

SHANDONG AIRLINES CO., LTD.

SUMMARY OF ANNUAL REPORT 2006

§1. Important Notes

1.1 The Board of Directors and the Supervisory Committee of Shandong Airlines Co., Ltd. (hereinafter referred to as the Company) and its directors hereby confirm that there are no any fictitious representations, misleading statement or material omission carried in this report, and shall take all responsibilities, individually and/or jointly, for the reality, accuracy and completeness of the whole contents. The 2006 Annual Report Summary is abstracted from the full text of Annual Report. And the investors are suggested to read the full text of the Annual Report to understand more details.

1.2 No director, supervisors, and senior executives stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

1.3

Name of absence	Reason of absence	Name of entrustee
Fang Shaokun	Due to business	Hu Jijian

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

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

§2. Company Profile

2.1 Basic information

Short form of the stock	SHANHANG B
Stock code	200152
Listed stock exchange	Shenzhen Stock Exchange
Registered address	Yaoqiang International Airport, Jinan, Shandong
Post code of registered address	250107
Office address	SDA Building, No. 5746, Er Huan East Road, Jinan, Shandong
Post code of office address	250014
Internet web site of the Company	http://www.shandongair.com.cn
E-mail of the Company	zqb@shandongair.com.cn

2.2 Contact person and method

	Secretary of the Board of Directors	Authorized representative in charge of securities affairs
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Name	Li Qing'en	Huang Haiming
Liaison address	19/F, SDA Building, No. 5746, Er Huan East Road, Jinan, Shandong	Room 1920, SDA Building, No. 5746, Er Huan East Road, Jinan, Shandong
Telephone	0531—85698966	0531—85698678
Fax	0531—85698679	0531—85698679
E-mail	liqe@shandongair.com.cn	huanghm@shandongair.com.cn

§3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data(according to PRC GAAP)

Unit: RMB

	2006	2005	Increase/decrease over the previous year (%)	2004 (Before adjustment)	2004 (After adjustment)
Income from main operation	4,198,152,384.84	2,891,016,605.00	45.21%	2,229,357,012.00	2,229,357,012
Total profit	45,711,709.61	-272,591,445.00	16.77%	11,609,432.00	11,609,432
Net profit	44,017,783.75	-273,637,981.00	16.09%	11,065,238.00	11,065,238
Net profit after deducting non-recurring gains and losses	-42,384,658.00	-281,356,718.00	84.94%	10,339,721.00	10,339,721
Net cash flow per share arising from operating activities	1,059,281,297.52	217,831,950.00	386.28%	404,129,499.00	404,129,499
	At the end of 2006	At the end of 2005	Increase/decrease over the end of previous year (%)	At the end of 2004 (Before adjustment)	At the end of 2004 (After adjustment)
Total assets	5,943,307,431.49	6,551,168,542.00	-9.28%	3,758,032,303.00	3,758,032,303
Shareholder's equity(excluding minority interests)	309,883,765.83	265,865,982.00	16.56%	562,343,519.00	562,343,519

3.2 Major financial indexes

Unit: RMB

	2006	2005	Increase/decrease over the previous year (%)	2004
Earnings per share	0.11	-0.68	16.18%	0.03
Earnings per share (Note)	0.11	-	-	-
Return on equity	14.20%	-102.92%	117.12%	1.97%
Return on equity as calculated based on net profit after deducting non-recurring gains and losses	-14.70%	-68.70%	54.00%	1.86%
Net cash flow per share arising from operating activities	2.65	0.54	390.74%	1.01
	At the end of 2006	At the end of 2005	Increase/decrease than the end of previous year (%)	At the end of 2004
Net assets per share	0.77	0.66	16.67%	1.41
Net assets per share after adjustment	0.26	0.24	8.33%	1.10

Note: Earnings would be calculated based on new share capital if share capital of the Company changed from the end of the report period to disclosure date.

Items of non-recurring gains and losses

√ Applicable □ Inapplicable

Unit: RMB

Non-recurring gains and losses items	Amount
1. Gains and losses from disposing long-term equity investment, fixed assets, construction in progress, intangible assets and other long-term assets;	7,617,792.07
2. Other items of non-operating income and expenses after deducting impairment losses for assets normally withdrawn according to the regulations of accounting principles;	2,484,975.10
3. Switch-back from various impairment losses withdrawn in previous years;	16,299,673.65
4. Governmental subsidies;	10,000,000.00
5. Others (Special subsidies for technical excavation and reconstruction);	50,000,000.00
Total	86,402,440.82

