee of RMB 78.338 million has occurred between the Company and Taikoo (Shandong) Aircraft Engineering Co., Ltd. This transaction amount took proportion of 16.75% in the same kind transactions. The Company paid for this transaction in cash according to the market price.

(2) In the report period, the co-operation flight between the Company and Air China Limited was RMB 14.9855 million and should be transaction according to the negotiation price within the two parties.

(3) The related transactions about the routine operations in 2010

Unit: RMB'0000

Type of related transaction	Related party	Details on related transaction	Amount
Labor provided to related party	Air China Limited	Labor payment	1300
	Subtotal		1300
Labor received from related party	Shandong Aviation Group	Rent of office and accommodation	1180
	Taikoo (Shandong) Aircraft Engineering Co., Ltd	Airplane maintenance	7834
	Shandong Xiangyu Aero Technical Services Co., Ltd.	Maintenance charge	2994
	Air China Limited	Ground service expense	1412
	Air China Cargo Co., Ltd.	Ground service expense	219
	Shenzhen Airlines	Training fee for pilots	341
	Sichuan International Airlines Engineer Maintenance Co., Ltd.	Maintenance charge	2704
	Subtotal		16684
Other related transaction	Shandong Aviation Group	Guarantee charge	145
	Shandong Xiangyu Aero Technical Services Co., Ltd.	Sales of aviation materials	385
	Air China Limited	Airline association	1499
	Air China Limited	Wet lease	63757
	Air China Cargo Co., Ltd.	Cargo association	449
	Subtotal		66235

2. The Company and its controlling shareholder's cooperative investment

The Company had no cooperative investment with its controlling shareholders in the report period.

3. Credits and liabilities between the Company and related parties

There are no newly increased credits and liabilities between the Company and related parties in the report period.

(VII) Significant contracts and implementation

1. There are no assets entrustment, contract and lease in the report period.

2. In the report period, the Company had no external significant guarantee.

3. In the report period, the Company had no entrusted financing.

4. Other significant contracts

Up to the end of the report period, the accumulated amount of long-term and short-term borrowings of the Company amounted to RMB 4,552,613,800.

The Company had no other significant contracts which were not disclosed.

(VIII) The Company had not entrusted anyone to manage its cash assets in the report period

(IX) Significant commitment in the report period

Concerning the competing bid for 100% equity of Qingdao Feisheng, first largest shareholder of the Company—Shangdong Aviation Group made the compensation commitment of profit forecast based on the Evaluation Report: calculated based on the profit method, net profit of Qingdao Feisheng predicted respectively as RMB 4.8049 million, RMB 5.3614 million and RMB 5.7784 million in future 3 year. The Company will suffer from losses if the future operation performance of Qingdao Feisheng does not reach the profit forecast under the premise of evaluation basis sustained, Shangdong Aviation Group promise cash compensation due to the above losses.

Qingdao Feisheng earned its profit commitment in first year, Shangdong Aviation Group no cash compensation to the Company needed.

(X) Engagement of Certified Public Accountants

In the report period, the Company continued to engage Reanda Certified Public Accountants as Auditing Organization of the Company. 2009 Annual Shareholders' General Meeting examined and approved the Proposal on Renewal of Engaging CPA and its Remunerations, the Company engaged Reanda Certified Public Accountants as 2010 Auditing Organization of the Company. In the report period, the Company should pay the annual auditing fee of RMB 600,000. The aforesaid auditing organization has provided auditing services to the Company for the 7th year.

(XI) In the report period, the Company and the Board of Directors have not received check, administrative punishment and notice of criticism from the CSRC, and public criticism from the securities exchange.

(XII) In the report period, the received research and interview of the Company

In accordance with the relevant regulations of Shenzhen Stock Exchange and pursuit to the principles of justice, fair-ness and publicity, the Company regulated its behaviors of research and media interviews. In the report period, there occurred no such situations as selectively and privately reveal or leak non-public significant information to specific parties; and all these assure the fairness of information disclosure of the Company.

**Activities of Receiving Research,
Communication and Interview in the Report Period**

The received date	The received place	The received way	The received parties	Contents discussed and materials supplied
2010-4-22	Jinan	Face-to-face talks	News media, shareholders with legal person shares and individual investor	Operation situation of the Company, Annual Report 2009 of the Company provided
2010-8-28	Jinan	Face-to-face talks	News media, shareholders with legal person shares and individual investor	Operation situation of the Company, no information provided
January-December of 2010	Jinan	Telephone interview, communication	Individual investor	Operation situation of the Company, no information provided

(XIII) Other significant events

Significant events and announcements were published at China Securities Journal, Securities Times, Hong Kong Commercial Daily and Juchao Website(<http://www.cninfo.com.cn>), found i the above mentioned medias for more details.

X. AUDITORS' REPORT

REANDA SHEN ZI [2011] No. 1193

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

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. (hereafter, the Company), which comprise the statement of financial position and the consolidated statement of financial position as at 31 December 2010, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of cash flows and the consolidated statement of cash flows and the statement of changes in equity and the consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Enterprise Accounting Standards of China. The responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the Chinese Certified Public Accountants' Auditing Standards (hereafter, the Standards). The Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves the performance of audit procedures to obtain audit evidence relevant to the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with the Enterprise Accounting Standards of China.

Reanda Certified Public Accountants Co., Ltd.

Beijing, China

Certified Public Accountant
Sun Yibin

Certified Public Accountant
Yang Yunhui

25 March 2011

Balance Sheet

Prepared by Shandong Airlines Co., Ltd.

December 31, 2010

Unit: RMB

Items	Balance at period-end		Balance at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	333,572,647.76	328,897,146.25	194,065,742.69	179,813,989.83
Settlement provisions				
Capital lent				
Transaction finance asset	9,290,846.62	9,290,846.62	11,341,846.48	11,341,846.48
Notes receivable				
Accounts receivable	192,444,914.49	185,873,337.88	142,545,895.96	140,731,572.47
Accounts paid in advance	28,353,455.80	28,201,391.84	22,504,262.48	22,370,882.70
Insurance receivable				
Reinsurance receivables				
Contract reserve of reinsurance receivable				
Interest receivable	1,409,528.13	1,409,528.13		
Dividend receivable			1,617,642.00	1,617,642.00
Other receivables	224,905,440.68	225,345,428.46	160,552,013.99	160,483,475.47
Purchase restituted finance asset				
Inventories	77,787,249.46	77,787,249.46	65,267,781.10	65,267,781.10
Non-current asset due within one year				
Other current assets				
Total current assets	867,764,082.94	856,804,928.64	597,895,184.70	581,627,190.05
Non-current assets:				
Granted loans and advances				
Finance asset available for sales				
Held-to-maturity securities				
Long-term account receivable				
Long-term equity investment	88,352,100.00	169,842,785.43	88,352,100.00	112,165,305.97
Investment property				
Fixed assets	6,616,497,360.85	6,551,672,655.53	6,631,600,764.96	6,619,089,545.44
Construction in progress	937,253,250.34	925,773,327.54	422,277,445.58	422,277,445.58
Engineering material				
Disposal of fixed asset				
Productive biological asset				
Oil and gas asset				
Intangible assets	47,146,366.53	32,299,511.53	47,895,073.21	33,013,562.26
Expense on Research and Development				
Goodwill	10,220,816.22			
Long-term expenses to be apportioned	229,830,196.19	229,493,082.25	216,546,250.96	216,370,254.46
Deferred income tax asset	126,735,195.78	126,425,389.96	91,836,911.34	91,812,136.84
Other non-current asset				
Total non-current asset	8,056,035,285.91	8,035,506,752.24	7,498,508,546.05	7,494,728,250.55
Total assets	8,923,799,368.85	8,892,311,680.88	8,096,403,730.75	8,076,355,440.60
Current liabilities:				
Short-term loans	1,001,269,036.73	1,001,269,036.73	739,819,020.88	739,819,020.88
Loan from central bank				
Absorbing deposit and				

interbank deposit				
Capital borrowed				
Transaction financial liabilities	3,865,809.52	3,865,809.52		
Notes payable	135,042,835.33	135,042,835.33	182,124,331.32	182,124,331.32
Accounts payable	1,008,600,051.49	1,009,216,769.85	812,032,950.07	810,639,584.15
Accounts received in advance	202,453,668.78	200,972,965.98	117,956,240.43	117,467,352.04
Selling financial asset of repurchase				
Commission charge and commission payable				
Wage payable	236,150,660.44	236,130,188.66	135,033,537.40	135,018,545.42
Taxes payable	170,115,170.97	169,899,177.32	177,564,425.49	177,319,512.46
Interest payable	9,656,528.23	9,569,756.23	4,001,134.66	4,001,134.66
Dividend payable	11,940.00	11,940.00	11,940.00	11,940.00
Other accounts payable	140,733,981.14	141,469,803.57	124,930,463.59	124,872,192.44
Reinsurance payables				
Insurance contract reserve				
Security trading of agency				
Security sales of agency				
Non-current liabilities due within 1 year	476,767,879.05	464,467,879.05	535,108,457.71	535,108,457.71
Other current liabilities				
Total current liabilities	3,384,667,561.68	3,371,916,162.24	2,828,582,501.55	2,826,382,071.08
Non-current liabilities:				
Long-term loans	3,180,283,177.55	3,180,283,177.55	3,402,752,588.39	3,402,752,588.39
Bonds payable				
Long-term account payable	863,013,847.54	863,013,847.54	968,968,451.94	968,968,451.94
Special accounts payable				
Projected liabilities				
Deferred income tax liabilities	2,322,711.66	2,322,711.66	2,835,461.62	2,835,461.62
Other non-current liabilities	73,390,628.74	73,390,628.74	27,718,573.00	27,718,573.00
Total non-current liabilities	4,119,010,365.49	4,119,010,365.49	4,402,275,074.95	4,402,275,074.95
Total liabilities	7,503,677,927.17	7,490,926,527.73	7,230,857,576.50	7,228,657,146.03
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Capital public reserve	84,050,162.84	84,050,162.84	84,050,162.84	84,050,162.84
Less: Inventory shares				
Reasonable reserve				
Surplus public reserve	122,944,754.89	122,284,050.36	59,576,069.03	58,915,364.50
Provision of general risk				
Retained profit	799,664,252.17	795,050,939.95	308,668,390.11	304,732,767.23
Balance difference of foreign currency translation				
Total owner's equity attributable to parent company	1,406,659,169.90	1,401,385,153.15	852,294,621.98	847,698,294.57
Minority interests	13,462,271.78		13,251,532.27	
Total owner's equity	1,420,121,441.68	1,401,385,153.15	865,546,154.25	847,698,294.57
Total liabilities and owner's equity	8,923,799,368.85	8,892,311,680.88	8,096,403,730.75	8,076,355,440.60

Profit Statement

Prepared by Shandong Airlines Co., Ltd.

January-December, 2010

Unit: RMB

Items	Amount in this period		Amount in last period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	7,292,615,957.10	7,284,474,069.23	5,366,113,363.68	5,362,673,481.18
Including: Operating income	7,292,615,957.10	7,284,474,069.23	5,366,113,363.68	5,362,673,481.18
Interest income				
Insurance gained				
Commission charge and commission income				
II. Total operating cost	6,461,293,024.92	6,454,275,861.75	5,095,949,275.87	5,094,605,991.37
Including: Operating cost	5,487,590,890.83	5,484,462,677.17	4,110,033,275.19	4,111,698,242.88
Interest expense				
Commission charge and commission expense				
Cash surrender value				
Net amount of expense of compensation				
Net amount of withdrawal of insurance contract reserve				
Bonus expense of guarantee slip				
Reinsurance expense				
Operating tax and extras	205,209,128.98	204,810,196.58	158,797,763.77	158,446,999.40
Sales expenses	480,347,949.12	480,347,949.12	346,387,720.51	346,387,720.51
Administration expenses	136,465,813.62	133,056,074.42	228,619,847.42	225,696,583.77
Financial expenses	150,515,922.36	150,659,261.66	251,871,219.83	252,180,082.66
Losses of devaluation of asset	1,163,320.01	939,702.80	239,449.15	196,362.15
Add: Changing income of fair value(Loss is listed with "-")	-5,916,809.38	-5,916,809.38	-12,118,965.63	-12,118,965.63
Investment income (Loss is listed with "-")	-1,720,112.18	-1,720,112.18	3,715,867.94	3,715,867.94
Including: Investment income on affiliated company and joint venture				
Exchange income (Loss is listed with "-")				
III. Operating profit (Loss is listed with "-")	823,686,010.62	822,561,285.92	261,760,990.12	259,664,392.12
Add: Non-operating income	29,012,243.89	29,012,243.84	155,122,260.87	155,122,260.87
Less: Non-operating expense	8,153,807.83	8,068,071.01	13,521,945.17	13,520,445.27
Including: Disposal loss of non-current asset	7,708,562.86	7,622,991.01	13,495,868.42	13,494,368.52
IV. Total Profit (Loss is listed with "-")	844,544,446.68	843,505,458.75	403,361,305.82	401,266,207.72
Less: Income tax	209,969,159.25	209,818,600.17	100,618,103.42	100,412,795.16
V. Net profit (Net loss is listed with "-")	634,575,287.43	633,686,858.58	302,743,202.40	300,853,412.56
Net profit attributable to owner's equity of parent company	634,364,547.92	633,686,858.58	302,282,325.68	300,853,412.56
Minority shareholders' gains and losses	210,739.51	0.00	460,876.72	0.00
VI. Earnings per share				

i. Basic earnings per share	1.59		0.76	
ii. Diluted earnings per share	1.59		0.76	
VII. Other consolidated income				
VIII. Total consolidated income	634,575,287.43	633,686,858.58	302,743,202.40	300,853,412.56
Total consolidated income attributable to owners of parent company	634,364,547.92	633,686,858.58	302,282,325.68	300,853,412.56
Total consolidated income attributable to minority shareholders	210,739.51	0.00	460,876.72	0.00

Cash Flow Statement

Prepared by Shandong Airlines Co., Ltd.

January-December, 2010

Unit: RMB

Items	Amount in this period		Amount in last period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows arising from operating activities:	7,352,842,476.95	7,338,125,353.04	5,372,538,176.19	5,371,074,050.51
Cash received from selling commodities and providing labor services				
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				
Insured savings and net increase of investment				
Net increase of disposal of transaction financial asset				
Cash received from interest, commission charge and commission				
Net increase of capital borrowed				
Net increase of returned business capital				
Write-back of tax received	97,024,882.28	100,423,221.27	144,094,051.53	143,549,876.83
Other cash received concerning operating activities	7,449,867,359.23	7,438,548,574.31	5,516,632,227.72	5,514,623,927.34
Subtotal of cash inflow arising from operating activities	4,295,519,127.79	4,291,454,969.98	3,288,589,954.21	3,290,761,891.91
Cash paid for purchasing commodities and receiving labor service				
Net increase of customer loans and advances				

Net increase of deposits in central bank and interbank				
Cash paid for original insurance contract compensation				
Cash paid for interest, commission charge and commission				
Cash paid for bonus of guarantee slip	827,331,854.08	824,315,034.77	614,147,622.35	612,051,079.62
Cash paid to/for staff and workers	497,696,065.27	496,457,992.65	199,428,230.46	198,501,653.16
Taxes paid	154,241,682.28	154,456,869.48	97,119,270.28	96,311,963.23
Other cash paid concerning operating activities	5,774,788,729.42	5,766,684,866.88	4,199,285,077.30	4,197,626,587.92
Subtotal of cash outflow arising from operating activities	1,675,078,629.81	1,671,863,707.43	1,317,347,150.42	1,316,997,339.42
Net cash flows arising from operating activities				
II. Cash flows arising from investing activities:				
Cash received from recovering investment	2,853,033.15	2,853,033.15	2,098,225.94	2,098,225.94
Cash received from investment income	26,880.00	26,880.00	327,572,914.09	327,572,914.09
Net cash received from disposal of fixed, intangible and other long-term assets				
Net cash received from disposal of subsidiaries and other units				
Other cash received concerning investing activities	2,879,913.15	2,879,913.15	329,671,140.03	329,671,140.03
Subtotal of cash inflow from investing activities	1,085,247,694.21	1,073,446,055.08	1,002,204,067.04	1,001,881,192.04
Cash paid for purchasing fixed, intangible and other long-term assets				
Cash paid for investment				
Net increase of mortgaged loans	43,095,223.17	50,740,053.00		
Net cash received from subsidiaries and other units	15,902,881.83	15,902,881.83		
Other cash paid concerning investing activities	1,144,245,799.21	1,140,088,989.91	1,002,204,067.04	1,001,881,192.04
Subtotal of cash outflow from investing activities	-1,141,365,886.06	-1,137,209,076.76	-672,532,927.01	-672,210,052.01
Net cash flows arising from investing activities				
III. Cash flows arising from financing activities				
Cash received from absorbing investment				
Including: Cash	1,619,256,428.26	1,619,256,428.26	2,228,373,619.53	2,228,373,619.53

received from absorbing minority shareholders' investment by subsidiaries				
Cash received from loans				
Cash received from issuing bonds	11,459,417.00	11,459,417.00		
Other cash received concerning financing activities	1,630,715,845.26	1,630,715,845.26	2,228,373,619.53	2,228,373,619.53
Subtotal of cash inflow from financing activities	1,543,956,930.32	1,535,656,930.32	2,345,081,757.10	2,345,081,757.10
Cash paid for settling debts	228,396,529.91	228,062,165.48	195,890,585.87	195,890,585.87
Cash paid for dividend and profit distributing or interest paying				
Including: Dividend and profit of minority shareholder paid by subsidiaries	292,679,544.51	292,679,544.51	327,783,543.29	327,783,543.29
Other cash paid concerning financing activities	2,065,033,004.74	2,056,398,640.31	2,868,755,886.26	2,868,755,886.26
Subtotal of cash outflow from financing activities	-434,317,159.48	-425,682,795.05	-640,382,266.73	-640,382,266.73
Net cash flows arising from financing activities	-122,729.57	-122,729.57	-35,585.75	-35,585.75
IV. Influence on cash due to fluctuation in exchange rate	99,272,854.70	108,849,106.05	4,396,370.93	4,369,434.93
V. Net increase of cash and cash equivalents	49,333,429.81	35,081,676.95	44,937,058.88	30,712,242.02
Add: Balance of cash and cash equivalents at the period -begin	148,606,284.51	143,930,783.00	49,333,429.81	35,081,676.95
VI. Balance of cash and cash equivalents at the period -end	7,352,842,476.95	7,338,125,353.04	5,372,538,176.19	5,371,074,050.51

Consolidated Statement on Changes of Owners' Equity

Prepared by Shandong Airlines Co., Ltd.

2010

Unit: RMB

Items	Amount in this report period										Amount in last year											
	Owners' equity attributable to the parent company									Minority's equity	Total owners' equity	Owners' equity attributable to the parent company									Minority's equity	Total owners' equity
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surpluses reserves	General risk provision	Retained profit	Others	Paid-up capital (Share capital)			Capital reserves	Less: Treasury Stock	Reasonable reserve	Surpluses reserves	General risk provision	Retained profit	Others				
I. Balance at the end of the last year	400,000,000.00	84,050,162.84			59,576,069.03		308,668,390.11		13,251,532.27	865,546,154.25	400,000,000.00	84,050,162.84			29,490,727.77		36,471,405.69		12,790,655.55	865,546,154.25		
Add: Changes of accounting policy																						
Error correction of the last period																						
Others																						
II. Balance at the beginning of this year	400,000,000.00	84,050,162.84			59,576,069.03		308,668,390.11		13,251,532.27	865,546,154.25	400,000,000.00	84,050,162.84			29,490,727.77		36,471,405.69		12,790,655.55	865,546,154.25		
III. Increase/ Decrease in this year (Decrease is listed with "-")					63,368,685.86		490,995,862.06		210,739.51	554,575,287.43					30,085,341.26		272,196,984.42		460,876.72	302,743,202.40		
(I) Net profit							634,364,547.92		210,739.51	634,575,287.43							302,282,325.68		460,876.72	302,743,202.40		
(II) Other consolidated income																						
Subtotal of (I) and (II)							634,364,547.92		210,739.51	634,575,287.43							302,282,325.68		460,876.72	302,743,202.40		
(III) Owners' devoted and decreased capital																						
1. Owners' devoted																						

capital																				
2. Amount calculated into owners' equity paid in shares																				
3. Others																				
(IV) Profit distribution				63,36	-143,3			-80,00					30,08		-30,08					
				8,685.	68,68			0,000.				5,341.		5,341.						
				86	5.86			00				26		26						
1. Withdrawal of surplus reserves				63,36	-63,36							30,08		-30,08						
				8,685.	8,685.							5,341.		5,341.						
				86	86							26		26						
2. Withdrawal of general risk provisions																				
3. Distribution for owners (shareholders)					-80,00			-80,00												
					0,000.			0,000.												
					00			00												
4. Others																				
(V) 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. Others																				
(VI) Reasonable reserve																				
1. Withdrawal in the report period																				
2. Usage in the report period																				
(VII) Other																				
IV. Balance at the end of	400,0	84,05		122,9	799,6		13,46	1,420,	400,0	84,05		59,57		308,6		13,25	865,5			

the report period	00,000.00	0,162.84		44,754.89	64,252.17	2,271.78	121,441.68	00,000.00	0,162.84		6,069.03	68,390.11	1,532.27	46,154.25
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Statement on Changes of Owners' Equity of Parent Company

Prepared by Shandong Airlines Co., Ltd.

2010

Unit: RMB

Items	Amount in this report period							Amount in last year								
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Total owners' equity	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Total owners' equity
I. Balance at the end of the last year	400,000,000.00	84,050,162.84			58,915,364.50		304,732,767.23	847,698,294.57	400,000,000.00	84,050,162.84			28,830,023.24		33,964,695.93	546,844,882.01
Add: Changes of accounting policy																
Error correction of the last period																
Others																
II. Balance at the beginning of this year	400,000,000.00	84,050,162.84			58,915,364.50		304,732,767.23	847,698,294.57	400,000,000.00	84,050,162.84			28,830,023.24		33,964,695.93	546,844,882.01
III. Increase/ Decrease in this year (Decrease is listed with "-")					63,368,685.86		490,318,172.72	553,686,858.58					30,085,341.26		270,768,071.30	300,853,412.56
(I) Net profit							633,686,858.58	633,686,858.58							300,853,412.56	300,853,412.56
(II) Other consolidated income																
Subtotal of (I) and (II)							633,686,858.58	633,686,858.58							300,853,412.56	300,853,412.56
(III) Owners' devoted and decreased capital																
1. Owners' devoted capital																
2. Amount calculated into																

owners' equity paid in shares																
3. Others																
(IV) Profit distribution				63,368,685.86		-143,368,685.86	-80,000,000.00					30,085,341.26		-30,085,341.26		
1. Withdrawal of surplus reserves				63,368,685.86		-63,368,685.86						30,085,341.26		-30,085,341.26		
2. Withdrawal of general risk provisions																
3. Distribution for owners (shareholders)							-80,000,000.00	-80,000,000.00								
4. Others																
(V) 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 profit surplus																
4. Others																
(VI) Reasonable reserve																
1. Withdrawal in the report period																
2. Usage in the report period																
(VII) Other																
IV. Balance at the end of the report period	400,000,000.00	84,050,162.84		122,284,050.36		795,050,939.95	1,401,385,153.15	400,000,000.00	84,050,162.84			58,915,364.50		304,732,767.23	847,698,294.57	

Shandong Airlines Co., Ltd.

Notes to the financial statements

As at 31st December 2010

(All amounts are expressed in CNY unless otherwise stated)

Note 1. Corporation Profile

1.1. Company's history

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

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

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

The Agreement of Share Transfer (《股份转让协议》) signed by SDA Group and China National Aviation Holding Company (hereafter, China Aviation Group) on February 28th, 2004 authorised the transfer of 91,200,000 shares of the Company, equal to 22.8% shareholding, from SDA Group to China Aviation Group. Immediately after the share transfer, SDA Group's shareholding in the Company was 42.00%. In November 2004, the Board of Directors of the Company, in accordance with the approval (GuoZiChanQuan[2004]No.956 (国资产权[2004]956号:《关于中国航空集团公

司将受让山东航空股份有限公司国有股的合同实施转让有关问题的批复》)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, authorised China Aviation Group to transfer the state-owned corporate shares received from SDA Group to Air China Co., Ltd. (hereafter, Air China). As so provided in GuoZiChanQuan[2004]No.956, the rights and obligation attributable to China Aviation Group as specified in the Agreement of Share Transfer shall be afforded by Air China. The change of share ownership was registered at the China Securities Depository and Clearing Corporation Limited Shenzhen Office by SDA Group and Air China on December 3rd, 2004; And, 91,200,000 shares of the Company then became held by Air China.

Legal representative of the Company: ZHANG, Xingfu

Place of registration: Shandong Jinan Yaoqiang International Airport

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

1.2. Industry of operation

The Company operates in the industry of transportation.

1.3. Operating capacity

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 (limited to air accident insurance, with period of operation valid until September 3rd, 2012), inter-airline agenting, and principal operation related ground services.

1.4. Principal products (and/or services)

The principal service supplied by the Company is domestic air transportation.

Note 2. Summary of significant accounting policies and estimates, and correction of errors

2.1. Bases for preparation of the financial statements

The financial statements of the Company have been prepared on the going concern basis with reference to the actual occurrence of transactions and events and in accordance with the China Enterprise Accounting Standards (CAS) issued by the Ministry of Finance on 15th February 2006 and the significant accounting policies and estimates as set out in Note 2.

2.2. Declaration of Compliance with the Enterprise Accounting Standards

The financial statements of the Company have been prepared in accordance with the Enterprise Accounting Standards to present truly and completely the financial position, result of operation and cash flow and the relevant information of the Company.

2.3. Accounting year

The Company's accounting year is the calendar year, ie. from 1 January to 31 December each year.

2.4. Presentation (functional) currency

The presentation (functional) currency of the Company is Chinese Yuan (hereafter, CNY).

2.5. Business acquisitions**2.5.1. Acquiring business under common control**

The Company measures the identifiable assets acquired and liabilities assumed at their acquisition-date book values in the accounts of the acquiree. The excess of the consideration transferred in the form of book value or shares issued over the acquisition-date book values in the acquiree's accounts of the identifiable net assets acquired is debited to Capital reserves and to Undistributed profits where the total value of Capital reserves is insufficient.

2.5.2. Acquiring business not under common control

The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date measured as the excess of the amount of the total consideration paid for the acquisition measured in accordance with s11, Ch. 3, CAS 20 over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with s14, Ch.3, CAS 20 is recognised by the Company, if the later exceeds the former (ie. negative excess), the Company recognises the resulting gain in profit or loss on the acquisition date after reviewing their fair values and confirming the negative excess.

2.6. Consolidated financial statements**2.6.1. Scope of consolidated financial statements**

Consolidated financial statements are prepared on the basis of control existence in accordance with CAS 33 issued by the Ministry of Finance in February 2006. The consolidated financial statements of the Company include all subsidiaries and the entities, which are established for specified purposes, either directly or indirectly controlled by the Company and the Company itself. The Company has control over an entity where the Company has the power to govern the financial and operating policies of the entity under a statute or an agreement and is able to obtain economic benefit from the entity's operation by virtue of that power. Where it is clearly demonstrated that the Company's investment in an entity does not constitute control over the entity, the Company excludes the entity from consolidation.

2.6.2. Purchase and sales of ordinary shares of subsidiaries

The Company determines the date of purchase and sales of the ordinary shares of subsidiaries on the basis of the actual occurrence of transfer of the risks attached to and proceeds associated with the shares respectively. The respective post- or pre-transaction-date operation results and cash flows of the subsidiary acquired or disposed in the course of the combination of businesses not under common control are accounted for in the consolidated income statement and cash flow statement. The operation results and cash flows of the subsidiary, which occur after the start date of the accounting period in which the subsidiary is acquired and prior to the disposal date, acquired in the course of the combination of businesses under common control are accounted for and separately presented in the consolidated income statement and cash flow statement with comparables adjusted accordingly.

The excess of the value of a long-term equity investment, recognised and measured in accordance with CAS 2, in a subsidiary arising from the purchase of small amount of the ordinary shares of the subsidiary over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities as from the purchase date is debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is insufficient.

2.6.3. Uniform accounting policies

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements; the adjustments are conducted also with reference to the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed from the subsidiary measured in accordance with s14, Ch.3, CAS 20 where the subsidiary is acquired in the course of the combination of businesses not under common control.

2.6.4. Consolidation procedures

Intragroup balances and transactions are eliminated in full in the preparation of consolidated financial statements. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's ownership interests in them. Non-controlling interests are debited by the excess, if any, of the loss attributable to non-controlling shareholders over their share of the net fair value of the subsidiary's identifiable assets and liabilities where they are able and obliged to contribute to the excess; the excess is otherwise attributable to the Company.

2.7. Cash equivalents

Cash equivalents are short-term (usually with a maturity date within three months from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8. Foreign currency transactions and foreign currency translation

2.8.1. Foreign currency transactions

The Company's foreign currency transactions are recorded, on initial recognition in the reporting (functional) currency, by applying to the foreign currency amount the middle exchange rate quoted by the People's Bank of China (hereafter, the (spot) exchange rate) between the reporting (functional) currency and the foreign currency at the date of the transaction.

Foreign currency monetary items as at the balance sheet date are translated using the balance-sheet-date spot exchange rate; non-monetary items as at the balance sheet date that are measured in terms of historical cost in foreign currencies are translated using the transaction-date exchange rates with no adjustment made to the recorded amounts on initial recognition in the reporting (functional) currency; non-monetary items as at the balance sheet date that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values were determined. Exchange differences arising on translating monetary or non-monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised directly or as fair value adjustments in profit or loss in the period in which they arise except for monetary items that satisfy the criteria for borrowing costs capitalisation.

2.8.2. Foreign currency translation

① Assets, liabilities and all Shareholders' equity items as at the balance sheet date except undistributed profits are translated using the balance-sheet-date spot exchange rates.

② Income and expenses are translated using the transaction-date exchange rates.

Exchange differences arising from the translation methods specified in paragraph 2.8.2① and ② are separately presented in Shareholders' equity.

③ The cash flows of a foreign subsidiary are translated at the exchange rates at the dates of the cash flows. The effect of exchange rate changes on cash and cash equivalents held or due in foreign currencies is reported in the cash flow statement by presenting separately the amount of the unrealised exchange differences arising from changes in foreign currency exchange rates

2.9. Financial instruments**2.9.1. Categorisation of financial assets and financial liabilities**

The Company categorises its financial assets and financial liabilities, with reference to their objectives of investments and economic nature, as financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities.

① Financial assets or financial liabilities at fair value through profit or loss include the financial assets or financial liabilities classified as held for trading and the financial assets or financial liabilities designated by the Company as at fair value through profit or loss on their initial recognition.

A financial asset or financial liability is classified as held for trading if it meets either of the following conditions:

- a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- c. it is a derivative (except for a derivative that is a designated and effective hedging instrument, a financial guarantee contract, or linked to and only settled by delivery of an equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured).

A financial asset or financial liability is designated by the Company as at fair value through profit or loss if it meets either of the following conditions:

- a. the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with an officially documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

② Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, which include principally fixed-rate treasury bonds and floating-rate corporate bonds that the Company has the positive intention and ability to hold to maturity.

③ Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which include principally accounts receivables arising from sales of products and provisions of services by the Company and other receivables.

④ Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale on their initial recognition or are not categorised as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

⑤ Other financial liabilities are financial liabilities that are not categorised as financial liabilities at fair value through profit or loss.

2.9.2. Measurement of financial assets and financial liabilities

When a financial asset or financial liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability; transaction costs attributable to the acquisition or issue of the financial asset or financial liability at fair value through profit or loss are accounted for through profit or loss for the current period.

The Company subsequently measures financial assets and financial liabilities according to the

following procedures:

- ① Financial assets or financial liabilities are subsequently measured at fair value through profit or loss at their fair value, with gains or losses arising from changes in fair value or de-recognition accounted for through profit or loss for the current period.
- ② Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.
- ③ Receivables are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.
- ④ Available-for-sale financial assets are subsequently measured at their fair value, with gains or losses arising from changes in fair value recognised in Capital reserves. The difference between the disposal proceeds and carrying value of an available-for-sale financial asset on its disposal is recognised as investment gain or loss, with the cumulative gains or losses recognised in Capital reserves de-recognised from Capital reserves and re-recognised as investment gains or losses. Impairment losses and exchange differences of available-for-sale financial assets, if any, are accounted for through profit or loss for the current period. Interests and dividends arising from the possession of available-for-sale financial assets, if any, are recognised as investment gains.
- ⑤ Other financial liabilities and a instrument that is linked to and only settled by delivery of an equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently measured at cost.

A financial guarantee contract or a loan that bears an off-market interest rate, which are not designated by the Company as at fair value through profit or loss, are subsequently measured at the higher of:

- a. the value specified by CAS 13 Contingencies; and
- b. the residual value after deducting the cumulative amortisation determined in accordance with CAS 14 Revenue from the value recognised on its initial recognition.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.

- ⑥ Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The parties to an arm's length transaction shall be going concerns, not subject to or intended to enter the procedures of liquidation or significant reduction in operating capacity, or forced to enter the transaction. The fair value of a financial asset or financial liability for which there is an active market shall be measured at the quoted market price in the active market; the fair value of a financial asset or financial liability for which there is not an active market shall be established by the Company using a valuation technique.

The Company measures initially and subsequently the fair value of an interest rate swap at the value of a competitor's interest rate swap quoted by a recognised financial institution as at the Company's

balance sheet date in accordance with the principle of consistency.

⑦ The residual cost of a financial asset is the residual value after deducting the sum of impairment losses and the principal amount that has been repaid from the sum of its value measured on its initial recognition and the cumulative amortisation of the difference between its value measured on its initial recognition and its value on its maturity determined using the effective interest method. The residual cost of a financial liability is the residual value after deducting the sum of the principal amount that has been repaid and the cumulative amortisation of the difference between its value measured on its initial recognition and its value on its maturity determined using the effective interest method from its value measured on its initial recognition.

⑧ The effective interest rate method is a valuation method for determining the residual value and interest income or/and expense of a financial instrument (or a group of financial instruments) using the effective interest rate. An effective interest rate is the interest rate used to discount the cash flows of a financial instrument (or a group of financial instruments) over its expected life, or a shorter period if it is relevant, to determine its current carrying value. The effective interest rate applicable to a financial instrument (or a group of financial instruments) shall be determined with reference to its future cash flows estimated by taking into account the whole of its contract terms (including but not limited to early repayment rights, call options and option equivalents, but excluding future credit losses).

2.9.3. Transfer and de-recognition of financial assets

① The Company de-recognises a financial asset if it meets either of the following conditions:

- a. the contractual rights to the cash flows from the financial asset expire;
- b. the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have been substantially transferred to the transferee; or
- c. the financial asset has been transferred and the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and not retained control of the financial asset.

② Where the transfer of the whole of a financial asset satisfies the conditions for de-recognition set out in paragraph 2.9.3①, the Company recognises through profit or loss for the current period the difference between:

- a. the carrying value of the financial asset; and
- b. the sum of the proceeds from the transfer and the cumulative gains or losses recognised in Shareholders' equity.

③ Where the transfer of a part of a financial asset satisfies the conditions for de-recognition set out in paragraph 2.9.3①, the fair value of the whole of the financial asset is apportioned accordingly to the transferred part and the part not transferred; and, the Company recognizes through profit or loss for the current period the difference between:

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- a. the carrying value of the transferred part of the financial asset; and
 - b. the sum of the proceeds from the transfer and the cumulative gains or losses attributable to the transferred part of the financial asset recognised in Shareholders' equity.

④ If a transfer of a financial asset does not satisfy the conditions for de-recognition set out in paragraph 2.9.3①, the Company continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. Where the Company is in continuing involvement in a transferred financial asset, the Company continues to recognise the financial asset to the extent of its continuing involvement, and recognises an associated financial liability.

2.9.4. Impairment assessment and impairment allowance

① The company recognises impairment of a financial asset if either of the following is objectively evidential:

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments, by the obligor;
- c. the lender, for economic or legal reasons relating to the obligor's financial difficulty, granting to the obligor a concession that the lender would not otherwise consider;
- d. it becoming probable that the obligor will enter bankruptcy or other financial reorganization;
- e. the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer;
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group;
- g. significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the obligor operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- h. a significant or prolonged decline in the fair value of an investment in an equity instrument; or
- i. other events of impairment.

② The Company assesses the occurrence of impairment of different categories of financial assets and recognises and measures impairment on the balance sheet date using different criteria.

- a. If there is objective evidence that an impairment loss on a held-to-maturity investments has been incurred as at the balance sheet date, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows.
- b. If there is objective evidence that the fair value of an available-for-sale financial asset has experienced a significant decline and the decline is not temporary after considering all relevant information as at the balance sheet date, impairment loss on the available-for-sale financial asset is recognised and the cumulative loss recognised in Shareholders' equity is reclassified from equity to profit or loss as impairment loss.

2.10. Receivables

2.10.1. Receivables of individual significance

Receivables of individual significance	Individual receivables equal to or higher than 5% of total receivables are classified as receivables of individual significance.
Method of recognition of provision for bad debts for receivables of individual significance	Receivables of individual significance are individually assessed for impairment. If it is objectively evidential that a receivable of individual significance is subject to impairment, the excess of the carrying amount over the net present value of the estimated future cash flows is recognised as impairment loss and a provision for bad debts is recognised at the same amount.

2.10.2 Credit-risk-categorised receivables

Basis for categorisation:

Category

Basis

Categorisation by nature of receivables

Receivables not individually assessed for impairment are categorised on the basis of credit risk. Provision for bad debts for each category of receivables is recognised at the actual rate of loss for the previous year of the same or similar category bearing similar credit risk characteristics after adjustment for the current year circumstances.

Method of recognition of provision for bad debts for categorised receivables:

Category

Method of recognition

Categorisation by nature of receivables

Percentage of carrying amount

Categories of receivables subject to provision for bad debts by percentage of carrying amount:

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

2.10.3 Receivables of individual insignificance subject to individual assessment for impairment

Justification for individual assessment for impairment	If it is objectively evidential that a receivable of individual insignificance bears differing credit risk characteristics to other receivables of individual insignificance, the receivable is subject to individual assessment for impairment.
Method of recognition of provision for bad debts for receivables of individual insignificance subject to individual assessment for impairment	The provision for bad debts for an receivable of individual insignificance subject to individual assessment for impairment is recognised as the excess of the carrying amount over the net present value of the estimated future cash flows; an impairment loss is recognised at the same amount.

2.11. Inventories

2.11.1. Categorisation of inventories

The Company's inventories include materials or supplies to be consumed by the Company in the rendering of services during the Company's ordinary operating activities. The Company categorises its inventories as air materials and low-value consumables.

2.11.2. Cost of inventories

The cost of inventories at their acquisition is measured at their actual cost of purchase. The cost of inventories at their issue is determined using the first-in, first-out (FIFO) cost formula.

2.11.3. Net realisable value and impairment of inventories

① Determination of net realisable value of inventories

The net realisable value of finished goods, products and sellable materials is measured as the residual value after deducting the estimated sales expense and related taxes and fees from the estimated selling price. The net realisable value of an item of inventories subject to further processing is measured as the residual value after deducting the sum of the estimated costs of completion, sales expense and related taxes and fees from the estimated selling price of the sellable item. The net realisable value of the quantity of inventories held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices.

② Impairment of inventories

The Company measures inventories at the lower of historical costs and net realisable values as at the balance sheet date. If the net realisable value is lower than the historical cost of an item of inventories as at the balance sheet date, an impairment allowance is recognised. An impairment allowance, if any, is generally individually recognised for each type of inventories except:

a. an individual impairment allowance, if any, is recognised for the whole category of inventories of low value and large quantities; and

b. an individual impairment allowance, if any, is recognised for a group of inventories, which are held for the production and sales of products of a single territory and for identical or similar usages or purposes, and which are indistinguishable from other types of inventories within the group.

When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed and the associated impairment allowance de-recognised and re-recognised through profit or loss for the period in which the reversal occurs.

2.11.4. Stocktaking

The Company adopts the perpetual stocktaking system.

2.11.5. Amortisation of low-value consumables and packaging materials

The Company amortises consumables in full when they are issued for use.

2.12. Long-term equity investments

The Company's long-term equity investments include the Company's equity investments in an investee which constitute the Company's control, joint control or significant influence over the investee and the Company's equity investments in an investee which do not constitute the Company's control, joint control or significant influence over the investee and of which the fair value is not quoted in an active market.

2.12.1. Initial measurement of long-term equity investments

Long-term equity investments are initially measured using the following two methods:

① Initial measurement of long-term equity investments acquired through business combination

a. The cost of a business under common control acquired by the Company by payment in cash, non-monetary asset transfer, or assuming the acquiree's liabilities is initially measured at the carrying value of the equity instruments acquired as at the acquisition date, with the excess of the (carrying) value of cash paid, assets transferred, or liabilities assumed over the initially measured cost debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is insufficient. The cost of a business under common control acquired by the Company by share issues is initially measured at the carrying value of the equity instruments acquired as at the acquisition date, with the excess of the total value at par of shares issued over the initially measured cost debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is insufficient. Expenses incurred directly for the acquisition, including but not limited to audit fees, valuation fees and legal fees, are recognised through profit or loss for the period in which the expenses are incurred.

b. The cost of a business not under common control acquired by the Company is initially measured at the fair value of assets transferred, liabilities incurred or assumed, or shares issued for the

acquisition as at the transaction date. The excess of the initially measured cost over the net of the carrying values of the identifiable assets acquired and the liabilities assumed as at the acquisition date is recognised as goodwill. The excess of the net of the carrying values of the identifiable assets acquired and the liabilities assumed as at the acquisition date over the initially measured cost is recognised through profit or loss for the current period in Non-operating revenue. Fees paid to advisers including auditors, solicitors, valuers, consultants, etc. and other related administrative expenses are accounted for through profit or loss for the reporting period during which they are incurred; transaction costs incurred by the acquirer directly attributable to the issuance of equity instruments or debt instruments, which are consideration for the acquisition, are capitalised as part of the initial measurement of the relevant equity instruments or debt instruments.

Differing accounting treatments shall be applied to the consolidated financial statements and the acquirer's separate financial statements for a business combination not under common control achieved in stages:

(I) In the acquirer's separate financial statements, the cost of investment of a business combination not under common control achieved in stages is initially measured as the sum of the carrying amount of the investment immediately before the additional investment and the cost of the additional investment; if the carrying amount of the investment immediately before the additional investment includes other comprehensive income, the related other comprehensive income (such as changes in fair value of available-for-sale financial assets accounted for in capital reserves, hereafter the same applied) is transferred to investment income for the reporting period during which the investment is disposed.

(II) In the consolidated financial statements, the carrying amount of the investment immediately before the additional investment is adjusted to the fair value of the existing investment as at the acquisition date of the additional investment and the difference between the carrying amount of the investment immediately before the additional investment and the fair value of the existing investment as at the acquisition date of the additional investment is accounted for in investment income for the reporting period during which the additional investment is acquired; if the carrying amount of the investment immediately before the additional investment includes other comprehensive income, the related other comprehensive income is transferred to investment income for the reporting period during which the additional investment is acquired. The fair value of the existing investment as at the acquisition date of the additional investment and the gain or loss arising from the fair value adjustment are disclosed in the notes to the financial statements.

- ② Initial measurement of long-term equity investments acquired not through business combination
- a. The cost of a long-term equity investment acquired by the Company by payments in cash is initially measured at the sum of the consideration transferred and the fees, taxes and necessary expenses directly attributable to the acquisition, with the value of declared-but-unpaid cash dividends included in the consideration separately recognised as receivables.
 - b. The cost of a long-term equity investment acquired by the Company by share issues is initially measured at the fair value of shares issued for the acquisition as at the issuance date.