3.3 Differences in the net profit as calculated according to CAS and IAS.

√ Applicable □ Inapplicable

Unit: RMB

	CAS	IAS
Net profit	44,018,000.00	23,628,000.00
Explanation on the differences	-Confirmed difference in the deferred expenses _— 37,206,000 - Deferred income tax_16,752,000 - Equipment purchase recorded in losses and gains in depreciation period from Civil Aviation allowance _64,000	

§4. Changes in Share Capital and Particulars about the Shareholders

4.1 Statement of Changes in Share Capital

Unit: share

	Before the change		Increase/Decrease in this time					After the change	
	Amount	Proportion	New share issued	Bonus share	Capitalization of public reserve	Others	Subtotal	Amount	Proportion
I Unlisted shares	260,000,000	65.00%						260,000,000	65.00%
i Promoters' shares	168,800,000	42.20%						168,800,000	42.20%
Including: State-owned shares	168,601,000	42.15%						168,601,000	42.15%
Domestic legal person's shares	199,000	0.05%						199,000	0.05%
Foreign legal person's shares									
Others									
ii Raised legal person's shares	0								
iii Inner employees'	0								

shares									
iv Preference shares or others	91,200,000	22.80%						91,200,000	22.80%
II Listed shares	140,000,000	35.00%						140,000,000	35.00%
i Ordinary RMB shares									
ii Domestically listed foreign shares	140,000,000	35.00%						140,000,000	35.00%
iii Overseas listed foreign shares									
iv Others									
III Total shares	400,000,000	100.00%						400,000,000	100.00%

4.2 Statement of shares held by the top ten shareholders and the top ten shareholder of circulating share

Unit: share

Total shareholders at the end of report	18,820				
Particulars about the top ten shareholders holding shares					
Full name of shareholders	Nature of shareholder	Proportion	Total amount of shares held	Number of non-circulating shares held	Number of share pledged or frozen
SHANDONG AVIATION GROUP	State-owned shareholder	42.00%	168,004,000	168,004,000	84,000,000
AIR CHINA LIMITED	State-owned shareholder	22.80%	91,200,000	91,200,000	
TENG HWEE CHIEN	Foreign-funded shareholder	1.06%	4,250,216	0	
CHEN CHUN PENG	Foreign-funded shareholder	0.39%	1,544,871	0	
XIE KE	Foreign-funded shareholder	0.29%	1,152,734	0	
WU HAO YUAN	Foreign-funded shareholder	0.26%	1,045,700	0	
BU HAO WEN	Foreign-funded shareholder	0.26%	1,028,200	0	
LIU LI YA	Foreign-funded shareholder	0.25%	1,015,216	0	
ABN AMRO BANK NV	Foreign-funded shareholder	0.23%	917,800	0	
CHEN CHU JIA	Foreign-funded shareholder	0.19%	759,401	0	
Particulars about shares held by the top ten circulation shareholders					
Shareholder's name (full name)	Number of circulating shares held		Type of shares		
TENG HWEE CHIEN	4,250,216		Domestically listed foreign shares		
CHEN CHUN PENG	1,544,871		Domestically listed foreign shares		
XIE KE	1,152,734		Domestically listed foreign shares		
WU HAO YUAN	1,045,700		Domestically listed foreign shares		
BU HAO WEN	1,028,200		Domestically listed foreign shares		
LIU LI YA	1,015,216		Domestically listed foreign shares		
ABN AMRO BANK NV	917,800		Domestically listed foreign shares		
CHEN CHU JIA	759,401		Domestically listed foreign shares		

JOHN POSS	756,990	Domestically listed foreign shares
DENG HONG WEI	650,609	Domestically listed foreign shares
Explanation on associated relationship among the top ten shareholders of circulation share	The Company is unknown whether it exists associated relationship among shareholders of circulation share, or whether other shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.	

4.3 Particulars about controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in controlling shareholders and actual controller of the Company

Applicable Inapplicable

4.3.2 Introduction of concrete conditions of controlling shareholder and other actual controller

The holding shareholder of the Company

Name of the holding shareholder: Shandong Aviation Group

Legal representative: Sun Yude

Date of foundation: Feb. 9, 1995

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

Business scope: Investment and management on aviation transportation; maintaining of aerostat and ground facilities limited by permission; conference and exhibition service; working service; maintaining on vehicles of ground passenger transportation and ground transportation; the sales of general merchandise, handicraft and souvenir; the lodgings; the dining service; retail sales of the tobacco product; lease of house (limitedly managed by branches)

Registered capital: RMB 580 million

The actual controller of the Company

Actual controller of the Company: Air China Limited.