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- c. The cost of a long-term equity investment acquired by the Company by direct shareholder contribution is initially measured at the value agreed upon the investment contract or agreement, excluding a contract value or agreement value that is inconsistent with the definition of fair value.
- d. The cost of a long-term equity investment acquired by the Company by non-monetary asset transfer is initially measured at the sum of the fair values of the assets transferred to the transferee and the taxes directly attributable to the asset transfer, with the difference between the fair values of the assets transferred to the transferee and their carrying values as at the transaction date recognised through profit or loss for the current period, where the exchange of non-monetary assets for equity instruments is transacted on a commercial basis and the fair values of the assets transferred and equity instruments acquired can be reliably measured; or, at the sum of the carrying values of the assets transferred to the transferee and the taxes directly attributable to the asset transfer, where the exchange of non-monetary assets for equity is not on a commercial basis or the fair values of the assets transferred or equity instruments acquired can not be reliably measured.
- e. The cost of a long-term equity investment acquired by the Company through the investee's debt restructuring is initially measured at the fair values of the equity instruments acquired, with the difference between the initially measured cost and the carrying value of the original loans to the investee as at the restructuring date recognised through profit or loss for the current period.

2.12.2. Subsequent measurement and recognition and measurement of gains or losses

Long-term equity investments in subsidiaries are subsequently measured at cost. In preparing consolidated financial statements, the long-term equity investments in subsidiaries are adjusted using the equity method.

Long-term equity investments which do not constitute the Company's joint control or significant influence over the investee, of which the fair value of equity instruments is not quoted in an active market and can not be measured reliably, are subsequently measured at cost.

Long-term equity investments which constitute the Company's joint control or significant influence over the investee are subsequently measured by the equity method.

a. If a long-term equity investment is subsequently measured at cost, further acquisition or disposal of the investment increases or reduces the cost of the investment accordingly; dividends or share of profits, except those included in the consideration which has been declared but not received, are recognised through profit or loss for the current period.

b. If a long-term equity investment is subsequently measured by the equity method, its carrying value is adjusted by the share of the investee's net profit or loss.

Gain or loss for the current period is measured at the share of the net profit or loss of the investee for the current period. When determining the net profit or loss of the investee, where the investee adopts different accounting policies, the net profit or loss reported by the investee is adjusted by the depreciation or amortisation calculated on the basis of the fair value of the investee's fixed assets or intangible assets as at acquisition and the impairment provisions determined on the basis of the fair

value of the relevant assets of the investee as at acquisition; transactions between the Company and associates or joint ventures are also eliminated. The losses arising from transactions between the Company and associates or joint ventures are wholly recognised as asset impairment if the losses meet the conditions set by CAS 8 – Asset Impairment.

Losses of a long-term equity investment reduce the carrying value of the investment to zero as the furthest. If the cumulative value of subsequent profits of the investee becomes higher than the cumulative value of unrecognised losses, the excess of the cumulative profits over the cumulative unrecognised losses is recognised in the carrying value of the investment.

Where a long-term equity investment existed prior to the first adoption of CAS, the excess of consideration over acquired net assets of the investee as at the adoption date, if any, is amortised over the remaining life determined at the acquisition using the straight line method; the amortisation is recognised through profit or loss for the current period.

2.12.3. Joint control and significant influence

① The Company has joint control over an investee if the investment meets one of the following conditions:

- a. neither of the investors can individually influence the operation of the investee;
- b. decisions of the investee's must be approved by the general consensus of the investors; or
- c. an individual investor is authorised by an agreement of contract signed by each investor to manage the investee's operation in accordance with the accounting and operation policies agreed by each investor.

Investors may lose joint controls over an investee where the investee is in the procedures of legal administration or bankruptcy, or where the investee's ability to transfer economic resource to investors is severely limited for a substantial length of time; however, if it is objectively evidential that the joint control exists, the investors shall continue to recognise and measure the investment using the equity method.

② The Company has significant influence over an investee if:

- a. the Company has delegates in the investee's Board of Directors or similar body;
- b. the Company participates in the investee's policy making process, including the policy making process for declaration of dividends;
- c. the Company has significant transactions with the investee;
- d. the Company has delegated personnel to the investee's management; or
- e. the Company has provided key technology to the investee.

2.12.4. Impairment of long-term equity investments

The Company assesses the operation policies, legal environment, market and industry conditions, and profitability each long-term equity investment individually on the balance sheet date to determine whether an investment is subject to impairment. If the net recoverable value of an investment is lower

than its carrying value as at the balance sheet date, an impairment provision is recognised at the excess of its carrying value over the net recoverable value as at the balance sheet date. A recognised impairment loss of an investment is not recoverable in subsequent periods.

2.13. Fixed Assets

2.13.1. Recognition

A fixed asset is a tangible asset the Company holds for the purpose of production, service rendering, leasing and operation, of which the useful life is longer than one year and which has a relatively higher value. A fixed asset is measured at the cost of acquisition if it meets both of the following conditions:

- ① it is probable that the economic benefits associated with the asset will flow to the Company; and
- ② the cost of the asset can be measured reliably.

Subsequent expense associated with the asset, which meets the above conditions, is recognised as parts of its cost; otherwise, through profit or loss for the period in which the expense is accrued.

2.13.2. Depreciation

Fixed assets are depreciated using the straight line method. The useful life, residual value percentage and annual depreciation are listed below.

Types	Residual value percentage(%)	Expected useful life(years)	Annual depreciation rate(%)
Houses and building	5.00	27-33	2.88-3.52
Key components and power supports of aircraft engine	5.00	15-20	4.75-6.33
Replacement parts of aircraft body	0.00	6-8	12.5-16.67
Replacement parts of engine	0.00	3-5	20-33.33
Equipments, electronic devices and furniture	0-5.00	4-10	9.5-23.75
High value rotables	0.00	15-18	5.56-6.67
Transportation vehicles	5.00	5-10	9.5-19.00

2.13.3. Impairment

The Company assesses each non-current asset for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of a non-current asset is lower than its carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of a non-current asset is not recoverable in subsequent periods. A non-current asset is impaired if one of the following is evidential:

- ① its fair value decreased significantly during the current period with a decrease rate significantly higher than the rate estimated on the basis of time or normal usage;
- ② the economic, technological or legal environment, in which the Company operates or in which

the asset is located, changed during the current period or is going to change in the near future; and, e the change caused or is going to cause significant disadvantage to the Company;

- ③ the rate for discounting future cash flows, which has been affected by the increased interest rate or investment return rate, has led to a significant decrease of the asset's recoverable value;
- ④ the asset is either obsolete or physically damaged;
- ⑤ the asset has been or is going to be retired, terminated for usage or disposed prior to the end of its use life;
- ⑥ the Company recognised internally that the asset's associated economic benefit has been or is going to be below expectation, eg. the net cash flows or net profit or loss significantly lower than the expected value; or
- ⑦ there is other evidence which suggests the asset has been impaired.

2.13.4. Leased fixed assets

If the Company acquired substantially the risks attached to and the economic benefits associated with a leased non-current asset, the asset is recognised. The asset is measured at the lower of the asset's fair value as at the lease-commence date and the net present value of the minimum lease payment. The depreciation policies for owned non-current assets are applicable to leased non-current assets. The expected useful life of a leased asset, of which the ownership is reasonably transferrable to the Company after the expiry of the lease, is the asset's own expected useful life; the expected useful life of a leased asset, of which the ownership is not reasonably transferrable to the Company, is the shorter of the lease life and the asset's own expected useful life.

2.14. Construction-in-progress

2.14.1. Categorisation

The Company categorises construction-in-progress on the basis of project approval.

2.14.2. Conversion of construction -in-progress to fixed assets

A construction-in-progress is recognised as a fixed asset when it satisfied the predetermined usable state. A converted construction-in-progress is initially measured at its full construction cost. A converted construction-in-progress of which the construction cost is not fully recognised is initially measured at a reasonable estimate; and, the initial measured cost is adjusted to its full construction cost when the construction is fully recognised; but, its recognised depreciation as at the full recognition is not adjusted.

2.14.3. Impairment

The Company assesses each construction-in-progress for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of a construction-in-progress is lower than its

carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of a construction-in-progress is not recoverable in subsequent periods. A construction-in-progress is impaired if one or more of the following are evidential:

- ① the project has been suspended for a substantially long period of time and of which the construction is not to be re-activated within three years;
- ② either the capability or the technology of the project is obsolete and the economic benefit associated with the project is highly indeterminable; or
- ③ there is other evidence which suggests the project has been impaired.

2.15. Borrowing costs

2.15.1. Capitalisation of borrowing costs

The borrowing costs directly attributable to asset construction or production are capitalised into cost of asset when they meet the following conditions:

- ① the asset construction or production expense has been incurred;
- ② the borrowing costs have been incurred; and
- ③ the construction or production which directly contributes to the usable state of the asset has been activated.

Other borrowing costs, discounts, premiums and exchange differences are accounted for through profit or loss of the period in which they are incurred.

If the construction or production of an asset eligible for capitalisation has suspended not in accordance with schedule, where the suspension has lasted continuously for a period longer than three months, the capitalisation of relevant borrowing costs is suspended.

The capitalisation of relevant borrowing costs is terminated when a constructed or produced asset reaches its usable or sellable state. Any subsequent borrowing cost associated with the asset is accounted for through profit or loss for the period in which it is incurred.

2.15.2. Measurement of capitalised borrowing costs

The capitalised borrowing costs of a finance specifically raised for an asset construction or production are measured at the excess of the borrowing costs over the interests arising from the deposit of the unused part of the finance or the gains arising from the investment using the unused part of the finance for the relevant period.

Where the value of an asset construction or product is higher than the finance specifically raised for the construction or production, the capitalised borrowing costs of the part of general finance used by the construction or production are measured by multiplying the weighted average of the excess of the asset value over the specific-raised finance with the capitalisation rate of general finance.

2.16. Intangible assets**2.16.1. Measurement**

Intangible assets are initially measured at cost.

2.16.2. Useful life and amortization

The period during which an intangible asset is reasonably capable of generating economic benefits for the Company with reference to its contractual rights and other legal rights, industry practice, historical experience, and professional evidence is determined as the asset's useful life. If a period during which an intangible asset is reasonably capable of generating economic benefits for the Company is not determinable, the asset is categorised as with undeterminable useful life.

- ① The useful life of an intangible asset with useful life is determined on the basis of:
- a. the general useful life of products produced by the asset and the obtainable information in relation to the useful life of a similar asset;
 - b. the current condition and estimated future trends of technology and techniques;
 - c. the market demand for products produced or service rendered by the asset;
 - d. the expected reaction of existing and potential competitors;
 - e. the estimated maintenance expense for the continuance of the asset's ability in generating economic benefits and the Company's estimated ability in maintaining the expense;
 - f. the relevant law and regulation which regulate the ownership period of the asset, eg. chartered usage rights and lease rights; and
 - g. the connection between the useful life of the asset and the useful life of the Company's other assets.
- ② An intangible asset with undeterminable useful life is amortised using a reasonable method determined by the realisation process of the asset's expected economic benefit. Where a reasonable amortisation method is undeterminable, the asset is amortised using the straight line method.

2.16.3. Impairment of intangible assets with undeterminable useful life

- ① The Company assesses the useful life of each intangible asset with undeterminable useful life on the balance sheet date. If the useful life of an asset remains undeterminable, the asset is assessed for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of an intangible asset with undeterminable useful life is lower than its carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of an intangible asset with undeterminable useful life is not recoverable in subsequent periods. An intangible asset with undeterminable useful life is assessed for impairment if one or more of the following are evidential:
- a. the asset has been replaced by another new technology which renders its ability to generate economic benefit for the Company being significantly devastated;

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- b. the asset's fair value has decreased significantly during the period and it may not increase during the remaining life of the asset; or
- c. there is there is other evidence which suggests the asset has been impaired.

2.16.4. Research and development

Research expenses associated with an internal development project are accounted for through profit or loss for the period in which they are incurred. Development expenses associated with an internal development project are recognised as intangible assets if the project meets all of the following:

- ① assets arising from the project are either for sale or for internal use and it is technically viable to complete the project;
- ② the Company has clear intention to complete the intangible asset and to use or sell the asset;
- ③ it is objectively evidential that products produced by the intangible or the intangible asset itself are marketable or that the intangible asset is employable if used internally;
- ④ it is practical, in terms of technology, finance and other resources, to complete the development of the intangible asset and to use or sell the intangible asset; and
- ⑤ development expenses of the development of the intangible asset can be measured reliably.

2.17. Regular repair and substantial repair

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

2.18. Long-term deferred expenses

The Company's long-term deferred expenses refer to expense which has been incurred but which generates economic benefit for the Company for a period of longer than one year, such as expenses for pilots' initial trainings. Those expenses are amortized at 10 years according to their benefit period respectively. When a pilot is transferred from the Company, the cost of transfer is the unamortized part of the original expenditure.

2.19. Accrued liabilities

2.19.1. Recognition of accrued liabilities

The obligations related to some items that meet the following conditions at the same time will be confirmed as the liabilities:

- ① This obligation is the current obligation of the company;
- ② The performance of this obligation will probably cause the economic benefits to flow out of the

company;

③The amount of this obligation can be reliably calculated.

The Company should recognize accrued liabilities, when the Company's loss contract and restructuring liabilities undertaken satisfied above conditions.

2.19.2. The measurement of accrued liabilities

The accrued liabilities are initially measured in accordance with the best estimated outflow of economic benefits to fulfill the current obligation as well as related risks regarding the contingencies, uncertainties and time value of money. Significant impact on the time value of money the best estimation is determined through the related discounted future cash outflows. The increase of book value of accrued liability caused due to the passage of time is recognized as interest.

2.19.3. Optimum evaluation of accrued liabilities

If the necessary payments have scopes, the optimum evaluation shall be determined based on the average amount between the upper and lower limit amount of scope ; if the necessary payments do not have such scopes, the optimum evaluation shall be determined in the following method:

① If the contingent event is involved in an individual project, the optimum evaluation amount will be determined based on the possible amount;

② If the contingent event is involved in some projects, the optimum evaluation amount shall be determined based on possible amount and occurrence probability. In case of all or part of payments about the confirmed liquidation liabilities are expected to be compensated by the third parties or other parties, and the compensation amounts are surely received, then such amounts shall be separately recognized. The confirmed compensation amounts shall not exceed book values of confirmed liabilities

2.20. Revenue

2.20.1. Service rendering

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

② If the service is rendered in conjunction with reward points, the amount arising from ticket sales and of receivables shall be apportioned between revenue and reward points. The amount apportioned to reward points is initially recognised as deferred income and subsequently accounted for through

profit or loss for the period in which the reward points expire or are exchanged.

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

2.20.2. Transfer of asset use rights

Revenue is recognised when the inflow of the economic benefit associated with the transfer is probable and when the amount of the inflow can be measured reliably. Revenue arising from transfer of asset use rights is recognised according to the income category:

- ① interest income is recognised on the basis of the length of time for which the Company's monetary asset is used by other parties using the effective interest rates;
- ② use right income is recognised in accordance with the payment schedules and means agreed in the relevant contracts or agreements.

2.21. Government grants

2.21.1. Recognition

- ① The Company meets the conditions attached to the grant; and
- ② The Company is probable to receive the grant.

2.21.2. Types of government grants and accounting for government grants

- ① A grant associated with an asset is recognised as deferred income when the grant is received. The grant is subsequently averaged over the useful life of the asset and the average is accounted for through profit or loss for subsequent periods during the asset's useful life after the asset reaches its usable state. If the asset is disposed, transferred, scrapped or damaged prior to the end of its useful life, the whole of the remaining deferred income is accounted for through profit or loss for the period in which the asset is disposed, transferred, scrapped or damaged.
- ② A grant compensating expenditure or loss in subsequent periods is initially recognised as deferred income and subsequently accounted for through profit or loss for the period in which the relevant expenditure or loss is incurred. A grant compensating expenditure or loss already incurred is accounted for through profit or loss for the period in which the grant is received.

2.21.3. Measurement

A grant that is in the form of monetary asset is measured at the amount of actual receipt or actual receivable. A grant that is in the form of non-monetary asset is measured at fair value or at notional value if fair value can not be obtained.

2.21.4. Repayment of government grants

- ① If there is deferred income associated with the grant, the carrying value of the deferred income is

reduced by the repayment. The excess of the repayment over the carrying value of the deferred income is accounted for through profit or loss for the period in which the repayment is incurred.

② If there is not deferred income associated with the grant, the repayment is accounted for through profit or loss for the period in which the repayment is incurred.

2.22. Deferred income tax assets and deferred income tax liabilities

The Company accounts for income taxes by the balance sheet approach.

The Company calculates the value of a deferred income tax asset or deferred income tax liability on the basis of the difference between the carrying value of an asset or liability and its tax base and the income tax rates applicable to the period through which the asset or liability is recovered or settled.

2.22.1. Recognition of deferred income tax assets

① A deferred income tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that:

- a. is not a business combination; and
- b. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

② A deferred income tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:

- a. the temporary difference will reverse in the foreseeable future; and
- b. taxable profit will be available against which the temporary difference can be utilised.

③ A deferred income tax asset is recognised for all tax losses and tax credits eligible for being carried forward to the extent that it is probable that taxable profit will be available against which the tax losses and tax credits can be utilised.

2.22.2. Recognition of deferred income tax liabilities

A deferred income tax liability is recognised for all taxable temporary differences, except to the extent that the deferred income tax liability arises from:

- ① the initial recognition of goodwill; or
- ② the initial recognition of an asset or liability in a transaction which:

- a. is not a business combination; and
- b. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

③ A deferred income tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- a. the parent, investor or venturer is able to control the timing of the reversal of the temporary

difference; and

b. it is probable that the temporary difference will not reverse in the foreseeable future.

2.22.3. The carrying value of a deferred income tax asset is assessed on the balance sheet date. It is probable that there is not enough taxable profit in the future against which the deferred income tax asset can be utilised, the carrying value of the deferred income tax asset is written off; when it becomes probable again that there is enough taxable profit in the future against which the deferred income tax asset can be utilised, the write-off is reversed.

2.23. Financial leases and operating leases

2.23.1. Operating leases

① When the Company is the lessee to a operating lease, the total lease expenditure is apportioned over the lease life using the straight line method or on the basis of the leased asset usage. The apportioned amount is recognised through profit or loss for the relevant period. Initial expenditure directly attributable to the acquisition of the lease is recognised in administrative expenses for the period in which the expenditure is incurred or recognised through profit of loss for the period in which the first lease payment is incurred. If a rent holiday is offered by the lessor, the total expenditure is apportioned over the whole life of the lease using the straight line method or on a reasonable basis; the lease expense during the rent holiday is accounted for through profit or loss for the relevant period and recognised as a liability on the balance sheet. If a part of the total lease expenditure is compensated by the lessor, the residual amount after deducting the compensation from the total lease expenditure is apportioned over the lease life.

② When the Company is the lessor to a operating lease, the total lease revenue is apportioned over the lease life. The apportioned amount is recognised through profit or loss for each year of the lease life. Initial expenditure directly attributable to the grant of the lease is recognised through profit or loss for the period in which it is incurred. If the initial expenditure is of significant value, it is capitalised and apportioned over the lease life using the same method adopted for the apportionment of lease revenue; the apportioned amount is recognised through profit or loss for each year of the lease life. The initial expenditure of significant value is recognised in full through profit or loss for the period in which the first lease income is accrued if the recognition is so provided by an agreement. If a rent holiday is offered, the total lease revenue is apportioned over the whole life of the lease using the straight line method or on a reasonable basis. The apportioned amount is recognised as lease income for each year of the lease life, including the years within the rent holiday. If a part the total lease expenditure is compensated by the lessor, the residual amount after deducting the compensation from the total lease revenue is apportioned over the lease life.

2.23.2. Financial leases

① When the Company is the lessee to a financial lease, the Company recognises on the lease start date the leased asset at the lower of its fair value as at the lease start date and the minimum total lease payments; the minimum total lease payments is recognised as long-term payables; and, the excess of the minimum total lease payments over the leased asset's fair value as at the lease start date is accounted for as unrecognised financing cost and amortised over the life of the lease using the effective interest rate method with the amortised amount recognised in financial costs for the relevant period. Initial expenditure directly attributable to the acquisition of the lease is recognised as a part of the leased asset's carrying value.

The depreciation policies for owned depreciable assets are applicable to an asset leased under a financial lease. The expected useful life of a leased asset, of which the ownership is reasonably transferrable to the Company after the expiry of the lease, is the asset's own expected useful life; the expected useful life of a leased asset, of which the ownership is not reasonably transferrable to the Company, is the shorter of the lease life and the asset's own expected useful life.

② When the Company the lessor to a financial lease, the Company recognises on the lease start date the sum of initial expenditure directly attributable to the grant of the lease and the minimum total lease revenue as long-term receivables; and, the unguaranteed residual value is recorded. The excess of the sum of the minimum total lease revenue, initial expenditure directly attributable to the grant of the lease and unguaranteed residual value over the leased asset's fair value as at the least start date is accounted for as unrealised financing income and amortised over the lease life using the effective interest rate method with the amortised amount recognised as rental income for the relevant period.

2.24. Significant changes of accounting policies and accounting estimates

There is no significant change of accounting policies and accounting estimates for the Company during the reporting period.

Note 3. Taxation

3.1. Major taxes and tax rates

The major taxes and tax rates applicable to the Company are listed below:

Tax	Tax base	Tax rate
Operating tax	Revenue from air service for carriage of goods and passengers and from commission or rental service	3% 、 5%
Enterprise income tax	Taxable profit	25%

Other taxes applicable to the Company are calculated in accordance with the relevant law and regulation.

3.2. Infrastructure fund for civil aviation

Infrastructure fund for civil aviation is calculated in accordance with the guidance set out in

CaiZong[2004] No.38 (财政部 关于印发民航基础设施建设基金征收使用管理暂行办法) issued by the Ministry of Finance. CaiZong[2004] No.38 provides that infrastructure fund and civil aviation shall be calculated using the rates set out within applicable to the relevant category of flight routes, maximum departure weight and flight distance adopted by the civil aviation industry.

3.3. Tax incentives

3.3.1. Fuel surcharge collected by aviation incorporation upon approval is exempted for operating tax purposes for the period from January 1st, 2008 to December 31st, 2010 as provided by CaiShui[2008]No.178 (财政部 国家税务总局 关于航空公司燃油附加费免征营业税的通知).

3.3.2. Revenue earned by domestic individuals and incorporation domiciled in the PRC for the provision of international transportation services is exempted for operating tax purposes as from January 1st, 2010 as provided by Caishui[2010]No.8 (财政部国家税务总局关于国际运输劳务免征营业税的通知)

Note 4. Business combination and consolidated financial statements

4.1. Subsidiaries acquired through incorporation or investment

<u>Name of subsidiary</u>	<u>Type of subsidiary</u>	<u>Place of registration</u>	<u>Nature of business</u>	<u>Registered capital</u>	<u>Business scope</u>
Qingdao International Air Logistics Centre Co., Ltd (hereafter, Qingdao Logistics)	Holding subsidiary	Shandong Qingdao	Transportation warehousing	CNY 30,000,000.00	Warehousing and distribution of air cargo, E-commerce, etc

(Continued)

<u>Name of subsidiary</u>	<u>Actual investment value as at December 31,2010</u>	<u>Ending balances of projects constituting net investment in the subsidiary</u>	<u>Shareholding proportion (%)</u>	<u>Voting right (%)</u>
Qingdao Logistics	23,813,205.97	0.00	70.00	70.00

(Continued)

<u>Name of subsidiary</u>	<u>Financial statement consolidation</u>	<u>Minority interest</u>	<u>Value of minority interest that utilized to write off the profits or losses attributed to minority shareholders</u>	<u>The balance of parent company's equity, that is equal to the parent shareholders' equity less the subsidiary's current loss undertaken by the minority shareholders according their share quotient at the beginning of the period</u>
Qingdao Logistics	Yes	13,462,271.78	0.00	0.00

4.2. Subsidiaries acquired through business combination not under common control

<u>Name of subsidiary</u>	<u>Type of subsidiary</u>	<u>Place of registration</u>	<u>Nature of business</u>	<u>Registered capital</u>	<u>Business scope</u>
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao Feisheng)	Wholly-owned subsidiary	Shandong Qingdao	Pilot training	CNY 51,545,500.00	Development and application of civil aviation technology; pilot training and related activities and consultancy

(Continued)

<u>Name of subsidiary</u>	<u>Actual investment value as at December 31, 2010</u>	<u>Ending balances of projects constituting net investment in the subsidiary</u>	<u>Shareholding proportion (%)</u>	<u>Voting right (%)</u>
Qingdao Feisheng	57,677,479.46	0.00	100.00	100.00

(Continued)

<u>Name of subsidiary</u>	<u>Financial statement consolidation</u>	<u>Minority interest</u>	<u>Value of minority interest that utilized to write off the profits or losses attributed to minority shareholders</u>	<u>The balance of parent company's equity, that is equal to the parent shareholders' equity less the subsidiary's current loss undertaken by the minority shareholders according their share quotient at the beginning of the period</u>
Qingdao Feisheng	Yes	0.00	0.00	0.00

4.3. Change of the scope of consolidation

4.3.1. Change of the scope of consolidation

Shares of Qingdao Feisheng previously held by SDA Group were acquired by the Company on November 29th, 2010. Immediately after the share acquisition, Qingdao Feisheng became a wholly-owned subsidiary of the Company, see Note 4.4 for details of the acquisition of Qingdao Feisheng. Apart from the acquisition of Qingdao Feisheng, the scope of consolidation for the current reporting period remained unchanged from the last reporting period.

4.4. Business combination not under common control during the current reporting period

The acquisition of 100% shareholding in Qingdao Feisheng from SDA Group was effected during the current reporting period per share transfer agreement by SDA Group and the Company signed on March 1st, 2010. The registration of the change of share ownership was completed on November 29th, 2010. Qingdao Feisheng became a wholly-owned subsidiary of the Company as from the completion date of the registration of the change of share ownership.

<u>Acquiree</u>	<u>Goodwill</u> recognised upon acquisition	<u>Measurement of goodwill</u> upon acquisition
Qingdao Feisheng	10,220,816.22	The excess of the fair value of the acquisition-date identifiable net assets of Qingdao Feisheng over the cost of acquisition (note)

Note: The fair value and carrying amount of the net identifiable assets of Qingdao Feisheng as at November 29th, 2010 upon the valuation carried out by the management of the Company are presented below:

<u>Items</u>	<u>Fair value</u>	<u>Carrying amount</u>
Monetary funds	7,644,829.83	7,644,829.83
Accounts receivable	10,591,056.50	10,591,056.50
Other receivables	229,850.00	229,850.00
Fixed assets	53,627,418.97	64,050,227.36
Deferred tax assets	229,127.01	229,127.01
Accounts payable	-1,119,342.75	-1,119,342.75
Taxes payable	25,367.22	25,367.22
Interests payable	-264,599.08	-264,599.08
Other payables	-2,907,044.46	-2,907,044.46
Long-term borrowings	-20,600,000.00	-20,600,000.00
Net assets	47,456,663.24	57,879,471.63
Goodwill recognised upon acquisition	10,220,816.22	
Cost of acquisition	57,677,479.46	

Note 5. Main items of the consolidated financial statements

5.1. Monetary funds

<u>Currency</u>	<u>2010.12.31</u>			<u>2009.12.31</u>		
	<u>Original</u> currency	<u>Exchange</u> rate	<u>Presentation</u> currency	<u>Original</u> currency	<u>Exchange</u> rate	<u>Presentation</u> currency
Cash on hand						
CNY	351,682.13	1.000000	351,682.13	262,286.69	1.000000	262,286.69
HKD	4,386.60	0.850930	3,732.69	386.60	0.880500	340.40
USD	21,819.25	6.622700	144,502.35	1,057.92	6.828200	7,223.69
GBP	1,377.70	10.218200	14,077.61	362.80	10.978000	3,982.82
CAD	10.00	6.603100	66.03	10.00	6.517100	65.17

Currency	2010.12.31			2009.12.31		
	Original currency	Exchange rate	Presentation currency	Original currency	Exchange rate	Presentation currency
JPY	582,000.00	0.081260	47,293.32	0.00	0.073800	0.00
EUR	514.00	8.806500	4,526.54	6,870.00	9.797100	67,306.08
TWD	1,680.00	0.226180	379.98	0.00	0.221200	0.00
Subtotal			<u>566,260.65</u>			<u>341,204.85</u>
Bank						
CNY	143,126,509.59	1.000000	143,126,509.59	47,952,878.72	1.000000	47,952,878.72
USD	627,267.34	6.622700	4,154,203.41	126,124.43	6.828200	861,202.83
KRW	40,902,359.18	0.005823	238,174.43	30,317,123.00	0.005876	178,143.41
TWD	1,038,562.00	0.226180	234,901.82	0.00	0.221200	0.00
JPY	3,522,454.00	0.081260	286,234.61	0.00	0.073800	0.00
Subtotal			<u>148,040,023.86</u>			<u>48,992,224.96</u>
Other monetary funds						
CNY	184,966,363.25	1.000000	184,966,363.25	144,732,312.88	1.000000	144,732,312.88
Subtotal			<u>184,966,363.25</u>			<u>144,732,312.88</u>
Total			<u>333,572,647.76</u>			<u>194,065,742.69</u>

5.1.1. Other monetary funds as at December 31st, 2010 include monetary funds with restriction-on-movement imposed amounting to 184,966,363.25, within which guarantee deposits for bankers' acceptance and guarantee deposits for Hui Li Da financing contracts amount to 34,800,000.00 and 150,166,363.25 respectively.

5.1.2. The balance carried forward of monetary funds increased for 71.89% from the balance brought forward. The increased mainly resulted from the increased amount of guarantee deposits for Hui Li Da financing contracts.

5.2. Financial assets held for trading

Item	Fair value as at 2010.12.31 (CNY)	Fair value as at 2010.01.01 (CNY)
Interest rate swaps	<u>9,290,846.62</u>	<u>11,341,846.48</u>
Total	<u>9,290,846.62</u>	<u>11,341,846.48</u>

5.2.1. The notional principal of immature interest rate swaps held as at December 31st, 2010 amounted to USD 174,301,892.40; and, the market value of the swaps as at December 31st, 2010 quoted by the bank amounted to CNY 9,290,846.62 (USD 1,402,878.98).

5.3. Accounts receivables

5.3.1. Disclosure by classification

<u>Category</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion (%)</u>	<u>Amount(CNY)</u>	<u>Proportion (%)</u>
Accounts receivable of individual significance	159,361,519.11	81.68	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	34,824,626.72	17.85	1,741,231.34	5.00
Subtotal of category	34,824,626.72	17.85	1,741,231.34	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>916,508.05</u>	<u>0.47</u>	<u>916,508.05</u>	<u>100.00</u>
Total	<u>195,102,653.88</u>	<u>100.00</u>	<u>2,657,739.39</u>	<u>1.36</u>

(Continued)

<u>Category</u>	<u>2009.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion (%)</u>	<u>Amount(CNY)</u>	<u>Proportion (%)</u>
Accounts receivable of individual significance	130,379,296.86	91.06	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	12,806,946.47	8.94	640,347.37	5.00
Subtotal of category	12,806,946.47	8.94	640,347.37	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>143,186,243.33</u>	<u>100.00</u>	<u>640,347.37</u>	<u>0.45</u>

① Classification of accounts receivable: See Note 2.10 for criteria for classification of accounts receivable of individual significance, categorised accounts receivable and accounts receivable of individual insignificance subject to individual assessment for impairment.

② Categories of accounts receivable subject to provision for bad debts by percentage of carrying amount

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>34,824,626.72</u>	5.00	<u>1,741,231.34</u>
Total	<u>34,824,626.72</u>		<u>1,741,231.34</u>

5.3.2. Accounts receivable of individual insignificance subject to individual assessment for impairment:

<u>Details</u>	<u>Book value(CNY)</u>	<u>Bad debts(CNY)</u>	<u>Proportion (%)</u>	<u>Comment</u>
CR Airways	<u>916,508.05</u>	<u>916,508.05</u>	100.00	Individually assessed as uncollectable
Total	<u>916,508.05</u>	<u>916,508.05</u>		

5.3.3. Accounts receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2010.12.31</u>		<u>2009.12.31</u>	
	<u>Amount(CNY)</u>	<u>Provision for bad debts (CNY)</u>	<u>Amount(CNY)</u>	<u>Provision for bad debts (CNY)</u>
Air China	<u>66,366,844.88</u>	<u>0.00</u>	<u>53,828,640.46</u>	<u>0.00</u>
Total	<u>66,366,844.88</u>	<u>0.00</u>	<u>53,828,640.46</u>	<u>0.00</u>

5.3.4. The top five account receivables

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount(CNY)</u>	<u>Age</u>	<u>% of total accounts receivables</u>
Air China	Related parties	66,366,844.88	Within 1 year	34.02
BSP	Non-related parties	64,125,118.02	Within 1 year	32.87
China Civil Aviation Clearing Centre	Non-related parties	28,869,556.21	Within 1 year	14.8
Air China Cargo Co., Ltd.	Related parties	3,275,079.39	Within 1 year	1.68
China Post, Jinan(济南市邮政局)	Non-related parties	<u>2,799,874.16</u>	Within 1 year	<u>1.44</u>
Total		<u>165,436,472.66</u>		<u>84.81</u>

5.3.5. Accounts receivables owed by related parties

<u>Name</u>	<u>Relationship with the Company</u>	<u>Amount (CNY)</u>	<u>% of total accounts receivables</u>
Air China	Principal investor of the Company	66,366,844.88	34.02
Shenzhen Airlines Co., Ltd.	Controlled by principal investors of the Company	1,849,400.00	0.95
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	<u>3,275,079.39</u>	<u>1.68</u>
Total		<u>71,491,324.27</u>	<u>36.65</u>

5.4. Advances to suppliers

5.4.1. Presentation by age

<u>Age</u>	<u>2010.12.31</u>		<u>2009.12.31</u>	
	<u>Amount (CNY)</u>	<u>Proportion (%)</u>	<u>Amount (CNY)</u>	<u>Proportion (%)</u>
Within 1 year	27,837,071.95	98.18	21,184,884.28	94.13
1 – 2 years	479,793.30	1.69	1,304,378.20	5.80
2 – 3 years	27,706.35	0.10	15,000.00	0.07
3 - 4 years	<u>8,884.20</u>	<u>0.03</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>28,353,455.80</u>	<u>100.00</u>	<u>22,504,262.48</u>	<u>100.00</u>

5.4.2. List the top five balance of advances to suppliers

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>2010.12.31 (CNY)</u>	<u>Age</u>	<u>Reasons for unsettlement</u>
RBSAEROSPACELIMITED	Non-related parties	8,669,239.05	Within 1 year	Advanced rental
CELESTIALAVIATIONTRADING22LIMITED	Non-related parties	2,521,473.32	Within 1 year	Advanced rental
TURFDELLLIMITED	Non-related parties	2,454,580.00	Within 1 year	Advanced rental
Shandong XiangYu Air Technology Co., Ltd.	Related parties	1,918,266.76	Within 1 year	Advanced payment for purchase
PACIFICBRIHARCORPORATIONLIMITED	Non-related parties	<u>1,167,584.00</u>	Within 1 year	Advanced rental
Total		<u>16,731,143.13</u>		

5.4.3. There is no Advance to supplier balance due from shareholders who own five or over five percent voting rights as at December 31st, 2010.

5.4.4. Advances to related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Balance carried forward (CNY)</u>	<u>% of total Advances to suppliers</u>
Shandong XiangYu Air Technology Co., Ltd.	Controlled by principal investors of the Company	<u>1,918,266.76</u>	<u>6.77</u>
Total		<u>1,918,266.76</u>	<u>6.77</u>

5.5. Interests receivable

5.5.1. Interests receivable

<u>Item</u>	<u>2009.12.31</u>	<u>Increase in year(CNY)</u>	<u>Decrease in year(CNY)</u>	<u>2010.12.31</u>
Interests on bank deposits	<u>0.00</u>	<u>3,227,582.17</u>	<u>1,818,054.04</u>	<u>1,409,528.13</u>
Total	<u>0.00</u>	<u>3,227,582.17</u>	<u>1,818,054.04</u>	<u>1,409,528.13</u>

5.5.2. Note: Interests receivable are interest income from guarantee deposits receivable within one year.

5.6. Dividends receivable

<u>Item</u>	<u>2009.12.31</u>	<u>Increase in year(CNY)</u>	<u>Decrease in year(CNY)</u>	<u>2010.12.31</u>
Dividends receivable aged less than 1 year:				
China TravelSky Co., Ltd.	1,617,642.00	1,165,398.00	2,783,040.00	0.00
Jinan International Airport Co., Ltd.	<u>0.00</u>	<u>69,993.15</u>	<u>69,993.15</u>	<u>0.00</u>
Total	<u>1,617,642.00</u>	<u>1,235,391.15</u>	<u>2,853,033.15</u>	<u>0.00</u>

5.7. Other receivables

5.7.1. Disclosure by classification

<u>Category</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion (%)</u>	<u>Amount(CNY)</u>	<u>Proportion (%)</u>
Other receivable of individual significance	228,578,538.56	68.01	109,051,717.65	47.71
Categorised other receivable:				
Categorisation by nature of receivables	42,550,559.86	12.66	2,127,527.99	5.00
Subtotal of category	42,550,559.86	12.66	2,127,527.99	5.00
Other receivable of individual insignificance subject to individual assessment for impairment	<u>64,955,587.90</u>	<u>19.33</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>336,084,686.32</u>	<u>100.00</u>	<u>111,179,245.64</u>	<u>33.08</u>

(Continued)

<u>Category</u>	<u>2009.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion (%)</u>	<u>Amount(CNY)</u>	<u>Proportion (%)</u>
Other receivables of individual significance	209,239,407.19	77.02	109,051,717.65	52.12
Categorised other receivables:				
Categorisation by nature of receivables	41,301,839.00	15.20	2,065,091.95	5.00
Subtotal of category	41,301,839.00	15.20	2,065,091.95	5.00
Other receivables of individual insignificance subject to individual assessment for impairment	<u>21,127,577.40</u>	<u>7.78</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>271,668,823.59</u>	<u>100.00</u>	<u>111,116,809.60</u>	<u>40.90</u>

① Classification of other receivables: See Note 2.10 for criteria for classification of other receivables of individual significance, categorised other receivables and other receivables of individual insignificance subject to individual assessment for impairment.

② Categories of other receivables subject to provision for bad debts by percentage of carrying amount:

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
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Categorisation by nature of receivables	<u>42,550,559.86</u>	5.00	<u>2,127,527.99</u>
Total	<u>42,550,559.86</u>		<u>2,127,527.99</u>

5.7.2. Other receivables of individual insignificance subject to individual assessment for impairment:

<u>Details</u>	<u>Book value(CNY)</u>	<u>Bad and doubtful debt(CNY)</u>	<u>Proportion (%)</u>	<u>Comment</u>
Aerdragon Aviation Partners Limited	3,973,620.00	0.00	0.00	Individually assessed as not impaired
Aviation Capital Group Corporation	8,841,304.50	0.00	0.00	Individually assessed as not impaired
Babcock & Brown Aircraft Management LLC	9,801,596.00	0.00	0.00	Individually assessed as not impaired
Bellevue Aircraft Leasing(Ireland) Limited	2,880,874.50	0.00	0.00	Individually assessed as not impaired
BOC AVIATION	5,298,160.00	0.00	0.00	Individually assessed as not impaired
GE Commercial Aviation Services	3,801,429.80	0.00	0.00	Individually assessed as not impaired
Pacific Brihar Corporation Limited	3,496,785.60	0.00	0.00	Individually assessed as not impaired
Rainier Aircraft Leasing(Ireland) Limited	13,086,601.50	0.00	0.00	Individually assessed as not impaired
Shannon Engine Support LTD	827,837.50	0.00	0.00	Individually assessed as not impaired
The Boeing Company	<u>12,947,378.50</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as not impaired
Total	<u>64,955,587.90</u>	<u>0.00</u>	<u>0.00</u>	

5.7.3. Other receivables owed by shareholders with 5% or more voting rights during the reporting period

<u>Shareholder</u>	<u>2010.12.31</u>		<u>2009.12.31</u>	
	<u>Amount</u> <u>(CNY)</u>	<u>Provision for bad debts</u> <u>(CNY)</u>	<u>Amount</u> <u>(CNY)</u>	<u>Provision for bad debts</u> <u>(CNY)</u>
Air China	<u>40,503,711.76</u>	<u>0.00</u>	<u>23,382,955.26</u>	<u>0.00</u>
Total	<u>40,503,711.76</u>	<u>0.00</u>	<u>23,382,955.26</u>	<u>0.00</u>

5.7.4. List the amount of top five other receivable

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount(CNY)</u>	<u>Age</u>	<u>% of total other receivables</u>
Shandong Rainbow Commercial Jet Co., Ltd.	Related parties	109,051,717.65	3-7 years	32.45
CDB Leasing Co., Ltd.	Non-related parties	41,354,563.28	Over 5 years	12.30
Air China	Related parties	40,503,711.76	Within 2 years	12.05

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount(CNY)</u>	<u>Age</u>	<u>% of total other receivables</u>
Beijing FuLaiTe Technology Development Co., Ltd.	Non-related parties	19,124,985.87	Within 1 year	5.69
Singapore Aircraft Leasing Enterprise	Non-related parties	<u>18,543,560.00</u>	Within 5 years	<u>5.52</u>
Total		<u>228,578,538.56</u>		<u>68.01</u>

5.7.5. Other receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount(CNY)</u>	<u>% of total other receivables</u>
Air China	Principal investor of the Company	40,503,711.76	12.05
Shandong XiangYu Air Technology Co., Ltd.	Controlled by principal investors of the Company	3,864,597.95	1.15
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	<u>109,051,717.65</u>	<u>32.45</u>
Total		<u>153,420,027.36</u>	<u>45.65</u>

5.7.6. The balance carried forward of other receivables increased for 40.08% from the balance brought forward. The increase mainly resulted from guarantee deposits for importation of leased aircrafts and aircraft maintenance and down payments for aircraft purchase paid during the current reporting period.