Legal Representative: Li Jiayang

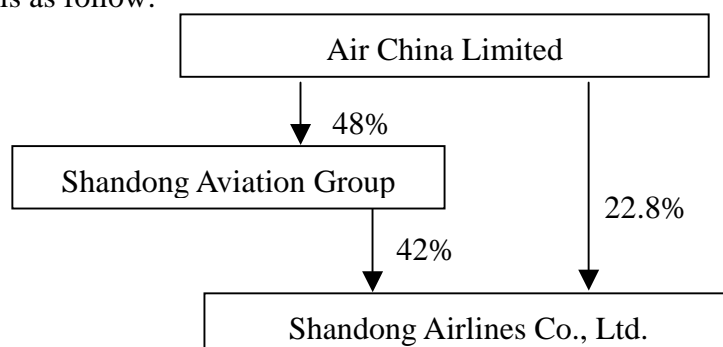
Structure of share equity: China National Aviation Corporation (Group) Limited and China Aviation (Group) Co., Ltd. (wholly-owned subsidiary company of Air China Group in Hong Kong) jointly sponsored and founded Air China Limited, which was listed in Hong Kong, London and Shanghai. Air China Group holds its 43.59% equity.

Date of Foundation: Sep. 30, 2004

Business scope: It was mainly engaged in the domestic and overseas transportation business such as periodic and aperiodic aviation passenger, cargo, letter and baggage; domestic and overseas official flight business; aeroplane 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.

Registered capital: RMB 9,433,210,909

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follow:



5. Particulars about Directors, Supervisors, Senior Executives

5.1 Change in shares held by directors, supervisors and senior executives and their remunerations

Name	Title	Sex	Age	Start time of term office	End time of Term office	Shares held at the year-begin	Share held at the year-end	Reason of change	Total remuneration drew from the Company in the report period (RMB'0000)	Draw the remuneration from other shareholder units or associates or not
Sun Yude	Director	Male	52	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Zhang Xingfu	Chairman of the Board	Male	51	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Zeng Guoqiang	General Manger	Male	53	March 15, 2006	March 14, 2009	0	0		40.09	No
Su Zhongmin	Director	Male	52	March 15, 2006	March 14, 2009	0	0		36.02	No
Bai Weisan	Director	Male	49	March 15, 2006	March 14, 2009	0	0		31.39	No
Xiao Feng	Chief Accountant	Male	38	March 15, 2006	March 14, 2009	0	0		25.15	No
Wang Mingyuan	Director	Male	41	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Kou Zunxian	Director	Male	51	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Wang Jieming	Director	Female	48	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Wang Zhi	Independent Director	Male	64	March 15, 2006	March 14, 2009	0	0		3.64	No
Hu Jijian	Independent Director	Male	64	March 15, 2006	March 14, 2009	0	0		3.64	No
Fang Shaokun	Independent Director	Male	44	March 15, 2006	March 14, 2009	0	0		3.64	No
Wei Jincai	Independent Director	Male	56	March 15, 2006	March 14, 2009	0	0		3.10	No
Wang Fuzhu	Supervisor	Male	53	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Gao Lihua	Supervisor	Male	37	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Wang Wuping	Supervisor	Male	41	March 15, 2006	March 14, 2009	0	0		0.00	Yes
Wang Xianlin	Supervisor	Male	41	March 15, 2006	March 14, 2009	0	0		19.78	No
Zhou Qiaoyan	Supervisor	Female	31	March 15, 2006	March 14, 2009	0	0		14.91	No
Song Yuxia	Deputy General Manger	Female	50	March 15, 2006	March 14, 2009	0	0		35.90	No
Yu Haitian	Deputy General Manger	Male	37	March 15, 2006	March 14, 2009	0	0		30.65	No
Li Qing'en	Secretary of the Board	Male	51	March 15, 2006	March 14, 2009	0	0		29.58	No
Total	-	-	-	-	-	0	0	-	277.49	-

§ 6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

The Company is a civil aviation transportation enterprise. 2006 is the starting year of the company's

implementation of the 11th Five-year Plan, pursuant to work plan made by the Board of Directors at the year-begin, all the staff of the Company kept a sustained working at safety, with the structural adjustment as the main thread and the improving of service quality as well as the raising of profit level as the key point, overcame many difficulties such as sustaining rise in price of aviation oil and the heating up of the market competition and fully accomplished various production tasks of the Company.

1. Successfully completing the annual safety work targets and regaining the Jinyan Cup, the top prize for civil aviation safety. In the report period, the Company firmly held the crucial link of safe production, reinforced the pertinence of safe working, intensified the forming of work-style, continuously raised the employee's manual awareness, made strict supervision and inspection, and strengthened the safe production management. In 2006, the Company overcame the many problems and difficulties such as many models and vast bases, continued to keep a stable and safe situation, and eliminated the unsafe incident with the grade or above of accident symptom for man-made reasons, regained the Jinyan Cup, the national civil aviation safe top prize of the 100-thousand-hour group, and set up a new record of 4 champions with the prize cup in 12 year of safe flying.