5.8. Inventories

5.8.1. Classification

<u>Types</u>	<u>2010.12.31</u>			<u>2009.12.31</u>		
	<u>Cost(CNY)</u>	<u>Impairment provision(CNY)</u>	<u>Carrying value(CNY)</u>	<u>Cost(CNY)</u>	<u>Impairment provision(CNY)</u>	<u>Carrying value(CNY)</u>
Consumable air equipments	73,805,475.19	0.00	73,805,475.19	63,025,085.14	353,539.79	62,671,545.35
Low-value consumables	3,066,637.08	0.00	3,066,637.08	1,814,143.03	0.00	1,814,143.03
Materials	915,137.19	0.00	915,137.19	270,642.83	0.00	270,642.83
Others	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>511,449.89</u>	<u>0.00</u>	<u>511,449.89</u>
Total	<u>77,787,249.46</u>	<u>0.00</u>	<u>77,787,249.46</u>	<u>65,621,320.89</u>	<u>353,539.79</u>	<u>65,267,781.10</u>

5.8.2. Impairment

<u>Type</u>	<u>2009.12.31</u>	<u>Provision in year</u>	<u>Decrease in year</u>		<u>2010.12.31</u>
	<u>(CNY)</u>	<u>(CNY)</u>	<u>Reversal</u>	<u>Write off</u>	<u>(CNY)</u>
			<u>(CNY)</u>	<u>(CNY)</u>	

Consumable air equipments	<u>353,539.79</u>	<u>0.00</u>	<u>0.00</u>	<u>353,539.79</u>	<u>0.00</u>
Total	<u>353,539.79</u>	<u>0.00</u>	<u>0.00</u>	<u>353,539.79</u>	<u>0.00</u>

5.9. Investment in associates

Associate	Type of registration	Place of registration	Legal representative	Nature of business	Register capital(CNY)	Shareholding proportion(%)	Voting right(%)
Shandong Rainbow Commercial Jet Co., Ltd.	Limited liability company	Jinan, Shandong	Zhao, Hong	Air transportation	50,000,000.00	45	45

(Continued)

Associate	Total assets carried forward(CNY)	Total liabilities carried forward(CNY)	Net assets carried forward(CNY)	Total operating income for the reporting period(CNY)	Net profits for the reporting period(CNY)
Shandong Rainbow Commercial Jet Co., Ltd.	15,940,204.12	179,265,838.22	-163,325,634.10	6,631,350.00	-45,226,097.22

5.10. Long-term equity investments

5.10.1 Disclosure

Name of investee	2009.12.31(CNY)	Changes in year(CNY)	2010.12.31(CNY)	Accumulated impairment provision(CNY)	Impairment provision in year(CNY)
I . Long-term equity investments measured at cost method					
China TravelSky Co., Ltd.	6,690,000.00	0.00	6,690,000.00	0.00	0.00
Sichuan Airlines Co., Ltd.	35,000,000.00	0.00	35,000,000.00	0.00	0.00
Jinan International Airport Co., Ltd.	46,662,100.00	0.00	46,662,100.00	0.00	0.00
Subtotal	<u>88,352,100.00</u>	<u>0.00</u>	<u>88,352,100.00</u>	<u>0.00</u>	<u>0.00</u>
II . Long-term equity investments measured by the equity method					
Shandong Rainbow Commercial Jet Co., Ltd	22,500,000.00	0.00	22,500,000.00	22,500,000.00	0.00
Subtotal	<u>22,500,000.00</u>	<u>0.00</u>	<u>22,500,000.00</u>	<u>22,500,000.00</u>	<u>0.00</u>
Total	<u>110,852,100.00</u>	<u>0.00</u>	<u>110,852,100.00</u>	<u>22,500,000.00</u>	<u>0.00</u>

(Continued):

Name of investee	Initial investment cost(CNY)	Shareholding proportion(%)	Voting right(%)	Reasons for discrepancy between shareholding and voting right	Cash dividends in year(CNY)
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I. Long-term equity investments measured at cost method					
China TravelSky Co., Ltd.	6,690,000.00	0.45%	0.45%	n/a	1,165,398.00
Sichuan Airlines Co., Ltd.	35,000,000.00	10.00%	10.00%	n/a	0.00
Jinan International Airport Co., Ltd.	46,662,100.00	2.53%	2.53%	n/a	<u>69,993.15</u>
Subtotal	<u>88,352,100.00</u>				<u>1,235,391.15</u>
II. Long-term equity investments measured by the equity method					
Shandong Rainbow Commercial Jet Co., Ltd	22,500,000.00	45.00%	45.00%	n/a	0.00
Subtotal	<u>22,500,000.00</u>				<u>0.00</u>
Total	<u>110,852,100.00</u>				<u>1,235,391.15</u>

5.10.2. Long-term equity investments held as at 31st December 2010 have no limitation on disposal imposed.

5.11. Fixed assets and accumulated depreciation

5.11.1. Classification

Types	2009.12.31	Increased(CNY)		Decreased	2010.12.31
	(CNY)	Other increase (CNY)	Purchase(CNY)	(CNY)	(CNY)
①Total historical cost	<u>8,884,896,758.01</u>	<u>131,788,852.49</u>	<u>504,821,968.68</u>	<u>79,935,994.45</u>	<u>9,441,571,584.73</u>
Houses and buildings	223,592,323.30	0.00	192,449.20	2,811,000.00	220,973,772.50
Aircrafts and aircraft engine	8,090,415,052.13	129,760,614.89	446,550,869.59	32,040,000.00	8,634,686,536.61
High-value rotables	431,124,374.06	0.00	41,536,398.30	17,835,593.81	454,825,178.55
Transportation vehicles	38,197,107.13	0.00	2,984,678.26	1,451,518.09	39,730,267.30
Machinery, equipments and others	101,567,901.39	2,028,237.60	13,557,573.33	25,797,882.55	91,355,829.77
			<u>Depreciation during the current year(CNY)</u>		
		<u>Other increase (CNY)</u>			
②Total accumulated depreciation	<u>2,253,295,993.05</u>	<u>63,611,658.21</u>	<u>563,013,991.59</u>	<u>54,847,418.97</u>	<u>2,825,074,223.88</u>
Houses and buildings	26,694,789.94	0.00	6,826,310.35	0.00	33,521,100.29
Aircrafts and aircraft engine	2,014,255,500.72	61,788,614.58	516,831,677.53	31,892,733.49	2,560,983,059.34
High-value rotables	143,082,492.05	0.00	28,446,926.65	10,766,566.26	160,762,852.44
Transportation vehicles	18,673,551.96	0.00	2,797,925.91	1,237,110.16	20,234,367.71
Machinery, equipments and others	50,589,658.38	1,823,043.63	8,111,151.15	10,951,009.06	49,572,844.10
③Total carrying value	<u>6,631,600,764.96</u>				<u>6,616,497,360.85</u>
Houses and buildings	196,897,533.36				187,452,672.21
Aircrafts and aircraft engine	6,076,159,551.41				6,073,703,477.27
High-value rotables	288,041,882.01				294,062,326.11
Transportation vehicles	19,523,555.17				19,495,899.59
Machinery, equipments and others	50,978,243.01				41,782,985.67

Note: ①Depreciation increase in year totals CNY 563,013,991.59. The total value of construction projects completed and recognised as non-current assets in year is CNY 388,853,071.98.

②Total value of non-current assets pledged as security for borrowings and leased aircraft engines

with limitation imposed is CNY 4,203,684,037.08.

5.11.2. Leased fixed assets under financial leases

Type	Historical cost	Accumulated depreciation	Impairment	Balance as at 2010.12.31
	(CNY)	(CNY)	(CNY)	(CNY)
Aircrafts and aircraft engines	<u>1,886,910,431.23</u>	<u>634,114,602.71</u>	<u>0.00</u>	<u>1,252,795,828.52</u>
Total	<u>1,886,910,431.23</u>	<u>634,114,602.71</u>	<u>0.00</u>	<u>1,252,795,828.52</u>

5.11.3. Fixed assets pending ownership registration

Types	Balance as at 2010.12.31	Reasons for pending ownership registration
	(CNY)	
Jinan cargo arrival and departure warehouses	15,564,626.56	Land rented from Jinan Air Control, not eligible for ownership registration
Qingdao aircraft maintenance workshops	41,036,087.20	Ownership registration in process
Yantai terminal building	<u>19,792,778.60</u>	Ownership registration in process
Total	<u>76,393,492.36</u>	

5.11.4. Impairment

No impairment provision was provided as at 31st December 2010 as no evidence suggests assets has impaired.

5.12. Construction in progress

5.12.1. Details of construction in progress

Types	2010.12.31			2009.12.31		
	Book value	Impairment provision	Carrying value	Book value	Impairment provision	Carrying value
	(CNY)	(CNY)	(CNY)	(CNY)	(CNY)	(CNY)
B737-800 aircrafts	863,452,904.96	0.00	863,452,904.96	340,589,155.31	0.00	340,589,155.31
ARJ21-700 aircrafts	60,778,195.00	0.00	60,778,195.00	60,778,195.00	0.00	60,778,195.00
B737NG simulated aircrafts	0.00	0.00	0.00	19,435,867.69	0.00	19,435,867.69
Terminal buildings	11,479,922.80	0.00	11,479,922.80	0.00	0.00	0.00
Other construction projects	<u>1,542,227.58</u>	<u>0.00</u>	<u>1,542,227.58</u>	<u>1,474,227.58</u>	<u>0.00</u>	<u>1,474,227.58</u>
Total	<u>937,253,250.34</u>	<u>0.00</u>	<u>937,253,250.34</u>	<u>422,277,445.58</u>	<u>0.00</u>	<u>422,277,445.58</u>

5.12.2. Changes of significant construction in progress

Types	2009.12.31	Increase in year	Transferred to fixed assets	Other decreased	2010.12.31
	(CNY)	(CNY)	(CNY)	(CNY)	(CNY)
B737-800 aircrafts	340,589,155.31	836,273,789.05	313,410,039.40	0.00	863,452,904.96
ARJ21-700 aircrafts	60,778,195.00	0.00	0.00	0.00	60,778,195.00
B737NG simulated aircrafts	19,435,867.69	56,007,164.89	75,443,032.58	0.00	0.00
Maintenance workshops, terminal buildings and arrival and departure warehouses	0.00	11,479,922.80	0.00	0.00	11,479,922.80
Other construction projects	<u>1,474,227.58</u>	<u>68,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,542,227.58</u>

Total	<u>422,277,445.58</u>	<u>903,828,876.74</u>	<u>388,853,071.98</u>	<u>0.00</u>	<u>937,253,250.34</u>
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5.12.3. Capitalisation of construction in progress

Projects	<u>2009.12.31</u> (CNY)	<u>Increase in year</u> (CNY)	<u>Transferred to</u> <u>fixed assets</u> (CNY)	<u>Other</u> <u>decrease</u> (CNY)	<u>2010.12.31</u> (CNY)	<u>Source of finance</u>
B737-800 aircrafts	4,857,721.01	-3,616,027.05	7,872,667.00	0.00	-6,630,973.04	Loans from financial institutions
ARJ21-700 aircrafts	<u>487,587.70</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>487,587.70</u>	Loans from financial institutions
Total	<u>5,345,308.71</u>	<u>-3,616,027.05</u>	<u>7,872,667.00</u>	<u>0.00</u>	<u>-6,143,385.34</u>	

5.12.4. The corresponding carrying value of aircraft purchase rights pledged as security for borrowings in construction in progress as at 31st December 2010 is CNY 863,452,904.96.

5.12.5. No impairment provision is provided as at 31st December 2010 as no evidence suggests construction project impairment.

5.12.6. The balance carried forward of construction in progress increased for 122.00% from the balance brought forward. The increase mainly resulted from progress payments for aircraft purchase paid during the current reporting period.

5.13. Intangible assets

5.13.1. Details of intangible assets

Types	<u>2009.12.31</u> (CNY)	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> (CNY)	<u>2010.12.31</u> (CNY)
A. Total historical cost	<u>50,808,133.13</u>	<u>0.00</u>	<u>0.00</u>	<u>50,808,133.13</u>
Land use rights	50,808,133.13	0.00	0.00	50,808,133.13
B. Total accumulated amortization	<u>2,913,059.92</u>	<u>748,706.68</u>	<u>0.00</u>	<u>3,661,766.60</u>
Land use rights	2,913,059.92	748,706.68	0.00	3,661,766.60
C. Total net value	<u>47,895,073.21</u>	<u>0.00</u>	<u>0.00</u>	<u>47,146,366.53</u>
Land use rights	47,895,073.21	0.00	0.00	47,146,366.53
D. Total accumulated impairment loss	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Land use rights	0.00	0.00	0.00	0.00
E. Total carrying value	<u>47,895,073.21</u>	<u>0.00</u>	<u>0.00</u>	<u>47,146,366.53</u>
Land use rights	47,895,073.21	0.00	0.00	47,146,366.53

5.13.2. No impairment provision was provided as at 31st December 2010 as no evidence suggests intangible asset has impaired.

5.14. Goodwill

Name of investee	Basis for recognition	2009.12.31 (CNY)	Increase in year (CNY)	Decrease in year (CNY)	2010.12.31 (CNY)	Impairment allowance
						as at 2010.12.31 (CNY)
	Business combination					
Qingdao Feisheng	not under common control	0.00	10,220,816.22	0.00	10,220,816.22	0.00
Total		0.00	10,220,816.22	0.00	10,220,816.22	0.00

The acquisition of 100% shareholding in Qingdao Feisheng from SDA Group was effected during the current reporting period per share transfer agreement by SDA Group and the Company signed on March 1st, 2010. The registration of the change of share ownership was completed on November 29th, 2010; the date of completion of registration of the change of share ownership was so set as the acquisition date. See Note 4.4 for details of goodwill amounting to 10,220,816.22.

No impairment was recognised for goodwill of Qingdao Feisheng as at December 31st, 2010 upon the assessment carried out by the management of the Company. The assessment carried out was based on the current operating assets held by Qingdao Feisheng with consideration given to the audit of the operation results of Qingdao Feisheng and the result of the report of valuation as at November 30th, 2010.

5.15. Long-term deferred expenses

Type	2009.12.31 (CNY)	Increase in year (CNY)	Amortisation in year (CNY)	Other decreased (CNY)	2010.12.31 (CNY)	Reasons for other decrease
Pilot recruitment and training expenditure	216,546,250.96	55,920,863.48	42,636,918.25	0.00	229,830,196.19	
Total	216,546,250.96	55,920,863.48	42,636,918.25	0.00	229,830,196.19	

5.16. Deferred income tax assets and deferred income tax liabilities

5.16.1. Recognised deferred income tax assets and deferred income tax liabilities

Types	2010.12.31 (CNY)	2009.12.31 (CNY)
Deferred income tax assets		
Deductable temporary difference resulting from impairment provision	28,459,246.26	27,939,289.24
Impairment provision for inventories	0.00	88,384.95
Provision for asset substantial repair	90,795,645.87	60,683,229.57
Provision for wages and salaries due	6,513,851.27	3,126,007.58
Financial liabilities held for trading	966,452.38	0.00
Total	126,735,195.78	91,836,911.34

<u>Types</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Deferred income tax liabilities		
Financial assets held for trading	<u>2,322,711.66</u>	<u>2,835,461.62</u>
Total	<u>2,322,711.66</u>	<u>2,835,461.62</u>

5.16.2. Corresponding temporary differences to assets and liabilities causing temporary differences

<u>Types</u>	<u>Temporary difference balance carried forward(CNY)</u>
Corresponding temporary differences to assets causing temporary differences	
Deductable temporary difference resulting from impairment provision	113,836,985.03
Impairment provision for inventories	0.00
Provision for substantial asset repair	363,182,583.47
Provision for wages and salaries due	26,055,405.09
Financial liabilities held for trading	<u>3,865,809.52</u>
Total	<u>506,940,783.11</u>
Corresponding temporary differences to liabilities causing temporary differences	
Fair value changes of tradable financial assets	<u>9,290,846.62</u>
Total	<u>9,290,846.62</u>

5.16.3. Deferred income tax assets increase in year of 38.00% principally results from the in-year increase of provision for substantial asset repair.

5.17. Impairment provisions

<u>Types</u>	<u>2009.12.31</u> (CNY)	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> Reversal(CNY)	<u>Write off(CNY)</u>	<u>2010.12.31</u> (CNY)
(1) Impairment provision for accounts receivables	640,347.37	2,017,392.02	0.00	0.00	2,657,739.39
(2) Impairment provision for other receivables	111,116,809.60	62,436.04	0.00	0.00	111,179,245.64
(3) Impairment provision for inventories	353,539.79	0.00	0.00	353,539.79	0.00
(4) Impairment provision for long-term equity investments	<u>22,500,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>22,500,000.00</u>
Total	<u>134,610,696.76</u>	<u>2,079,828.06</u>	<u>0.00</u>	<u>353,539.79</u>	<u>136,336,985.03</u>

5.18.Short-term borrowings

5.18.1. Disclosure by classification

<u>Types</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Secured loans (usage right on assets pledged surrendered)	93,173,692.10	71,537,020.88
Unsecured loans	399,412,917.40	0.00
Guaranteed loans	<u>508,682,427.23</u>	<u>668,282,000.00</u>
Total	<u>1,001,269,036.73</u>	<u>739,819,020.88</u>

5.18.2. The balance carried forward of short-term borrowings increased for 35.34% from the balance brought forward. The increase mainly resulted from increased use of Payment by Agreement short-term financing.

5.19. Financial liabilities held for trading

<u>Item</u>	<u>Fair value</u> as at 2010.12.31	<u>Fair value</u> as at 2009.12.31
Hui Li Da financing contract	<u>3,865,809.52</u>	<u>0.00</u>
Total	<u>3,865,809.52</u>	<u>0.00</u>

5.20. Notes payable

<u>Types</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Trade acceptance	19,042,835.33	0.00
Bankers' acceptance	<u>116,000,000.00</u>	<u>182,124,331.32</u>
Total	<u>135,042,835.33</u>	<u>182,124,331.32</u>

5.21. Accounts payable

5.21.1. Aging analysis

<u>Age</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Within 1 year	1,007,699,961.12	804,837,986.14
Over 1 year	<u>900,090.37</u>	<u>7,194,963.93</u>
Total	<u>1,008,600,051.49</u>	<u>812,032,950.07</u>

5.21.2. Accounts payables owed to shareholders or related parties with 5% or more voting right as at 31st December 2010

<u>Companies</u>	<u>Nature of liability</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Shandong International Air Training Co., Ltd.	Training fees	0.00	1,816,020.00
Qingdao FeiSheng	Training fees	0.00	3,750,453.00
Air China	Ground services, delay and claim for loosed baggage	3,437,689.95	3,962,987.26
Shandong TaiGu Aircraft Projecting Co., Ltd.	Maintenance expense and air route subscription	27,829,926.58	13,641,513.24
Air China Cargo Co., Ltd.	Landing and departure fees	<u>414,307.39</u>	<u>0.00</u>
Total		<u>31,681,923.92</u>	<u>23,170,973.50</u>

5.21.3. There is no accounts payable of significant value of which the age is over 1 year.**5.22. Advances from customers****5.22.1. Aging analysis**

<u>Type</u>	<u>2010.12.31</u> <u>(CNY)</u>	<u>2009.12.31</u> <u>(CNY)</u>
Within 1 year	202,271,352.58	117,859,114.71
Over 1 year	<u>182,316.20</u>	<u>97,125.72</u>
Total	<u>202,453,668.78</u>	<u>117,956,240.43</u>

5.22.2. The 71.63% in-year increase of advances from customers from the balance brought forward principally results from the increased transportation capacity, the increased average fare rates and the Spring Festival effect.

5.22.3. There is no advances from customers balance due from shareholders who own five or over five percent voting rights as at December 31, 2010.

5.23. Employment benefits payable

<u>Types</u>	<u>2009.12.31</u> <u>(CNY)</u>	<u>Increase in year</u> <u>(CNY)</u>	<u>Payments in year</u> <u>(CNY)</u>	<u>2010.12.31</u> <u>(CNY)</u>
(1) Wages and salaries, bonuses, subsidies and allowances	122,517,360.85	745,456,642.00	659,547,040.77	208,426,962.08
(2) Employee benefits	0.00	32,000,785.41	32,000,785.41	0.00
(3) Social insurance	0.00	106,341,580.40	104,693,758.91	1,647,821.49
Within: ① Medical insurance	0.00	26,745,226.50	25,097,405.01	1,647,821.49
② Basic retirement insurance	0.00	48,614,057.33	48,614,057.33	0.00
③ Annuity fee	0.00	26,144,407.20	26,144,407.20	0.00
④ Unemployment fee	0.00	2,954,675.18	2,954,675.18	0.00

<u>Types</u>	<u>2009.12.31</u> <u>(CNY)</u>	<u>Increase in year</u> <u>(CNY)</u>	<u>Payments in year</u> <u>(CNY)</u>	<u>2010.12.31</u> <u>(CNY)</u>
⑤ Work injury insurance	0.00	842,887.71	842,887.71	0.00
⑥ Pregnancy insurance	0.00	1,040,326.48	1,040,326.48	0.00
⑦ Reserved funds for disable jobseekers	0.00	0.00	0.00	0.00
(4) Housing provident fund	12,146.24	27,648,358.19	27,644,720.43	15,784.00
(5) Labor union fee and employee education fee	12,504,030.31	20,010,063.08	6,454,000.52	26,060,092.87
(6) Non-monetary benefits	0.00	0.00	0.00	0.00
(7) Redemption of termination of labor contract	0.00	45,037.81	45,037.81	0.00
(8) Others	0.00	0.00	0.00	0.00
Within: Share-based payments settled by cash	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>135,033,537.40</u>	<u>931,502,466.89</u>	<u>830,385,343.85</u>	<u>236,150,660.44</u>

5.23.1. There is no payroll in arrears within employment benefits payable.

5.23.2. The 74.88% in-year increase of employment benefits payable from the balance brought forward principally results from increased annual bonus payable recognised before the year-end.

5.24. Tax payables

<u>Types of Tax</u>	<u>2010.12.31</u> <u>(CNY)</u>	<u>2009.12.31</u> <u>(CNY)</u>
VAT and customs	1,240.40	0.00
Operating tax	14,137,448.21	13,493,990.29
Urban maintenance and construction surcharge	1,128,615.52	0.00
Education surcharge	816,312.29	0.00
Enterprise income tax	55,944,404.35	102,676,537.26
Property tax	1,474,989.82	1,818,917.29
Tenure tax	111,187.74	114,655.77

<u>Types of Tax</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Personal income tax	4,647,833.69	1,594,343.92
Stamp duty	5,349,980.35	3,567,551.64
Infrastructure fund for civil aviation	14,415,017.73	11,478,774.38
Construction fund for civil airports	44,049,512.00	34,178,042.00
Withholding income tax	17,811,520.19	8,641,320.63
Withholding business Tax	10,218,405.79	0.00
Others	<u>8,702.89</u>	<u>292.31</u>
Total	<u>170,115,170.97</u>	<u>177,564,425.49</u>

5.25. Interests payable

<u>Type</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Interest on borrowings	<u>9,656,528.23</u>	<u>4,001,134.66</u>
Total	<u>9,656,528.23</u>	<u>4,001,134.66</u>

Note: The balance carried forward of interests payable increased for 141.00% from the balance brought forward. The increase mainly resulted from that certain short-term financing arrangements have a 1-year interest settlement period.

5.26. Other payables

5.26.1. Aging analysis

<u>Age</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
Within 1 year	74,998,768.73	78,664,291.44
Over 1 year	<u>65,735,212.41</u>	<u>46,266,172.15</u>
Total	<u>140,733,981.14</u>	<u>124,930,463.59</u>

5.26.2. Other payables owed to shareholders or related parties with 5% or more voting right as at 31st December 2010

<u>Companies</u>	<u>Nature of liability</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
SDA Group	Account balance	12,192,570.48	4,051,799.74
Air China	Quality margin	20,000,000.00	20,000,000.00
Shandong TaiGu Aircraft Projecting Co., Ltd.	Account balance	245,400.00	0.00
Shandong International Air Training Co., Ltd.	Account balance	0.00	3,465,953.82
Shenzhen Airlines co., Ltd.	Account balance	<u>1,083,308.00</u>	<u>0.00</u>

Total	<u>33,521,278.48</u>	<u>27,517,753.56</u>
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5.26.3. Other payables of significant value due for more than one year

<u>Company</u>	<u>Balance (CNY)</u>	<u>Age</u>	<u>Reasons for unsettlement</u>
Air China Co., Ltd.	<u>20,000,000.00</u>	3 – 4 years	Wet lease not yet expired, guarantee unsettled
Total	<u>20,000,000.00</u>		

5.27. Non-current liabilities due within one year

5.27.1. Types

<u>Types</u>	<u>2010.12.31</u> <u>(CNY)</u>	<u>2009.12.31</u> <u>(CNY)</u>
Long-term borrowings due within 1 year	371,061,574.72	393,832,752.98
Long-term accounts payables due with 1 year	165,039,834.26	209,832,453.69
Subtotal	536,101,408.98	603,665,206.67
Less: Unrecognised financial lease expenditure	<u>59,333,529.93</u>	<u>68,556,748.96</u>
Total	<u>476,767,879.05</u>	<u>535,108,457.71</u>

5.27.2. Long-term borrowings due within one year

① Types

<u>Types</u>	<u>2010.12.31</u> <u>(CNY)</u>	<u>2009.12.31</u> <u>(CNY)</u>
Secured loans (usage right on assets pledged withheld)	304,786,981.68	393,832,752.98
Secured loans (usage right on assets pledged surrendered)	53,667,049.45	0.00
Guaranteed loans	<u>12,607,543.59</u>	<u>0.00</u>
Total	<u>371,061,574.72</u>	<u>393,832,752.98</u>

② Details of the top five balances of long-term borrowings due within one year

<u>Companies</u>	<u>Start date</u>	<u>Due date</u>	<u>Currency</u>	<u>2010.12.31</u>		<u>2009.12.31</u>	
				<u>Amount</u> <u>in foreign currency</u>	<u>Amount</u> <u>in reporting</u> <u>currency</u> <u>(CNY)</u>	<u>Amount</u> <u>in foreign</u> <u>currency</u>	<u>Amount</u> <u>in reporting</u> <u>currency</u> <u>(CNY)</u>
USD account, Shandong Branch China Development Bank	2008-7-11	Installment repayment	USD	\$10,600,000.00	70,200,620.00	0.00	0.00

Companies	Start date	Due date	Currency	2010.12.31		2009.12.31	
				Amount in foreign currency	Amount in reporting currency (CNY)	Amount in foreign currency	Amount in reporting currency (CNY)
USD account, Jinan Branch Bank of China	2005-7-15	Installment repayment	USD	\$11,200,000.00	74,174,240.00	0.00	0.00
USD account, Jinan Branch Bank of China	2010-10-8	2011-10-11	USD	\$8,103,500.00	53,667,049.45	0.00	0.00
CNY account, Jinan Branch China Minsheng Banking Corp., Ltd.	2005-4-7	Installment repayment	CNY	50,000,000.00	50,000,000.00	0.00	0.00
USD account, DongJiao Branch Industrial and Commercial Bank of China	2009-6-30	Installment repayment	USD	\$4,000,000.00	26,490,800.00	0.00	0.00
Total					274,532,709.45		0.00

Note: The interest rates applicable to the above long-term borrowings as at 31st December 2010 are between 1.1439% and 5.9400%.

5.27.3. There is no borrowing remained unsettled after the due date as at 31st December 2010

5.27.4. Long-term accounts payables due within one year

Companies	Credit term	Original amount (CNY)	Interest rate (%)	Interest accrued (CNY)	Balance carried forward (CNY)	Conditions of borrowing
CDB Leasing Co., Ltd.	2005.6-20 20.6	1,440,000,000.00	6.2964%	59,333,529.93	105,706,304.33	Secured by asset(s) with usage right withheld

5.28. Long-term borrowings

5.28.1. Types

Type	2010.12.31 (CNY)	2009.12.31 (CNY)
Secured loans (usage right on assets pledged surrendered)	141,288,880.48	162,717,904.24
Secured loans (usage right on assets pledged withheld)	2,013,807,266.59	2,024,291,990.60
Guaranteed loans	1,025,187,030.48	1,215,742,693.55
Total	3,180,283,177.55	3,402,752,588.39

5.28.2. Details of the top five balances of long-term borrowings

Company	Start date	Due date	Currency	2010.12.31		2009.12.31	
				Amount in foreign currency	Amount in reporting currency (CNY)	Amount in foreign currency	Amount in reporting currency (CNY)
CNY account, Jinan Branch China Minsheng Banking Corp., Ltd.	2005-4-7	Installment repayment	CNY	200,000,000.00	200,000,000.00	227,000,000.00	227,000,000.00
USD account, DongJiao Branch Industrial and Commercial Bank of China	2009-6-30	Installment repayment	USD	\$30,491,654.64	201,937,081.18	\$34,491,654.64	235,515,916.21
USD account, Jinan Branch Bank of China	2005-12-21	Installment repayment	USD	\$26,071,798.00	172,665,696.62	\$26,213,260.00	178,989,381.93
USD account, Jinan Branch Bank of China	2005-10-19	Installment repayment	USD	\$26,213,260.00	173,602,557.00	\$26,071,798.00	178,023,451.10
USD account, Jinan Branch Bank of China	2005-7-15	Installment repayment	USD	\$19,845,450.00	<u>131,430,461.72</u>	\$19,195,533.60	<u>131,070,942.53</u>
Total					<u>879,635,796.52</u>		<u>950,599,691.77</u>

Note: The interest rates applicable to the above long-term borrowings as at 31st December 2010 are between 1.1439% and 5.9400%.

5.29. Long-term payables**5.29.1. The top five balances of long-term payables**

Company	Credit term	Original amount (CNY)	Interest rate (%)	Interest accrued (CNY)	Balance carried forward (CNY)	Conditions of borrowing
CDB Leasing Co., Ltd.	2005.6-2020.6	<u>1,440,000,000.00</u>	6.2964%	<u>267,738,800.57</u>	<u>863,013,847.54</u>	Secured by asset(s) with usage right withheld
Total		<u>1,440,000,000.00</u>		<u>267,738,800.57</u>	<u>863,013,847.54</u>	

5.29.2. Long-term payables during the current reporting period wholly consisted of financial lease premium payable.

5.30. Other non-current liabilities

<u>Items</u>	<u>2010.12.31</u> (CNY)	<u>2009.12.31</u> (CNY)
CRJ700 post-sale buy-back	695,774.11	2,087,462.11
Designated subsidy for snow disaster	4,374,958.34	4,739,458.34
SMS fund	1,000,000.00	1,000,000.00
PhoenixMiles Program	53,304,246.55	19,891,652.55
Designated subsidy for civil aviation energy-saving program	<u>14,015,649.74</u>	<u>0.00</u>
Total	<u>73,390,628.74</u>	<u>27,718,573.00</u>

5.30.1. Asset-related government grants

<u>Items</u>	<u>2009.12.31(CNY)</u>	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> (CNY)	<u>2010.12.31 (CNY)</u>
Designated subsidy for snow disaster	4,739,458.34	0.00	364,500.00	4,374,958.34
SMS fund	1,000,000.00	0.00	0.00	1,000,000.00
Designated subsidy for civil aviation energy-saving program	<u>0.00</u>	<u>14,990,000.00</u>	<u>974,350.26</u>	<u>14,015,649.74</u>
Total	<u>5,739,458.34</u>	<u>14,990,000.00</u>	<u>1,338,850.26</u>	<u>19,390,608.08</u>

5.30.2. PhoenixMiles Program

<u>Items</u>	<u>2009.12.31(CNY)</u>	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> (CNY)	<u>2010.12.31 (CNY)</u>
PhoenixMiles Program	<u>19,891,652.55</u>	<u>43,302,419.00</u>	<u>9,889,825.00</u>	<u>53,304,246.55</u>
Total	<u>19,891,652.55</u>	<u>43,302,419.00</u>	<u>9,889,825.00</u>	<u>53,304,246.55</u>

5.30.3. The balance carried forward of other non-current liabilities increased for 165.00% from the balance brought forward. The increased mainly resulted from the mileages of the PhoenixMiles Program accumulated and the designated subsidy for civil aviation energy-saving program received during the current reporting period.

5.31. Share capital

<u>Items</u>	<u>2009.12.31</u>	<u>Change of number of shares in year (+/-)</u>					<u>2010.12.31</u>
	<u>(Unit: Shares)</u>	<u>Share allotment</u>	<u>Bonus issue</u>	<u>Shares converted from accumulated fund</u>	<u>Others</u>	<u>Subtotal</u>	<u>(Unit: Shares)</u>
(1) Unlisted floating shares							
① Promoter's shares	260,000,000.00	0.00	0.00	0.00	0.00	0.00	260,000,000.00
Including:							
State-owned shares	259,801,000.00	0.00	0.00	0.00	0.00	0.00	259,801,000.00
Shares held by domestic legal persons	199,000.00	0.00	0.00	0.00	0.00	0.00	199,000.00
Shares held by foreign legal persons	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00

② Private placement of legal person's shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
③ Staff shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
④ Preferred shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Within: Transferred allotted shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total unlisted floating shares	<u>260,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>260,000,000.00</u>
(2) Listed floating shares							
① Domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Within: shares held by the management	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Domestic shares in foreign currency	140,000,000.00	0.00	0.00	0.00	0.00	0.00	140,000,000.00
Total listed floating shares	140,000,000.00	0.00	0.00	0.00	0.00	0.00	140,000,000.00
(3) Floating shares with imposed limitation on sales	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
(4) Total	<u>400,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>400,000,000.00</u>

Note: ① The par value of the above shares is CNY 1.00.

② The above shares have been verified by the Report on the Verification of Capital (YanQianZi[2000]No.27) issued by Shandong Yantai QianJu Certified Public Accountants Co., Ltd.

5.32. Capital reserve

Type	<u>2009.12.31</u> (CNY)	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> (CNY)	<u>2010.12.31</u> (CNY)
Share premium	76,258,081.68	0.00	0.00	76,258,081.68
Other capital reserve	<u>7,792,081.16</u>	<u>0.00</u>	<u>0.00</u>	<u>7,792,081.16</u>
Total	<u>84,050,162.84</u>	<u>0.00</u>	<u>0.00</u>	<u>84,050,162.84</u>

5.33. Surplus reserve

Type	<u>2009.12.31</u> (CNY)	<u>Increase in year</u> (CNY)	<u>Decrease in year</u> (CNY)	<u>2010.12.31</u> (CNY)
Statutory surplus reserve	<u>59,576,069.03</u>	<u>63,368,685.86</u>	<u>0.00</u>	<u>122,944,754.89</u>
Total	<u>59,576,069.03</u>	<u>63,368,685.86</u>	<u>0.00</u>	<u>122,944,754.89</u>

5.34. Undistributed profits

Type	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Balance brought forward	308,668,390.11	36,471,405.69
Add: Profits for the year	634,364,547.92	302,282,325.68
Add: Other transfers	0.00	0.00
Less: Statutory surplus reserve	63,368,685.86	30,085,341.26
Less: Employee bonus and benefit fund	0.00	0.00

Type	Current reporting period		Last reporting period	
	(CNY)		(CNY)	
Less: Reserve fund	0.00		0.00	
Less: Enterprise development fund	0.00		0.00	
Less: Repaid investments	0.00		0.00	
Less: Preferred dividends	0.00		0.00	
Less: Discretionary surplus reserve	0.00		0.00	
Less: Ordinary dividends	80,000,000.00		0.00	
Less: Ordinary dividends converted to capital	<u>0.00</u>		<u>0.00</u>	
Balance carried forward	<u>799,664,252.17</u>		<u>308,668,390.11</u>	

5.35. Operating revenue and operating costs

5.35.1. Operating revenue from principal operations and operating costs

Items	Current reporting period		Last reporting period	
	(CNY)		(CNY)	
Income from principal activities	7,210,784,560.38		5,301,584,923.05	
Income from other activities	<u>81,831,396.72</u>		<u>64,528,440.63</u>	
Total operating income	<u>7,292,615,957.10</u>		<u>5,366,113,363.68</u>	
Principal activity costs	5,482,183,711.49		4,106,686,199.09	
Other activity costs	<u>5,407,179.34</u>		<u>3,347,076.10</u>	
Total operating costs	<u>5,487,590,890.83</u>		<u>4,110,033,275.19</u>	

5.35.2. Operating revenue from principal operations and operating costs by segment

Segment	Current reporting period		Last reporting period	
	Operating income (CNY)	Operating costs (CNY)	Operating income (CNY)	Operating costs (CNY)
Air transportation	7,173,305,400.49	5,459,720,041.47	5,274,362,420.93	4,085,895,627.76
Cargos and logistics	13,378,807.87	2,465,292.18	7,015,287.38	1,910,437.19
Hospitality	25,414,051.87	20,815,817.17	22,984,060.08	19,179,045.59
Rental services	88,110.26	0.00	854,642.06	30,000.00
Others	<u>80,429,586.61</u>	<u>4,589,740.01</u>	<u>60,896,953.23</u>	<u>3,018,164.65</u>
Total	<u>7,292,615,957.10</u>	<u>5,487,590,890.83</u>	<u>5,366,113,363.68</u>	<u>4,110,033,275.19</u>

5.35.3. Details of operating revenue from principal operations from top five clients

Clients	Operating income(CNY)	% of total operating income
Air China Co., Ltd.	665,558,732.03	9.13

<u>Clients</u>	<u>Operating income(CNY)</u>	<u>% of total operating income</u>
PingAn Insurance (Pension) Co., Ltd. (平安养老保险股份有限公司)	7,970,100.00	0.11
Department of Organisation, Shandong Office of the China Communist Party (山东省委组织部)	4,941,700.00	0.07
Air China Cargo Co., Ltd.	4,489,317.15	0.06
Shandong Jiahua Culture international travel service Co., Ltd (JHCITS)	<u>3,926,000.00</u>	<u>0.05</u>
Total	<u>686,885,849.18</u>	<u>9.42</u>

5.35.4. Operating revenue from principal operations for the current reporting period increased for 35.90% from the last reporting period. The increase mainly resulted from the increased capacity, the increased transportation capacity, the increased average fare rates and the increased PLF. Operating costs for the current reporting period increased for 33.52% from the last reporting period. The increase mainly resulted from the increased transportation capacity and the increased average fuel price.

5.36. Operating tax and surcharges

<u>Item</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)	<u>Rate</u>
Operating tax	203,287,379.43	158,797,763.77	3%、5%
Urban maintenance and construction surcharge	1,121,020.57	0.00	7%
Education surcharge	<u>800,728.98</u>	<u>0.00</u>	3%、2%
Total	<u>205,209,128.98</u>	<u>158,797,763.77</u>	

5.37. Sales expenses

<u>Item</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Employment benefits payable	79,594,030.14	37,271,075.95
Depreciation	1,892,392.40	1,876,631.63
Travel expense	3,301,618.46	2,840,357.06
Advertisement	9,955,763.45	8,068,520.74
Brokerage fee	290,417,787.76	220,270,471.60
Electronic booking fee	55,399,914.32	44,722,917.61
Online payment charge	9,043,151.60	5,121,566.85
Ticket printing cost	417,667.00	946,796.63
Rentals	8,738,843.59	8,230,038.89

System and network subscription	3,742,452.53	0.00
BSP data processing fee	1,559,369.18	0.00
Accommodation and catering expenses for transit passengers	1,451,783.60	0.00
General expenses	3,869,607.58	6,276,868.12
Uniforms	1,223,500.75	1,816,509.00
Others	<u>9,740,066.76</u>	<u>8,945,966.43</u>
Total	<u>480,347,949.12</u>	<u>346,387,720.51</u>

Note: Sales expenses for the current reporting period increased for 38.67% from the last reporting period. The increase mainly resulted from the increased ticket brokerage fees due to the increased operating revenue from principal operations.

5.38. General and administrative expenses

<u>Item</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Employment benefits payable	72,979,360.47	175,227,413.18
Depreciation	6,423,636.57	5,688,308.49
General expenses	4,179,326.89	3,150,092.24
Amortisation of intangible assets	360,516.64	381,810.92
Amortisation of long-term deferred expenses	424,335.24	505,152.10
Taxes and surcharges	6,835,211.03	4,650,091.42
Entertainment expense	10,423,957.05	5,213,051.19
Pollution treatment cost	1,146,850.00	1,124,143.00
Rentals	7,390,683.99	4,451,755.00
Research expense	2,054,276.20	5,412,348.80
Clearing system subscription	3,079,512.95	2,882,333.01
System and network subscription	1,629,499.60	0.00
Heating expense	2,768,846.57	2,902,729.55
BSP data processing fee	0.00	1,452,766.74
Consultation fee	677,560.42	1,567,256.06
Others	<u>16,092,240.00</u>	<u>14,010,595.72</u>
Total	<u>136,465,813.62</u>	<u>228,619,847.42</u>

Note: General and administrative expenses for the current reporting period decreased for 40.31% from the last reporting period. The significant decrease mainly resulted from that social insurance, housing provident fund and housing subsidy collectively accounted for in general and administrative expenses during the last reporting period was allocated to operating costs, sales expenses and general and administrative expenses on the basis of employee positions during the current reporting period.

5.39. Financial costs

<u>Items</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>
Interest expenses	209,880,622.29	248,349,435.60
Less: Interest income	5,012,267.84	1,107,957.64
Exchange differences	-61,316,996.38	-781,979.99
Bank charges and others	<u>6,964,564.29</u>	<u>5,411,721.86</u>
Total	<u>150,515,922.36</u>	<u>251,871,219.83</u>

Note: Financial costs for the current reporting period decreased for 40.24% from the last reporting period. The decrease mainly resulted from the significant increase of gain on foreign exchange differences due to the appreciation of the Chinese Yuan.

5.40. Impairment loss on assets

<u>Item</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>
Bad and doubtful debt expenses	<u>1,163,320.01</u>	<u>239,449.15</u>
Total	<u>1,163,320.01</u>	<u>239,449.15</u>

5.41. Gains from changes in fair value

<u>Source of fair value changes</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>
Interest rate swaps	-2,050,999.86	-12,118,965.63
Hui Li Da financing contract	<u>-3,865,809.52</u>	<u>0.00</u>
Total	<u>-5,916,809.38</u>	<u>-12,118,965.63</u>

5.42. Investment income**5.42.1. Details of investment income**

<u>Items</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>
Income from long-term equity investments measured at cost	1,235,391.15	1,617,642.00
Gains from possession of tradable financial assets	<u>-2,955,503.33</u>	<u>2,098,225.94</u>
Total	<u>-1,720,112.18</u>	<u>3,715,867.94</u>

5.42.2. Income from long-term equity investments measured at cost

<u>Investee</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>	<u>Reasons for change</u>
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China TravelSky Co., Ltd.	1,165,398.00	1,617,642.00	Change of profit distribution
Jinan International Airport Co., Ltd.	<u>69,993.15</u>	<u>0.00</u>	Change of profit distribution
Total	<u>1,235,391.15</u>	<u>1,617,642.00</u>	

5.42.3. As at 31st December 2010, there is no investment of which income remittance is imposed with limitation.

5.42.4. The 146.29% decrease of investment income from last reporting period principally results from the decreased gains from settlement of tradable financial assets.

5.43. Non-operating income

5.43.1. Details of non-operating income

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)	<u>Non-recurring gain or loss for the current reporting period</u> (CNY)
Gains from disposals of non-current assets	7,642.69	16,254,369.34	7,642.69
Including: Gains from disposals of non-current assets	7,642.69	16,254,369.34	7,642.69
Government grants	16,013,518.70	135,213,761.47	16,013,518.70
Airport-funded flight-route subsidy	10,118,467.00	0.00	10,118,467.00
Others	<u>2,872,615.50</u>	<u>3,654,130.06</u>	<u>2,872,615.50</u>
Total	<u>29,012,243.89</u>	<u>155,122,260.87</u>	<u>29,012,243.89</u>

5.43.2. Government grants

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)	<u>Comment</u>
Repayment of infrastructure fund for civil aviation	0.00	114,488,319.75	CaiJian[2009]No.4 issued by the CAAC and the Ministry of Finance
Subsidies for branch line aviation	9,500,000.00	15,910,000.00	Subsidies granted by local Civil Aviation Administration
Designated subsidy for snow disaster	364,500.00	0.00	Subsidy for depreciation of assets designated for snow disaster for the current reporting period
Designated subsidy for civil aviation energy-saving program	974,350.26	0.00	Subsidy for depreciation of side wing installation for the current reporting period
Others	<u>5,174,668.44</u>	<u>4,815,441.72</u>	Air route subsidies granted by local governments

Total	<u>16,013,518.70</u>	<u>135,213,761.47</u>
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5.43.3. The 81.30% decrease of non-operating income from last reporting period principally results from repayment of infrastructure fund for civil aviation of last reporting period.