2. Strengthening the adjustment, and creating favourable conditions for keeping continuous operation. In the report period, in accordance with the main line of adjusting stratagem and highlight structural adjustment, the Board of Directors concentrated the efforts on various structural adjustments, and realized the target of making up deficits and getting surpluses. With the support of Shandong Province and Air China, the Company properly handled two 604 Business Airplanes, and thoroughly solved the problems of losses on executive plane and the debts from related parts, which troubled the Company for many years; the Company leased two CRJ-200 planes to China Express Airlines, released the losses on this kind of plane in 2006, adjusted the base structure, rationally placed the carrying capacity, optimized the net layout, improved the proceeds level through airline structural adjustment, and effectively reduced the operation cost. In 2006, the Company achieved well in the income from passenger transport and cargo & mail transport with a considerable increase over the same period of last year, by reinforcing the proceeds management and making every effort to ensure the stable income.

3. Carrying out the service quality project with great efforts with the improving of airliner on schedule rate as the breakthrough point. In 2006, the Company strictly implemented various measures and rules on improving of airliner on schedule rate, redouble the effort to improve airliner on schedule rate, completed the assessment measures in proper time, enforced the system construction, and effectively improved airliner operation quality and airliner on schedule rate. The Company continuously improved the air and ground service level, reinforced the detail management, and popularized the elaborate, characteristic and human-based service. The data from General Administration of Civil Aviation of China showed that, the airliner on schedule rate of the Company in 2006 reached 83.9%, with an average increase of 2.42 percentage points over the whole industry, and listed in the first place in all the civil aviation. In 2006, the passenger's effective complaint rate of the Company decreased sharply over the last year, and entered the first three in all the civil aviation. In the selection activities of "Passengers Poll for Civil Aviation", the Company won the "Excellence Awards for Ground Service".

4. Strictly controlled the cost, achieved significant effects of tapping potential. In 2006, the Company determinedly implemented the rigid budget; enhance the rolling budget and assessment of task. The management has set up five cost controlling groups, works over the measures, strengthen the control of the significant cost items such as aviation oil, aviation material, and plane supply products etc., and achieved noticeable effect on cost saving in the whole year; faced with the phase of the continuously rising cost of aviation oil, it made a significant contribution to loss turning in 2006.

6.1.1 Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards.

Applicable Inapplicable

The Company began to adopt the Accounting Standard for Business Enterprises (“New Accounting Standards”) promulgated in 2006 by Ministry of Finance since January 1, 2007, after the Company conducted new revaluations and referred to the further explanations from Ministry of Finance on the New Accounting Standards, we compiled the influences on Shareholders’ Equity ended as 2006 and the Financial Status in 2007 based on New Accounting Standards; the details were as follows:

I. Analysis on the differences of shareholders’ equity between Existing Accounting Standards and New Accounting Standard for Business Enterprises on first implementation date of New Accounting Standards on Jan.1, 2007

1. Income tax

In accordance with the requirement of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises, the Company conducted retroactive adjustment on income tax with temporary differences formed by the differences of book values of asset and liabilities and tax base, and adjusted the influence amount into retained profit. The accounting of the Company was based on accrual basis. For the cost projects such as heavy repairing expense of engines of the operational lease aircraft, the Company took the two heavy repairing expense on engines reckoned into current losses/gains in actual operating proportion; meanwhile, it was confirmed as the estimated liabilities in balance sheet. In Tax Law, the estimated cost expense not obtaining effective settlement certification could not be conducted deduction before tax; the aforesaid repairing expense would be conducted deduction before tax during the actual occurring.

For the deductible temporary difference between the tax base and book value in the aforesaid liabilities (Ended as Dec. 31, 2006, the accumulative amount was RMB 164,204,158.88), the confirmed deferred asset of income tax will influence the amount and adjust the retained profit, which resulted in increase in shareholders’ equity amounted to RMB 54,187,372.43.

2. Minority shareholders’ equity

According to the regulations of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises, and Accounting Standard for Business Enterprises No. 33 - Accounting Standard for Business Enterprises No. 33), the minority shareholders equity listed in existing accounting standards should be listed in item of minority shareholders’ equity under the owners’ equity in consolidated balance sheet, the adjustment of such item resulted in increase of shareholders’ equity amounted to RMB 12,845,729.95.