5.44. Non-operating expenses

<u>Items</u>	<u>Current reporting period</u>	<u>Last reporting period</u>	<u>Non-recurring gain/loss for the current reporting period</u>
	(CNY)	(CNY)	(CNY)
Total losses from disposals of non-current assets	7,708,562.86	13,495,868.42	7,708,562.86
Within: Losses from disposals of non-current assets	7,708,562.86	4,373,716.45	7,708,562.86
Charitable donations	61,175.00	0.00	61,175.00
Fines	300,224.97	0.00	300,224.97
Others	<u>83,845.00</u>	<u>26,076.75</u>	<u>83,845.00</u>
Total	<u>8,153,807.83</u>	<u>13,521,945.17</u>	<u>8,153,807.83</u>

5.45. Corporate income tax expenses

<u>Items</u>	<u>Current reporting period</u>	<u>Last reporting period</u>
	(CNY)	(CNY)
Income tax for current period computed in accordance with tax laws and regulations	245,151,066.64	140,661,971.49
Adjustments of deferred income tax	<u>-35,181,907.39</u>	<u>-40,043,868.07</u>
Total	<u>209,969,159.25</u>	<u>100,618,103.42</u>

5.46. Computation of basic earnings per share and diluted earnings per share

<u>Profits for the reporting period</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
	(CNY)		(CNY)	
	<u>Basic earnings per share</u>	<u>Diluted earnings per share</u>	<u>Basic earnings per share</u>	<u>Diluted earnings per share</u>
Net profits attributable to ordinary shareholders	1.59	1.59	0.76	0.76
Net profits attributable to ordinary shareholders after deducting extraordinary gains or losses	1.56	1.56	0.51	0.51

$$\text{Basic earnings per share} = P_0 \div S$$

$$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$$

P_0 : net profits attributable to ordinary shareholders or net profits attributable to ordinary shareholders after deducting extraordinary gains or losses

S : weighted average of number of listed ordinary shares

S_0 : number of ordinary shares brought forward

S_1 : number of shares increased in the reporting period resulting from conversion of accumulated fund or dividends

S_i : number of shares increased in the reporting period resulting from share issues or convertible bond issues

S_j : number of shares decreased in the reporting period resulting from share buy-backs

S_k : number of shares decreased in the reporting period resulting from share contraction

M_0 : number of months in the reporting period

M_i : cumulative number of months from the second month of the share number increase month to the last month of the reporting period

M_j : cumulative number of months from the second month of the share number decrease month to the last month of the reporting period

Diluted earnings per share = $P_1 / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{the weighted average of number of ordinary shares increased by share warrants, share options and convertible bonds})$

P_1 : net profits attributable to ordinary shareholders or net profits attributable to ordinary shareholders after deducting extraordinary gains or losses adjusted for dilutive impact in accordance with CAS and relevant regulations

5.47. Notes to the consolidated cash flow statement

5.47.1. Other cash receipts in relation to operating activities

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Government grants	29,664,668.44	135,213,761.47
Interest income from bank deposits	3,602,739.71	1,107,957.64
Cash received from non-operating activities	12,991,082.50	3,654,130.06
Repayment of guarantee deposits for letters of guarantee	26,935,875.00	0.00
Cash received from accounts balances	<u>23,830,516.63</u>	<u>4,118,202.36</u>
Total	<u>97,024,882.28</u>	<u>144,094,051.53</u>

5.47.2. Other cash payments in relation to operating activities

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Bank charges	16,007,715.89	10,533,288.71
Cash paid from non-operating activities	445,244.97	26,076.75
Cash paid from accounts balances	44,345,294.85	13,080,052.93
Cash paid from sales expenses and administrative expenses	<u>93,443,426.57</u>	<u>73,479,851.89</u>

Total	<u>154,241,682.28</u>	<u>97,119,270.28</u>
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5.47.3. Other cash payments in relation to investing activities

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Down payments for aircraft purchase	12,947,378.50	0.00
Payments on settlement of interest rate swaps	<u>2,955,503.33</u>	<u>0.00</u>
Total	<u>15,902,881.83</u>	<u>0.00</u>

5.47.4. Other cash proceeds in relation to financing activities

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Cash received from guarantee bank acceptance	<u>11,459,417.00</u>	<u>0.00</u>
Total	<u>11,459,417.00</u>	<u>0.00</u>

5.47.5. Other cash payments in relation to financing activities

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Cash paid to guarantee hypothecated loans	78,629,342.37	71,537,020.88
Cash paid to guarantee bank acceptance	0.00	46,259,417.00
Cash paid for financial leases of aircrafts	<u>214,050,202.14</u>	<u>209,987,105.41</u>
Total	<u>292,679,544.51</u>	<u>327,783,543.29</u>

5.48. Supplements to the consolidated cash flow statement**5.48.1. Supplements to the consolidated cash flow statement**

<u>(1) Cash flows adjusted from net profits</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
Net profits	634,575,287.43	302,743,202.40
Add: Impairment losses	1,163,320.01	239,449.15
Add: Depreciation of non-current assets and productive biological assets and losses of fuel	563,013,991.59	517,592,568.89
Add: Amortisation of intangible assets	748,706.68	813,437.60
Add: Amortisation of long-term deferred assets	42,636,918.25	48,353,314.82
Add: Losses on disposals of non-current assets, intangible assets and long-term assets (minus sign representing gains)	-4,106.42	-6,132,054.93
Add: Losses arising from scrapping non-current assets (minus sign representing gains)	7,705,026.59	3,373,554.01
Add: Losses arising from fair value changes (minus sign representing gains)	5,916,809.38	12,118,965.63
Add: Financial costs (minus sign representing income)	148,686,355.48	248,224,796.69
Add: Investment losses (minus sign representing income)	1,720,112.18	-3,715,867.94

Add: Decrease of deferred income tax assets (minus sign representing increase)	-34,669,157.43	-23,062,753.23
Add: Increase of deferred income tax liabilities (minus sign representing decrease)	-512,749.96	-16,981,114.84
Add: Decrease of inventories (minus sign representing increase)	-12,165,928.57	9,079,748.47
Add: Decrease of operating accounts receivables (minus sign representing increase)	-68,957,632.45	-18,730,591.77
Add: Increase of operating accounts payables (minus sign representing decrease)	385,221,677.05	243,430,495.47
Add: Others	0.00	0.00
Net cash flows from operating activities	<u>1,675,078,629.81</u>	<u>1,317,347,150.42</u>
<u>(2) Non-cash-flow related significant investing and financing activities</u>		
Conversion of debt to equity	0.00	0.00
Conversion debt instruction of maturity less than 1 year	0.00	0.00
Non-current assets under financial leases	0.00	0.00
<u>(3) Net change of cash and cash equivalents</u>		
Cash carried forward	148,606,284.51	49,333,429.81
Less: Cash brought forward	49,333,429.81	44,937,058.88
Add: Cash equivalents carried forward	0.00	0.00
Less: Cash equivalents brought forward	0.00	0.00
Net increase of cash and cash equivalents	<u>99,272,854.70</u>	<u>4,396,370.93</u>

5.48.2. Composition of cash and cash equivalents

<u>Items</u>	<u>Current reporting period</u> (CNY)	<u>Last reporting period</u> (CNY)
I . Cash	148,606,284.51	49,333,429.81
Including: Cash on hand	566,260.65	341,204.85
Bank deposit capable of immediate payments	148,040,023.86	48,992,224.96
Other monetary assets capable of immediate payments	0.00	0.00
II . Cash equivalents	0.00	0.00
Including: Debt instruments matured with three months	0.00	0.00
III. Balance of cash and cash equivalents	148,606,284.51	49,333,429.81
Including: Cash and cash equivalents with imposed usage limitation	0.00	0.00

Note 6. Related party relationships and transactions

6.1. Details of the Company's principal investors

<u>Name</u>	<u>Relationship</u>	<u>Type of registration</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Nature of business</u>	<u>Shareholding in the Company</u>	<u>Principal investors' voting right in the Company</u>	<u>Institution code</u>
SDA Group	Largest shareholder	Limited liability company	Jinan	Ma, Chongxian	Investment in and management of air transportation	42.00%	42.00%	61407164-7

Air China	Second largest shareholder	Stock company	Beijing	Kong, dong	Air transportation	22.80%	22.80%	71787100-6
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Note: SDA Group and Air China is largest shareholder and second largest shareholder of the Company respectively. Air China is the largest shareholder of SDA Group, holding 49.406% of the share capital of SDA Group which represents 49.406% voting right in SDA Group. Both SDA Group and Air China have significant influence over the Company.

6.2. Details of the Company's subsidiaries

The details of the Company's subsidiaries as set out in Note 4.

6.3. Details of the Company's associated companies

The details of the Company's associated companies as set out in Note 5.9.

6.4. Other related parties

<u>Name of company</u>	<u>Relationships</u>	<u>Institution code</u>
Shandong TaiGu Aircraft Projecting Co., Ltd.	Controlled by principal investors of the Company	70588297-1
Shandong XiangYu Air Technology Co., Ltd.	Controlled by principal investors of the Company	720736454
Shandong International Air Training Co., Ltd.(Note 6.4.1.)	Controlled by principal investors of the Company	72755322-0
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	72497146
Shenzhen Airlines Co., Ltd.	Controlled by principal investors of the Company	19221129-0
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	71093205-6
China National Aviation Finance Co., Ltd.	Controlled by principal investors of the Company	10113699
Sichuan S Aero-engine Maintenance Co., Ltd.	Controlled by principal investors of the Company	71188088-4

Note 1: The de-registration of Shandong International Air Training Co., Ltd. was completed on December 20th, 2010.

6.5. Transactions with related parties

6.5.1. Acceptance of goods and service

<u>Related parties</u>	<u>Type of transaction</u>	<u>Transaction description</u>	<u>Pricing and decision making process</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
				<u>Amount(CNY)</u>	<u>% of transaction within Same type</u>	<u>Amount(CNY)</u>	<u>% of transaction within Same type</u>
Shandong TaiGu Aircraft Projecting Co., Ltd.	Receipt of service	Aircraft maintenance fees	Market price	78,337,964.62	16.75	83,347,029.89	22.19

SDA Group	Receipt of service	Rental fees and food and accommodation fees	Market price	11,804,053.41	28.98	11,294,563.03	23.7
Shandong XiangYu Air Technology Co., Ltd.	Receipt of service	Repair expenditure	Market price	29,942,894.08	6.4	19,350,032.57	5.15
Qingdao FeiSheng	Receipt of service	Training fees	Market price	4,211,763.00	5.56	4,097,421.00	4.64
Shandong International Air Training Co., Ltd.	Receipt of service	Training fees	Market price	0.00	0.00	7,927,892.00	8.98
Shenzhen Airlines Co., Ltd.	Receipt of service	Training fees	Market price	3,408,580.00	4.5	0.00	0.00
Air China	Receipt of service	Expenses for ground services	Market price	14,118,424.93	2.14	0.00	0.00
Air China Cargo Co., Ltd.	Receipt of service	Expenses for ground services	Market price	2,193,175.76	0.33	0.00	0.00
Sichuan S Aero-engine Maintenance Co., Ltd.	Receipt of service	Repair expenditure	Market price	<u>27,036,322.41</u>	5.78	<u>0.00</u>	0.00
Total				<u>171,053,178.21</u>		<u>126,016,938.49</u>	

6.5.2. Supply of goods and service

Related parties	Type of transaction	Transaction description	Pricing and decision making process	Current reporting period		Last reporting period	
				Amount (CNY)	% of transaction within same type	Amount (CNY)	% of transaction Within same type
Air China	Supply of service	Service fees	Agreed price	<u>13,000,000.00</u>	<u>76.70</u>	<u>10,200,000.00</u>	<u>79.01</u>
Total				<u>13,000,000.00</u>		<u>10,200,000.00</u>	

6.5.3. Guarantee

Name of Guarantor	Secured party	Secured amount (CNY)	Start date	Expiry date	Completion of guarantee
SDA Group	The Company	80,000,000.00	2010-1-21	2011-1-20	No
SDA Group	The Company	12,303,240.13	2010-1-28	2011-1-27	No
SDA Group	The Company	48,638,367.11	2010-6-1	2011-5-31	No
SDA Group	The Company	75,034,330.05	2010-7-12	2011-7-11	No
SDA Group	The Company	12,303,240.13	2010-7-12	2011-7-11	No
SDA Group	The Company	6,151,621.39	2010-7-12	2011-7-11	No
SDA Group	The Company	102,259,322.57	2010-8-3	2011-8-3	No
SDA Group	The Company	2,384,770.96	2010-10-21	2011-10-23	No
SDA Group	The Company	2,314,371.39	2010-10-22	2011-10-24	No
SDA Group	The Company	50,000,000.00	2010-10-27	2011-10-26	No
SDA Group	The Company	2,450,399.00	2010-10-27	2011-10-26	No
SDA Group	The Company	2,314,371.39	2010-10-27	2011-10-26	No

<u>Name of Guarantor</u>	<u>Secured party</u>	<u>Secured amount</u> <u>(CNY)</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Completion of guarantee</u>
SDA Group	The Company	2,317,945.00	2010-11-1	2011-11-1	No
SDA Group	The Company	2,317,945.00	2010-11-1	2011-11-1	No
SDA Group	The Company	2,581,219.84	2010-11-1	2011-11-1	No
SDA Group	The Company	80,834,689.39	2010-11-2	2011-11-2	No
SDA Group	The Company	1,157,647.96	2010-11-8	2011-11-8	No
SDA Group	The Company	2,362,074.04	2010-11-9	2011-11-8	No
SDA Group	The Company	2,384,770.96	2010-11-10	2011-11-10	No
SDA Group	The Company	2,450,399.00	2010-11-15	2011-11-15	No
SDA Group	The Company	1,157,647.96	2010-11-16	2011-11-16	No
SDA Group	The Company	1,157,647.96	2010-11-16	2011-11-16	No
SDA Group	The Company	2,086,150.50	2010-11-16	2011-11-16	No
SDA Group	The Company	12,947,378.50	2010-11-18	2011-11-18	No
SDA Group	The Company	2,086,150.50	2010-11-19	2011-11-21	No
SDA Group	The Company	2,314,371.39	2010-11-22	2011-11-22	No
SDA Group	The Company	1,157,647.96	2010-11-23	2011-11-23	No
SDA Group	The Company	2,384,770.96	2010-11-24	2011-11-25	No
SDA Group	The Company	2,271,884.59	2010-11-26	2011-11-28	No
SDA Group	The Company	1,165,595.20	2010-11-27	2011-11-28	No
SDA Group	The Company	100,000,000.00	2006-12-18	2018-12-17	No
SDA Group	The Company	2,200,000.00	2008-6-5	2018-12-17	No
SDA Group	The Company	2,100,000.00	2008-6-18	2018-12-17	No
SDA Group	The Company	123,000,000.00	2008-6-19	2018-12-17	No
SDA Group	The Company	13,500,000.00	2008-7-1	2018-12-17	No
SDA Group	The Company	30,000,000.00	2008-8-19	2018-12-17	No
SDA Group	The Company	27,600,000.00	2007-12-3	2022-3-28	No
SDA Group	The Company	83,000,000.00	2008-1-2	2022-3-28	No
SDA Group	The Company	53,000,000.00	2008-4-29	2022-3-28	No

<u>Name of Guarantor</u>	<u>Secured party</u>	<u>Secured amount</u> <u>(CNY)</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Completion of guarantee</u>
SDA Group	The Company	52,300,000.00	2008-6-2	2022-3-28	No
SDA Group	The Company	17,200,000.00	2008-7-1	2022-3-28	No
SDA Group	The Company	120,000,000.00	2008-7-15	2022-3-28	No
SDA Group	The Company	114,000,000.00	2009-4-21	2022-3-28	No
SDA Group	The Company	44,806,671.57	2007-5-31	2022-3-28	No
SDA Group	The Company	118,909,386.41	2007-7-2	2022-3-28	No
SDA Group	The Company	24,833,800.46	2007-8-1	2022-3-28	No
SDA Group	The Company	<u>98,737,172.03</u>	2007-9-28	2022-3-28	No
	Total	<u>1,546,477,001.30</u>			

6.5.4. Inter-related-party borrowings

<u>Related parties</u>	<u>Amount</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Note</u>
China National Aviation Finance Co., Ltd.	50,000,000.00	2010-6-21	2011-6-20	Repaid on 9 October 2010
China National Aviation Finance Co., Ltd.	50,000,000.00	2010-6-28	2011-6-27	
China National Aviation Finance Co., Ltd.	50,000,000.00	2010-7-14	2011-7-13	
China National Aviation Finance Co., Ltd.	50,000,000.00	2010-7-21	2011-7-20	
China National Aviation Finance Co., Ltd.	<u>150,000,000.00</u>	2010-12-15	2011-12-14	
Total	<u>350,000,000.00</u>			

6.5.5. Reorganisation and assets transfer between related parties

<u>Related parties</u>	<u>Transaction description</u>	<u>Type of transaction</u>	<u>Pricing policy</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
				<u>Amount</u> <u>(CNY)</u>	<u>% of transaction</u> <u>within same</u> <u>type</u>	<u>Amount</u> <u>(CNY)</u>	<u>% of transaction</u> <u>within</u> <u>same type</u>
Air China	Aircraft purchase right	Sales	Agreed price	0.00	0.00	333,393,389.35	100.00
Shandong XiangYu Air Technology Co., Ltd.	Sales of aviation equipments	Sales	Agreed price	<u>3,851,850.53</u>	100.00	<u>2,871,828.77</u>	100.00
Total				<u>3,851,850.53</u>		<u>336,265,218.12</u>	

6.5.6. Other transactions with related parties

<u>Related parties</u>	<u>Pricing policy</u>	<u>Transaction</u>	<u>Current reporting period</u>	<u>Last reporting period</u>
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		<u>description</u>	<u>Amount</u>	<u>% of transaction</u>	<u>Amount</u>	<u>% of transaction</u>
			<u>(CNY)</u>	<u>within same</u>	<u>(CNY)</u>	<u>within</u>
				<u>type</u>		<u>same type</u>
Air China	Agreed price	Wet lease	637,573,253.00	100.00	623,229,927.00	100.00
SDA Group	Agreed price	Guarantee fee	1,445,100.00	100.00	2,740,500.00	100.00
Air China	Agreed price	Route sharing	14,985,479.03	100.00	19,202,440.01	100.00
		Cargo				
Air China Cargo Co., Ltd.	Agreed price	transportation	<u>4,489,317.15</u>	100.00	<u>0.00</u>	0.00
		alliance				
Total			<u>658,493,149.18</u>		<u>645,172,867.01</u>	

6.6. The balance of accounts payables and receivables among related parties:

<u>Items</u>	<u>Related party</u>	<u>2010.12.31</u>	<u>2009.12.31</u>
		<u>(CNY)</u>	<u>(CNY)</u>
Accounts receivable			
	Air China	66,366,844.88	53,828,640.46
	Shenzhen Airlines Co., Ltd.	1,849,400.00	0.00
	Air China Cargo Co., Ltd.	<u>3,275,079.39</u>	<u>0.00</u>
Total		<u>71,491,324.27</u>	<u>53,828,640.46</u>
Advances to suppliers			
	Shandong XiangYu Air Technology Co., Ltd.	<u>1,918,266.76</u>	<u>0.00</u>
Total		<u>1,918,266.76</u>	<u>0.00</u>
Other receivable			
	Air China	40,503,711.76	23,382,955.26
	Qingdao FeiSheng	0.00	1,405,287.30
	Shandong XiangYu Air Technology Co., Ltd.	3,864,597.95	2,966,545.86
	Shandong Rainbow Commercial Jet Co., Ltd	<u>109,051,717.65</u>	<u>109,051,717.65</u>
Total		<u>153,420,027.36</u>	<u>136,806,506.07</u>
Accounts payable			
	Shandong International Air Training Co., Ltd.	0.00	1,816,020.00
	Qingdao FeiSheng	0.00	3,750,453.00
	Air China	3,437,689.95	3,962,987.26
	Shandong TaiGu Aircraft Projecting Co., Ltd.	27,829,926.58	13,641,513.24
	Air China Cargo Co., Ltd.	<u>414,307.39</u>	<u>0.00</u>
Total		<u>31,681,923.92</u>	<u>23,170,973.50</u>
Other payable			
	Air China Co., Ltd.	20,000,000.00	20,000,000.00
	SDA Group Co., Ltd.	12,192,570.48	4,051,799.74
	Shandong TaiGu Aircraft Projecting Co., Ltd.	245,400.00	0.00
	Shandong International Air Training Co., Ltd.	0.00	3,465,953.82
	Shenzhen Airlines Co., Ltd.	<u>1,083,308.00</u>	<u>0.00</u>
Total		<u>33,521,278.48</u>	<u>27,517,753.56</u>

Note 7. Contingencies

No contingencies as at the balance sheet date.

Note 8. Commitment

Signed commitments of which the performance was in process as at 31st December 2010 are listed below:

<u>Items</u>	<u>Carrying value carried forward ('000)</u>				
	<u>Within 1 year</u> <u>(CNY)</u>	<u>1 – 2 years</u> <u>(CNY)</u>	<u>2 – 3 years</u> <u>(CNY)</u>	<u>Over 3 years</u> <u>(CNY)</u>	<u>Total</u> <u>(CNY)</u>
Operating lease	641,711.29	625,647.77	585,997.32	3,231,618.31	5,084,974.69
Capital	<u>1,553,748.20</u>	<u>2,101,752.04</u>	<u>2,190,421.40</u>	<u>4,177,828.63</u>	<u>10,023,750.27</u>
Total	<u>2,195,459.49</u>	<u>2,727,399.81</u>	<u>2,776,418.72</u>	<u>7,409,446.94</u>	<u>15,108,724.96</u>

Note 9. Post balance sheet date events

9.1. Cash dividends CNY 3 per 10 shares from undistributed profit for the 400 million shares outstanding as at 31st December 2010 was declared by the Fifth Meeting of the Fourth Term of Board of Directors held on 25th March 2011.

9.2. The Proposal for Issuance of Medium-term Bonds (关于拟发行中期票据的议案) (hereafter, the Proposal) was approved by the Fifth Meeting of the Fourth Term of Board of Directors held on 25th March 2011. As provided by the Proposal, the Company will issue Two-to-Five-Year Bonds amounting to CNY 500 million by one-off issuance or step issuance.

Note 10. Other significant events

10.1 Assets and liabilities measured by fair value

<u>Items</u>	<u>2009.12.31</u>	<u>Gain/loss on change</u> <u>in fair value for the</u> <u>current reporting</u> <u>period</u>	<u>Cumulative</u> <u>change in fair</u> <u>value</u> <u>accounted for</u> <u>in equity</u>	<u>Impairment</u> <u>allowance</u> <u>recognised for the</u> <u>current reporting</u> <u>period</u>	<u>2010.12.31</u>
Financial assets					
Financial derivatives	<u>11,341,846.48</u>	<u>-2,050,999.86</u>	<u>0.00</u>	<u>0.00</u>	<u>9,290,846.62</u>
Subtotal of financial assets	<u>11,341,846.48</u>	<u>-2,050,999.86</u>	<u>0.00</u>	<u>0.00</u>	<u>9,290,846.62</u>
Financial liabilities	0.00	-3,865,809.52	0.00	0.00	3,865,809.52

10.2 Financial assets and financial liabilities denominated in foreign currency

Items	2009.12.31	Gain/loss on change in fair value for the current reporting period	Cumulative change in fair value accounted for in equity	Impairment allowance recognised for the current reporting period	2010.12.31
Financial assets					
Financial derivatives	<u>11,341,846.48</u>	<u>-2,050,999.86</u>	<u>0.00</u>	<u>0.00</u>	<u>9,290,846.62</u>
Subtotal of financial assets	<u>11,341,846.48</u>	<u>-2,050,999.86</u>	<u>0.00</u>	<u>0.00</u>	<u>9,290,846.62</u>
Financial liabilities	0.00	-3,865,809.52	0.00	0.00	3,865,809.52

10.3 Other significant events

The 8th Extraordinary Meeting of 2010 of the 4th Term of the Board of Directors of the Company held on December 22nd, 2010 considered and approved the “Shandong Airlines Co., Ltd.: Proposal of Purchase of Fifteen B737-800 Aircrafts during the Period from 2014 to 2015 from the Boeing Company” (《关于山东航空股份有限公司2014年-2015年购买15架B737-800飞机事宜的议案》); and the purchase agreement for the fifteen aircrafts was so signed with the Boeing Company on December 23rd, 2010. The proposal is pending the resolution by the General Meeting of the Company and the approval by the relevant governing authorities.

Note 11. Main notes to financial statements of parent company

11.1. Accounts receivables

11.1.1. Disclosure by classification

Category	2010.12.31			
	Book value		Provision for bad debts	
	Amount(CNY)	Proportion(%)	Amount(CNY)	Proportion(%)
Accounts receivable of individual significance	159,361,519.11	85.10	0.00	0.0
Categorised accounts receivable:				
Categorisation by nature of receivables	27,907,177.65	14.90	1,395,358.88	5.00
Subtotal of category	27,907,177.65	14.90	1,395,358.88	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>187,268,696.76</u>	<u>100.00</u>	<u>1,395,358.88</u>	<u>0.75</u>

(Continued):

Category	<u>2009.12.31</u>			
	Book value		Provision for bad debts	
	Amount(CNY)	Proportion(%)	Amount(CNY)	Proportion(%)
Accounts receivable of individual significance	130,379,296.86	92.29	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	10,897,132.27	7.71	544,856.66	5.00
Subtotal of category	10,897,132.27	7.71	544,856.66	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>141,276,429.13</u>	<u>100.00</u>	<u>544,856.66</u>	<u>0.39</u>

① Classification of accounts receivable: See Note 2.10 for criteria for classification of accounts receivable of individual significance, categorised accounts receivable and accounts receivable of individual insignificance subject to individual assessment for impairment.

② Categories of accounts receivable subject to provision for bad debts by percentage of carrying amount:

Category	Book value	Proportion (%)	Provision for bad debts
Categorisation by nature of receivables	<u>27,907,177.65</u>	5.00	<u>1,395,358.88</u>
Total	<u>27,907,177.65</u>		<u>1,395,358.88</u>

11.1.2. Accounts receivable owed by shareholders with 5% or more voting right during the reporting period

Shareholder	<u>2010.12.31</u>		<u>2009.12.31</u>	
	Amount (CNY)	Provision for bad debts (CNY)	Amount (CNY)	Provision for bad debts (CNY)
Air China	<u>66,366,844.88</u>	<u>0.00</u>	<u>53,828,640.46</u>	<u>0.00</u>
Total	<u>66,366,844.88</u>	<u>0.00</u>	<u>53,828,640.46</u>	<u>0.00</u>

11.1.3. The balance of top five accounts receivable

Name of company	Relationship with the Company	Amount(CNY)	Age	Nature of accounts receivable	% of total accounts receivables
Air China	Related party	66,366,844.88	Within 1 year	Wet lease premium receivable and balance receivable from joint operations	35.44
BSP	Non-related party	64,125,118.02	Within 1 year	Balance pending settlement	34.24
China Civil Aviation Clearing Centre	Non-related party	28,869,556.21	Within 1 year	Offset balance receivable	15.42

Air China Cargo Co., Ltd.	Related party	3,275,079.39	Within 1 year	Balance receivable from joint cargo operations	1.75
China Post, Jinan(济南市邮政局)	Non-related party	<u>2,799,874.16</u>	Within 1 year	Receivables from cabin charter	<u>1.50</u>
Total		<u>165,436,472.66</u>			<u>88.35</u>

11.1.4. Accounts receivables owed by related parties

<u>Name</u>	<u>Relationship with the Company</u>	<u>Amount (CNY)</u>	<u>% of total accounts receivables</u>
Air China Co., Ltd.	Principal investor of the Company	66,366,844.88	35.44
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	3,275,079.39	1.75
Qingdao Logistics	Partially-owned subsidiary	<u>848,880.00</u>	<u>0.45</u>
Total		<u>70,490,804.27</u>	<u>37.64</u>

11.2. Other receivables

11.2.1. Disclosure by classification

<u>Category</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion(%)</u>	<u>Amount(CNY)</u>	<u>Proportion(%)</u>
Other receivable of individual significance	228,578,538.56	67.92	109,051,717.65	47.71
Categorised other receivable:				
Categorisation by nature of receivables	43,013,704.89	12.78	2,150,685.24	5.00
Subtotal of category	43,013,704.89	12.78	2,150,685.24	5.00
Other receivable of individual insignificance subject to individual assessment for impairment	<u>64,955,587.90</u>	<u>19.30</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>336,547,831.35</u>	<u>100.00</u>	<u>111,202,402.89</u>	<u>33.04</u>

(Continued):

<u>Category</u>	<u>2009.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount(CNY)</u>	<u>Proportion(%)</u>	<u>Amount(CNY)</u>	<u>Proportion(%)</u>
Other receivable of individual significance	209,239,407.19	77.04	109,051,717.65	52.12
Categorised other receivable:				

Categorisation by nature of receivables	41,229,693.20	15.18	2,061,484.66	5.00
Subtotal of category	41,229,693.20	15.18	2,061,484.66	5.00
Other receivable of individual insignificance subject to individual assessment for impairment	<u>21,127,577.39</u>	<u>7.78</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>271,596,677.78</u>	<u>100.00</u>	<u>111,113,202.31</u>	<u>40.91</u>

① Classification of other receivables: See Note 2.10 for criteria for classification of other receivables of individual significance, categorised other receivables and other receivables of individual insignificance subject to individual assessment for impairment.

② Categories of other receivables subject to provision for bad debts by percentage of carrying amount:

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>43,013,704.89</u>	5.00	<u>2,150,685.24</u>
Total	<u>43,013,704.89</u>		<u>2,150,685.24</u>

11.2.2. Other receivables of individual insignificance subject to individual assessment for impairment:

<u>Details</u>	<u>Book value(CNY)</u>	<u>Bad and doubtful debt(CNY)</u>	<u>Proportion (%)</u>	<u>Comment</u>
Aerdragon Aviation Partners Limited	3,973,620.00	0.00	0.00	Individually assessed as not impaired
Aviation Capital Group Corporation	8,841,304.50	0.00	0.00	Individually assessed as not impaired
Babcock & Brown Aircraft Management LLC	9,801,596.00	0.00	0.00	Individually assessed as not impaired
Bellevue Aircraft Leasing(Ireland) Limited	2,880,874.50	0.00	0.00	Individually assessed as not impaired
BOC AVIATION	5,298,160.00	0.00	0.00	Individually assessed as not impaired
GE Commercial Aviation Services	3,801,429.80	0.00	0.00	Individually assessed as not impaired
Pacific Brihar Corporation Limited	3,496,785.60	0.00	0.00	Individually assessed as not impaired
Rainier Aircraft Leasing(Ireland) Limited	13,086,601.50	0.00	0.00	Individually assessed as not impaired
Shannon Engine Support LTD	827,837.50	0.00	0.00	Individually assessed as not impaired
The Boeing Company	<u>12,947,378.50</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as not impaired
Total	<u>64,955,587.90</u>	<u>0.00</u>	<u>0.00</u>	

11.2.3. Other receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2010.12.31</u>	<u>2009.12.31</u>
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	<u>Amount</u>	<u>Bad and doubtful debt provision</u>	<u>Amount</u>	<u>Bad and doubtful debt provision</u>
	<u>(CNY)</u>	<u>(CNY)</u>	<u>(CNY)</u>	<u>(CNY)</u>
Air China	<u>40,503,711.76</u>	<u>0.00</u>	<u>23,382,955.26</u>	<u>0.00</u>
Total	<u>40,503,711.76</u>	<u>0.00</u>	<u>23,382,955.26</u>	<u>0.00</u>

11.2.4. List the top five balance of other receivables

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Nature</u>	<u>Amount(CNY)</u>	<u>Age</u>	<u>% of total other receivables</u>
Shandong Rainbow Commercial Jet Co., Ltd.	Related parties	Operating receivable	109,051,717.65	3-7 years	32.4
CDB Leasing Co., Ltd.	Non-related parties	Guarantee deposit	41,354,563.28	Over 5 years	12.29
Air China	Related parties	Guarantee deposit	40,503,711.76	Within 2 years	12.04
Beijing FuLaiTe Technology Development Co., Ltd.	Non-related parties	Guarantee deposit	19,124,985.87	Within 1 year	5.68
Singapore Aircraft Leasing Enterprise	Non-related parties	Guarantee deposit	<u>18,543,560.00</u>	Within 5 years	<u>5.51</u>
Total			<u>228,578,538.56</u>		<u>67.92</u>

11.2.5. Other receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount(CNY)</u>	<u>% of total other receivables</u>
Air China	Principal investor of the Company	40,503,711.76	12.04
Shandong Xiang Yu Air Technology Co., Ltd.	Controlled by principal investors of the Company	3,864,597.95	1.15
Qingdao Logistics	Partially-owned subsidiary	213,840.33	0.06
Qingdao Feisheng	Wholly-owned subsidiary	746,858.24	0.22
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	<u>109,051,717.65</u>	<u>32.40</u>
Total		<u>154,380,725.93</u>	<u>45.87</u>

11.3. Long-term equity investments

<u>Name of investee</u>	<u>Method of measurement</u>	<u>Initial investment cost(CNY)</u>	<u>Shareholding(%)</u>	<u>Voting right(%)</u>	<u>Reasons for discrepancy between shareholding and voting right</u>
Qingdao Logistics	Measured at cost	23,813,205.97	70.00	70.00	n/a
China TravelSky Co., Ltd.	Measured at cost	6,690,000.00	0.45	0.45	n/a
Sichuan Airlines Co., Ltd.	Measured at cost	35,000,000.00	10.00	10.00	n/a
Jinan International Airport Co., Ltd.	Measured at cost	46,662,100.00	2.53	2.53	n/a
Qingdao Feisheng	Measured at cost	57,677,479.46	100.00	100.00	n/a
Shandong Rainbow Commercial Jet Co., Ltd	Measured by the equity method	<u>22,500,000.00</u>	45.00	45.00	n/a
Total		<u>192,342,785.43</u>			

Continued:

<u>Name of investee</u>	<u>Balance brought forward(CNY)</u>	<u>Changes in year(CNY)</u>	<u>Balance carried forward(CNY)</u>	<u>Accumulated impairment provision(CNY)</u>	<u>Impairment provision in year(CNY)</u>	<u>Cash dividends</u>
Qingdao Logistics	23,813,205.97	0.00	23,813,205.97	0.00	0.00	0.00
China TravelSky Co., Ltd.	6,690,000.00	0.00	6,690,000.00	0.00	0.00	1,165,398.00
Sichuan Airlines Co., Ltd.	35,000,000.00	0.00	35,000,000.00	0.00	0.00	0.00
Jinan International Airport Co., Ltd.	46,662,100.00	0.00	46,662,100.00	0.00	0.00	69,993.15
Qingdao Feisheng	57,677,479.46	0.00	57,677,479.46	0.00	0.00	0.00
Shandong Rainbow Commercial Jet Co., Ltd	<u>22,500,000.00</u>	<u>0.00</u>	<u>22,500,000.00</u>	<u>22,500,000.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>192,342,785.43</u>	<u>0.00</u>	<u>192,342,785.43</u>	<u>22,500,000.00</u>	<u>0.00</u>	<u>1,235,391.15</u>

11.4. Operating income and operating costs

11.4.1. Operating income and operating costs

<u>Items</u>	<u>Current reporting period (CNY)</u>	<u>Last reporting period (CNY)</u>
Income from principal activities	7,202,653,930.01	5,298,145,040.55
Income from other activities	<u>81,820,139.22</u>	<u>64,528,440.63</u>
Total operating income	<u>7,284,474,069.23</u>	<u>5,362,673,481.18</u>
Principal activity costs	5,479,055,497.83	4,108,351,166.78
Other activity costs	<u>5,407,179.34</u>	<u>3,347,076.10</u>
Total operating costs	<u>5,484,462,677.17</u>	<u>4,111,698,242.88</u>

11.4.2. Operating income and operating costs by segment

<u>Segment</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
	<u>Operating income (CNY)</u>	<u>Operating costs (CNY)</u>	<u>Operating income (CNY)</u>	<u>Operating costs (CNY)</u>
Air transportation	7,179,220,348.49	5,459,720,041.47	5,277,937,825.81	4,089,471,032.64
Hospitality	25,414,051.87	20,815,817.17	22,984,060.08	19,179,045.59
Rental services	88,110.26	0.00	854,642.06	30,000.00
Others	<u>79,751,558.61</u>	<u>3,926,818.53</u>	<u>60,896,953.23</u>	<u>3,018,164.65</u>
Total	<u>7,284,474,069.23</u>	<u>5,484,462,677.17</u>	<u>5,362,673,481.18</u>	<u>4,111,698,242.88</u>

11.4.3. Details of operating revenues from top five clients

<u>Clients</u>	<u>Operating income (CNY)</u>	<u>% of total operating income</u>
Air China Co., Ltd.	665,558,732.03	9.14

PingAn Insurance (Pension) Co., Ltd. (平安养老保险股份有限公司)	7,970,100.00	0.11
Department of Organisation, Shandong Office of the China Communist Party (山东省委组织部)	4,941,700.00	0.07
Air China Cargo Co., Ltd.	4,489,317.15	0.06
Shandong Jiahua Culture international travel service Co., Ltd (JHCITS)	<u>3,926,000.00</u>	<u>0.05</u>
Total	<u>686,885,849.18</u>	<u>9.43</u>

11.5. Investment income

11.5.1. Details of investment income

Items	Current reporting period (CNY)	Last reporting period (CNY)
Income from long-term equity investments measured at cost	1,235,391.15	1,617,642.00
Gains from possession of tradable financial assets	<u>-2,955,503.33</u>	<u>2,098,225.94</u>
Total	<u>-1,720,112.18</u>	<u>3,715,867.94</u>

11.5.2. Income from long-term equity investments measured at cost

Investee	Current reporting period (CNY)	Last reporting period (CNY)	Reasons for change
China TravelSky Co., Ltd.	1,165,398.00	1,617,642.00	Dividend announced by the investee
Jinan International Airport Co., Ltd.	<u>69,993.15</u>	<u>0.00</u>	Dividend announced by the investee
Total	<u>1,235,391.15</u>	<u>1,617,642.00</u>	

11.5.3. As at 31st December 2010, there is no investment of which income remittance is imposed with limitation.

11.6. Supplements to the consolidated cash flow statement

(1) Cash flows adjusted from net profits	Current reporting period (CNY)	Last reporting period (CNY)
Net profits		
Add: Impairment losses	633,686,858.58	300,853,412.56
Add: Depreciation of non-current assets and productive biological assets and losses of fuel	939,702.80	196,362.15
Add: Amortisation of intangible assets	561,748,970.27	516,738,335.70
Add: Amortisation of long-term deferred assets	714,050.73	778,781.65
Add: Losses on disposals of non-current assets, intangible assets and	42,512,979.36	48,338,171.32

	<u>Current reporting period</u>	<u>Last reporting period</u>
	<u>(CNY)</u>	<u>(CNY)</u>
<u>(1) Cash flows adjusted from net profits</u>		
long-term assets (minus sign representing gains)		
Add: Losses arising from scrapping non-current assets (minus sign representing gains)	-4,106.42	-6,133,554.83
Add: Losses arising from fair value changes (minus sign representing gains)	7,619,454.74	3,373,554.01
Add: Financial costs (minus sign representing income)	5,916,809.38	12,118,965.63
Add: Investment losses (minus sign representing income)	148,529,818.13	248,224,796.69
Add: Decrease of deferred income tax assets (minus sign representing increase)	1,720,112.18	-3,715,867.94
Add: Increase of deferred income tax liabilities (minus sign representing decrease)	-34,613,253.12	-23,044,980.11
Add: Decrease of inventories (minus sign representing increase)	-512,749.96	-16,981,114.84
Add: Decrease of operating accounts receivables (minus sign representing increase)	-12,165,928.57	9,079,748.47
Add: Increase of operating accounts payables (minus sign representing decrease)	-76,890,676.84	-17,601,473.01
Add: Others	392,661,666.17	244,772,201.97
Net cash flows from operating activities	<u>0.00</u>	<u>0.00</u>
<u>(2) Non-cash-flow related significant investing and financing activities</u>	<u>1,671,863,707.43</u>	<u>1,316,997,339.42</u>
Conversion of debt to equity		
Conversion debt instruction of maturity less than 1 year		
Non-current assets under financial leases		
<u>(3) Net change of cash and cash equivalents</u>		
Cash carried forward		
Less: Cash brought forward	143,930,783.00	35,081,676.95
Add: Cash equivalents carried forward	35,081,676.95	30,712,242.02
Less: Cash equivalents brought forward	0.00	0.00
Net increase of cash and cash equivalents	0.00	0.00
Net profits	108,849,106.05	4,369,434.93

Note 12. Supplemental information

12.1. Details of extraordinary gains and losses for the current reporting period

<u>Items</u>	<u>Amount (CNY)</u>	<u>Comment</u>
Gains from disposals of non-current assets after expending impairment provisions	-7,700,920.17	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief	0.00	
Government grants recognised through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating	16,013,518.70	Flight-route government subsidy, etc

<u>Items</u>	<u>Amount (CNY)</u>	<u>Comment</u>
activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations		
Financial resource usage fees charged on non-financial institution recognised through profit or loss for the current reporting period	0.00	
Gains arising from bargain purchase in business combination and investments in associates and joint ventures	0.00	
Non-monetary asset exchange	0.00	
Consigned investment and asset management	0.00	
Impairment provision resulting from force majeure, eg. natural disasters	0.00	
Reorganisation	0.00	
Reorganisation expenditure	0.00	
Unfair transactions	0.00	
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	0.00	
Gains or losses arising from contingent events unconnected with the Company's daily operating activities	0.00	
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	-8,872,312.71	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment	0.00	
Gains or losses arising from consigned borrowings	0.00	
Fair value changes of property investments subsequently measured at fair value	0.00	
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations	0.00	
Consignment income arising from consigned operations	0.00	
Income and expenses other than items listed above	12,545,837.53	Flight-route subsidy from airports and other non-recurring income/expenses
Other gains or losses satisfying the definition of extraordinary gains or losses	0.00	
Subtotal	11,986,123.35	
Less: Impact of income tax	3,071,587.08	
Less: Impact on non-controlling interest	<u>-49.49</u>	
Total	<u>8,914,585.76</u>	

12.2. Yield rate of net assets and earnings per share

<u>Net profits for the current reporting period</u>	<u>Weighted average of returns on equity (%)</u>	<u>Earnings per share</u>	
		<u>Basic earnings per share (%)</u>	<u>Diluted earnings per share (%)</u>
Net profits attributable to ordinary shareholders	56.84%	1.59	1.59
Net profits attributable to ordinary shareholders after deducting extraordinary gains or losses	56.04%	1.56	1.56

Computation of earnings per share:

12.2.1. Basic earnings per share

<u>Items</u>	<u>Computation</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
		<u>Amount(CNY)</u>	<u>After deducting extraordinary gains or losses(CNY)</u>	<u>Amount(CNY)</u>	<u>After deducting extraordinary gains or losses(CNY)</u>
Net profits attributable to ordinary shareholders	(1)	634,364,547.92	625,449,962.16	302,282,325.68	203,597,306.19
Number of listed ordinary shares brought forward	(2)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Number of listed ordinary share equivalents increased in year	(3)	0.00	0.00	0.00	0.00
Number of listed ordinary share equivalents decreased in year	(4)	0.00	0.00	0.00	0.00
Weighted average of listed ordinary shares	(5)=(2)+(3)-(4)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Basic earnings per share	(6)=(1)÷(5)	1.59	1.56	0.76	0.51

12.2.2. Diluted earnings per share

<u>Items</u>	<u>Computation</u>	<u>Current reporting period</u>		<u>Last reporting period</u>	
		<u>Amount(CNY)</u>	<u>After deducting extraordinary gains or losses(CNY)</u>	<u>Amount(CNY)</u>	<u>After deducting extraordinary gains or losses(CNY)</u>
Net profits attributable to ordinary shareholders	(1)	634,364,547.92	625,449,962.16	302,282,325.68	203,597,306.19
Potential dilutive ordinary dividends recognised as expenses	(2)	0.00	0.00	0.00	0.00
Potential dilutive ordinary share conversion expenses	(3)	0.00	0.00	0.00	0.00
Income tax rate	(4)	25.00%	25.00%	25.00%	25.00%
Net profits attributable to ordinary shareholders after adjustment	(5)=(1)+[(2)-(3)]×[1-(4)]	634,364,547.92	625,449,962.16	302,282,325.68	203,597,306.19
Weighted average of ordinary shares for basic earnings per share computation	(6)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Weighted average of dilutive ordinary share conversion	(7)	0.00	0.00	0.00	0.00
Weighted average of ordinary shares for diluted earnings per share	(8)=(6)+(7)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Diluted earnings per share	(9)=(5)÷(8)	1.59	1.56	0.76	0.51

Note 13. Approval of financial statements

his financial statements are approved and authorised for issuance by the Board of Directors on March 25, 2011.

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XI. Documents Available for Reference

1. Financial statements carrying the personal signatures and seals of Chairman of the Board, Chief Accountant and Person in Charge of Accounting Department;
2. Original of Auditors' Report carrying the seals of Certified Public Accountants as well as personal signatures and seals of certified public accountants;
3. Originals of all documents and notices publicly disclosed on newspapers designated by CSRC in the report period in 2010;
4. The Company will offer above documents for reference timely provided that CSRC or Stock Exchange demands or shareholders requires according to the regulations and Articles of Association.

**Board of Directors of
Shandong Airlines Co., Ltd.**
March 25, 2011