3. Other

According to the regulations of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises, and Accounting Standard for Business Enterprises No. 9 – Employee compensation, for the employee gave up vacation holidays with pay in previous years, the Company took the compensation expense payable for employee in future period pursuant to relevant regulations into item of liabilities, and took the influence amount adjust to retained profit, which resulted in the decrease of shareholders’ equity amounted to RMB 2,290,216.

II. Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards.

1. Long-term equity investment

In accordance with the regulations of Accounting Standards for Business Enterprises No.

2-Long-term equity investments, the equity method in subsidiaries by the Company under the

existing accounting policy was changed to cost method, which would reduced the influences on current investment profit and net profit by the operating losses and gains of subsidiaries; however the item had no influence on consolidated statement.

2. Income tax

In accordance with the regulations of Accounting Standards for Business Enterprises No. 18 - Income taxes, Tax - affect - accounting Method of accounting treatment method on income tax under the existing accounting policy was changed to Debt Method of Balance Sheet. The change of accounting policy will influence the current accounting income tax, and thus had influences on the profit and shareholders' equity of the Company.

3. Borrowing costs

In accordance with the regulations of Accounting Standards for Business Enterprises No. 17 - Borrowing costs, during the change of capitalization of borrowing cost, general borrowing was occupied for purchasing and building and producing the asset conforming to conditions of capitalization; general borrowing interest should be capitalized which the change of policy would increase the scope of capitalization and profit and shareholders' equity of the Company.

4. Consolidated financial statements

In accordance with the regulations of Accounting Standards for Business Enterprises No. 33 - Consolidated financial statements, the minority shareholders' equity in consolidated financial statement under the existing accounting policy was singly listed and changed to item of minority shareholders' equity listed in shareholders' equity of consolidated balance sheet. The change of the policy would have influences on shareholders' equity of the Company.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Aviation transport industry	416,733.14	347,498.85	16.61%	45.25%	37.82%	4.49%
Main operations classified according to products						
Aviation transport Service	416,733.14	347,498.85	16.61%	45.25%	37.82%	4.49%

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Domestic	409,940.53	45.59%
International	9,874.71	31.23%

6.4 Application of the raised proceeds

Applicable Inapplicable

Particulars about the changed projects

Applicable Inapplicable

6.5 Application of the proceeds not raised through shares offering

Applicable Inapplicable

6.6 Explanation of the Board of Directors on the “Qualified Opinion” made by the CPAs

Applicable Inapplicable

6.7 The preplan of profit distribution and capitalization of capital public reserve of the Board of Directors

Applicable Inapplicable

Audited by Reanda Certified Public Accountants Ltd. as Chinese Accounting Standards and DBO International Certified Public Accountants as International Accounting Standards, the Company realized net profit of RMB 44,018 thousand and RMB 23,628 thousand respectively in 2006. In order to offset the deficit of the previous year, the Company carried out neither profit distribution nor capitalization of public reserve in 2006.

The Company didn't appropriate share distribution preplan though the Company achieved the profit in the report period.

Applicable Inapplicable

Reason for the preplan on the profit that has not been appropriated for cash profit distribution	Purpose and using plan of the undistributed profit of the Company
To offset the deficit of the previous year	To offset the deficit of the previous year

§7 Significant Events

7.1 Purchase of assets

Applicable Inapplicable

Unit: RMB'0000

The other party of transaction	Assets purchased	Date of purchasing	Price of purchasing	Net profit contributed to the Company from purchasing date to this year end	Related transaction or not	Explanation on price setting	Assets rights concerned transferred ownership fully or not	Credit and liability concerned shifted fully or not
Shangdong Airlines Rainbow Jets Co., Ltd	16 pilots	June 1, 2006	1,568.42	0.00	Yes	Documents from Five Ministries of the P.R.C.	Yes	Yes

7.2 Sales of assets

Applicable Inapplicable

Unit: RMB'0000

The other party of transaction	Assets sold	Sales date	Sales price	Net profit contributed to the Company from year-begin to sales date	Gains and losses rising from sales	Related transaction or not	Explanation on price setting	Assets rights concerned transferred ownership fully or not	Credit and liability concerned shifted fully or not
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Hong Kong Aircraft Engineering Co., Ltd., SDA	Shandong TAECO Aircraft Engineering Co., Ltd.	Nov. 1, 2006	2,056.90	0.00	786.91	Yes	Evaluation price	Yes	Yes
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7.1 & 7.2 items concerned resulting in influence on the continuity of the Company's business and the stability of the managers

The matters concerned had no negative impact on the Company.

7.3 Significant guarantees

Applicable Inapplicable

7.4 Significant related transaction

7.4.1 Related transaction connected to operations

Applicable Inapplicable

Unit: RMB'0000

Related parties	Sell product and supply labor force to the related parties		Purchase and accept labor force from related parties	
	Transaction amount	Proportion in the amount of the same transaction	Transaction amount	Proportion in the amount of the same transaction
Shandong TAECO Aircraft Engineering Co., Ltd.	0.00	0.00%	6,080.99	25.00%
Air China Limited	30,258.29	100.00%	0.00	0.00%
Total	30,258.29	100.00%	6,080.99	25.00%

Among which: In the report period, the related transaction amount the listed companies sold products or supplied labor forced for the controlling shareholders and its subsidiaries was RMB 302,582,900.

7.4.2 Related credits and liabilities current

Applicable Inapplicable

Unit: RMB'0000

Related parties	Supply funds to related parties		Related parties supplied funds to the Company	
	Occurred amount	Balance	Occurred amount	Balance
Shandong Aviation Group	0.00	0.00	550.00	0.00
Shandong Airlines Rainbow Jets Co., Ltd	0.00	0.00	1,968.42	0.00
Total	0.00	0.00	2,518.42	0.00

Among which: In the report period, the occurred amount of capital of the listed company provided for controlling shareholders and its subsidiaries was RMB 0.00, and the balance was RMB 0.00.

7.4.3 Progress of paying off the occupied fund at the end of year 2005

Applicable Inapplicable

Unit: RMB'0000

Balance of large shareholder and its affiliated enterprise' occupation of non-operating funds ('0000)		Total pay-off in the report period('0000)	Mode of pay-off	Amount of pay-off	Date of pay-off (month)
Jan.1, 2006	Dec.31, 2006				
550.00	0.00	550.00	Pay off in cash	550.00	Apr., 2006
Details on Large shareholder and its affiliated enterprise' occupation of non-operating funds and progress of paying off the debts		On Dec. 31, 2005, there were non-operating funds between the Company and SDA, and the receivables of the Company from SDA were RMB 5.5 million. Through the active coordination between the management level of the Company and SDA, the Company received all the accounts in Apr. 2006, and all the non-operating funds occupation between the listed companies and controlling shareholders had been settled.			

Occupation of newly increased fund during the year 2006

Applicable Inapplicable

Reasons, measures of paying off debts adopted and plan for responsibility ascertainment in case of listed companies' failure to complete paying off the occupied non-operating fund at the end of 2006

Applicable Inapplicable

7.5 Entrusted assets management

Applicable Inapplicable

7.6 Implementation of commitments

7.6.1 Commitment during the Share Merger Reform made by the original non-tradable shareholders and its implementations

Applicable Inapplicable

7.6.2 Amount of tradable shares with unrestricted conditions held by original non-tradable shareholders whose holding proportion exceeded 5% at the end of report period

Applicable Inapplicable

7.7 Significant lawsuit and arbitrations

Applicable Inapplicable

§8. Report of the Supervisory Committee

Applicable Inapplicable

(I) Particulars about the work of Supervisory Committee

In 2006, 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, dutifully 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 strictly safeguarded the rights and interests of the shareholders.

The Supervisory Committee had hold five meetings of the Supervisory Committee and all attended all Shareholders' General Meetings in 2006 and meetings of the Board as non-voting delegates in the report period. The Supervisory Committee had examined and discussed such events as the financial budget, settled reports, relevant matters and formed resolutions. The Supervisory Committee strictly

performed the examination obligations on financial report in the settled reports and assured the accuracy and objectiveness of information disclosure of the listed companies.

As to related transactions between the Company and its controlling shareholders and subsidiaries, as well as earnings power of the Company, the Supervisory Committee held several meetings to get research, and recommended the Board to pay special attention to them and to adopt active measures for solutions. The supervisory Committee also invited independent directors of the Company to attend their meetings as non-voting delegates, and strengthened the communications with the independent directors.

In the report period, the Supervisory Committee totally held the following meetings:

1. On Feb.10, 2006, the 11th Meeting of the 2nd Supervisory Committee was held in the conference room of SDA Building. The meeting examined and approved Proposal on Election of Changing the 2nd Supervisory Committee of SDA

The public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Ta Kung Pao dated Feb.11, 2006.

2. On Mar.15, 2006, the 1st Meeting of the 3rd Supervisory Committee was held in the conference room of SDA Building. The meeting examined and approved the following resolutions:

(1) Proposal on Election of Chairman of the 3rd Supervisory Committee of SDA;

(2) Proposal on Engagement of Secretary to the Supervisory Committee.

The public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Ta Kung Pao dated Mar. 16, 2006.

3. On Mar.28, 2006, the 2nd Meeting of the 3rd Supervisory Committee was held in the conference room of SDA Building. The meeting examined and approve the following resolutions:

(1) Annual Report 2005 of SDA and its summary;

(2) Work Report of the Supervisory Committee 2005 of SDA;

The public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Ta Kung Pao dated Mar. 31, 2006.

4. On Apr. 25, 2006, the 3rd Meeting of the 3rd Supervisory Committee was held in the conference room of SDA Building. The meeting examined and approve the following resolutions:

(1) 1st Quarterly Report 2006 of SDA.

(2) Proposal on Revision of Rules and Procedure of the Supervisory Committee of SDA.

The public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Ta Kung Pao dated Apr. 26, 2006.

5. On Aug. 23, 2006, the 4th Meeting of the 3rd Supervisory Committee was held in the conference room of SDA Building. The Meeting examined and approved Semi-annual Report 2006 and its summary of SDA.

(II) Independent Opinions of the Supervisory Committee on relevant events in 2006

The Supervisory Committee conducted serious inspection and supervision on such conditions as the Company's finance, implementing resolutions of shareholders' general meeting, operating decision-making, operation according to laws, operating behaviors of directors, managers and senior executives and related transactions, etc; and believed that the operation management of the Company was in accordance with the relevant laws and regulations and the Articles of Association of the Company.

1. Operation according to laws

In the report period, the Company conducted regulated operation complying with Company Law, Securities Law, Articles of Association of the Company, and Rules for Shares Listed with Shenzhen Stock Exchange and other national relevant policies and regulations. It implemented effective internal control system inside the Company. Following the regulations and laws and being honest

with faith and diligence, directors and senior executives of the Company carefully implemented every resolutions approved by shareholders' general meeting with a view to protecting the shareholders' interests. There was no behaviors found that directors or senior executives broke the laws, regulations, or Articles of Association or harmed the interests of the Company in their office terms.

2. Inspection on finance

The Supervisory Committee examined meticulously the financing situation of the Company. In the opinion of the Supervisory Committee, 2006 Financial Report of the Company reflected the financial situation and operation result of the Company. The accounting vouchers, books and statements, and other accounting materials were genuine and standard.

3. Purchase and sales of assets

The trading prices for purchase or sales of assets of the Company were reasonable. Neither inside trading had been found, nor had there occurred cases of damaging of the interests and rights of some shareholders or loss of the Company's assets.

4. Related transactions

The Company conducted related transactions strictly according to market principle in fair and juristic way. The price of the transactions was just, fair and reasonable, safeguarding the interests of the shareholders and listed companies.

§9. Financial Report

9.1 Auditor's opinions

Auditor's opinions: standard unqualified auditor's opinions

9.2 Financial statement

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2006

	2006	2005
	RMB'000	RMB'000
OPERATING REVENUE		
Passenger	4,167,736	2,759,233
Cargo and mail	8,594	112,579
Interest income	11,061	9,731
Government grant	10,064	10,064
Others	55,905	29,138
TOTAL OPERATING REVENUE	4,253,360	2,920,745
Business tax	(124,465)	(86,055)
TOTAL OPERATING REVENUE (NET)	4,128,895	2,834,690
OPERATING EXPENSES		
Depreciation and amortization	(313,934)	(204,742)
Take-off and landing charges	(503,937)	(348,452)
Personnel	(283,412)	(132,190)
Fuel	(1,396,517)	(852,052)
Maintenance and overhaul	(394,456)	(296,681)
Catering	(80,517)	(107,216)

Rental	(363,629)	(321,889)
Insurance	(23,328)	(27,530)
Promotion and sales	(17,102)	(168,103)
General and administration	(402,048)	(158,237)
Others	(56,704)	(306,207)
TOTAL OPERATING EXPENSE	(3,835,584)	(2,923,299)
PROFIT (LOSS) FROM OPERATIONS	293,311	(88,609)
FINANCE COSTS	(301,154)	(176,159)
SHARE OF RESULTS OF ASSOCIATES	44	70
INCOME (LOSS) FROM INVESTMENTS	16,369	870
PROFIT (LOSS) BEFORE TAX	8,570	(263,828)
INCOME TAX	16,533	(464)
PROFIT (LOSS) FOR THE YEAR	25,103	(264,292)
ATTRIBUTABLE TO:		
Equity holders of the parent	23,628	(264,874)
Minority interest	1,475	582
	25,103	(264,292)
	RMB	RMB
Basic earnings per share	5.9cents	(66.2) cents

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006

	2006	2005
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,686,875	4,950,982
Land use rights	25,699	14,884
Interests in associates	342	298
Advances on aircraft and related equipment	545,963	63,566
Other investments	88,352	101,052
Deferred tax assets	41,051	24,299
Term deposit	29,283	30,263
	5,417,565	5,185,344
Current assets		
Flight equipment spare parts and other inventories	39,446	57,660
Trade and other receivables	277,492	438,726
Amount due from holding company	871	5,500
Amount due from related parties	35,237	47,311
Pledged deposit	-	664,181
Bank balances and cash	68,256	68,097
	421,302	1,281,475

	2006	2005
	RMB'000	RMB'000
TOTAL ASSETS	5,838,867	6,466,819
CONSOLIDATED BALANCE SHEET		
AT DECEMBER 31, 2006		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholder's equity		
Share capital	400,000	400,000
Reserves	(195,952)	(219,580)
Equity attributable to equity holders of the parent	204,048	180,420
MINORITY INTERESTS	12,846	11,621
TOTAL SHAREHOLDERS' EQUITY	216,894	192,041
Non-current liabilities		
Bank loans – due after one year	1,814,701	1,765,570
Obligations under finance leases - due after one year	1,426,545	1,626,142
Deferred Income	7,294	8,751
	3,248,540	3,400,463
Current liabilities		
Accruals - overhaul	183,366	83,995
Trade and other payables	699,416	664,687
Sales in advance of carriage	13,780	14,404
Amounts due to related parties	17,649	14,248
Tax liabilities	25	187
Bank loans-due within one year	1,269,414	1,915,476
Obligations under finance leases - due within one year	189,783	181,318
	2,373,433	2,874,315
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	5,838,867	6,466,819

9.3 Explanation on changes of accounting policy, accounting estimation and settlement method compared with the latest annual report

Applicable Inapplicable

9.4 Contents, correct amount, reason and its influence of significant accounting errors

Applicable Inapplicable

9.5 Explanation on change of consolidated scope compared with the latest annual report

Applicable Inapplicable

9.6 Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards

Unit: RMB

Items	Amount
Shareholders' equity as December 31 2006 (Based on Existing Accounting Standards)	309,883,765.83
Differences of long-term equity investment	
Including: Differences in long-term equity investment caused by merger of enterprises under the same control	
Differences in credit of long-term equity investment calculated based on equity method	
Investment property measured with fair value	
Prior year depreciation withdrawal due to dismantling cost	
Dismissal indemnity conformed to the acknowledgement of estimated liabilities	
Share-based payment	
Reconstructing duties conformed to the acknowledgement of estimated liabilities	
Enterprises merger	
Including: Book value of enterprises consolidated goodwill under the same control	
Provision for impairment of goodwill withdrawn based on New Accounting Standards	
Financial asset booked as current losses and gains with fair value measurement and changes, and disposable financial assets	
Financial liabilities booked as current losses and gains with fair value measurement and changes	
Increased equity due to demerger of financial instrument	
Derived financial instrument	
Income tax	54,187,372.43
Minority shareholders' interest	12,845,729.95
Other	-2,290,216.00
Shareholders' equity as January 1 2007 (Based on New Accounting Standards)	374,626,652.21

Auditor's opinions

Shandong Airlines Co., Ltd.
Attachment of Reconciliation Statement on Differences of Shareholders' Equity
Based on Old and New Accounting Standards

(2007) No.1040 Audited by Reanda Certified Public Accountants

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

We have audited the accompanying Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards ("Reconciliation Statement") of Shandong Airlines Co., Ltd. ("the Company"). According to Accounting Standard for Business Enterprises No. 38 - Time Adoption of Accounting Standards for Business Enterprises and Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No. 136, "Notice"), compilation on the Reconciliation Statement are the responsibility of the Company's management. Our responsibility is to express an opinion on these Reconciliation Statement based on our audit.

Pursuant to the requirement of Notice, We conducted our audit in accordance with Standard on Review Engagements for CPAs of China No. 2101- Review of Financial Statements on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about

whether the Reconciliation Statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reconciliation Statement. An audit also includes assessing the accounting principles used and significant estimates made by the relevant persons of the Company, as well as evaluating the overall presentation of the Reconciliation Statement. The guarantee supplied from the review was lower than the audit. We did not conduct; thus, we issued no auditor's opinions.

In our opinion, we did not notice that any matters made us believe that, the Reconciliation Statement was not compiling in accordance with the Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice.

In Addition, we recommended the attention on the Reconciliation Statement of participants, as listed in significant note in the accompanying Reconciliation Statement: the New Accounting Standards of Shareholders' Equity listed in the Reconciliation Statement 1 January 2007 possibly remained differences between the relevant data listed in financial statements of 2007 Annual Report.

Reanda Certified Public Accountants

Beijing, P.R.C

March 29, 2007

**The Board of Directors of
Shandong Airlines Co., Ltd.**

March 29, 2007