AIR CHINA
中国国际航空公司
A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London

Interim Report 2018

Air China is the only national flag carrier of China and a member of Star Alliance, the world's largest airline alliance. It is also the only Chinese civil aviation enterprise listed in "The World's 500 Most Influential Brands".

Air China is headquartered in Beijing, the capital of China, with increasingly important hubs in Chengdu, Shanghai and Shenzhen. With Star Alliance, our network has covered 1,317 destinations in 193 countries as at the end of the Reporting Period. Air China is dedicated to serve passengers with credibility, convenience, comfort and choice.

Air China is actively implementing the strategic objectives of "ranking among the top in terms of global competitiveness, continuously strengthening our development potentials, providing our customers with a unique and excellent experience and realising sustainable growth to create value for all related parties".

In addition, Air China also holds direct or indirect interests in the following airlines: Air China Cargo Co., Ltd., Shenzhen Airlines Company Limited (including Kunming Airlines Company Limited), Air Macau Company Limited, Beijing Airlines Company Limited, Dalian Airlines Company Limited, Air China Inner Mongolia Co., Ltd., Cathay Pacific Airways Limited, Shandong Airlines Co., Ltd. and Tibet Airlines Company Limited.

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CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

Blue Sky Mansion
28 Tianzhu Road
Airport Industrial Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

WEBSITE ADDRESS:

www.airchina.com.cn

DIRECTORS[1]:

Cai Jianjiang
Song Zhiyong
Xue Yasong
John Robert Slosar
Wang Xiaokang
Liu Deheng
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:

Wang Zhengang
He Chaofan
Xiao Yanjun
Li Guixia

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:

Zhou Feng
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:

Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:

DeHeng Law Offices *(as to PRC Law)*
DLA Piper Hong Kong *(as to Hong Kong and English Law)*

INTERNATIONAL AUDITOR:

Deloitte Touche Tohmatsu

H SHARE REGISTRAR AND TRANSFER OFFICE:

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wanchai
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LISTING VENUES:

Hong Kong, London and Shanghai

1 Mr. Xue Yasong was elected as employee representative Director by the second session of the employee representative meeting of the Company in 2018.

(RMB'000)	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Change
Revenue	**64,242,322**	57,380,618	11.96%
Profit from operations	**6,641,435**	5,807,705	14.36%
Profit before taxation	**5,006,051**	5,173,837	(3.24%)
Profit after taxation (including profit attributable to non-controlling interests)	**3,904,498**	3,920,783	(0.42%)
Profit attributable to non-controlling interests	**428,341**	580,053	(26.15%)
Profit attributable to equity shareholders of the Company	**3,476,157**	3,340,730	4.05%
EBITDA[1]	**13,666,512**	12,345,879	10.70%
EBITDAR[2]	**17,743,032**	16,502,224	7.52%
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.2531**	0.2532	(0.04%)
Return on equity attributable to equity shareholders of the Company (%)	**3.93**	4.12	(0.19 ppt)

(1) EBITDA represents earnings before finance income and finance costs, exchange gains/losses, income tax expense, share of results of associates and joint ventures, depreciation and amortisation as computed under the IFRSs.

(2) EBITDAR represents EBITDA before deducting operating lease expenses on aircraft and engines as well as other operating lease expenses.

(3) In order to conform with the presentation in this period, certain comparative figures have been reclassified, including certain air traffic revenue in the comparative figure was reclassified to government grants in respect of subsidies granted by various local governments controlled parties to encourage the Group to operate certain routes to cities where these governments are located.

(RMB'000)	At 30 June 2018	At 31 December 2017	Change
Total assets	**245,437,040**	235,644,584	4.16%
Total liabilities	**146,874,186**	140,785,986	4.32%
Non-controlling interests	**9,111,070**	8,811,036	3.41%
Equity attributable to equity shareholders of the Company	**89,451,784**	86,047,562	3.96%
Equity per share attributable to equity shareholders of the Company (RMB)	**6.16**	5.92	3.96%

SUMMARY OF OPERATING DATA

The following is the operating data summary of the Company, Air China Cargo, Shenzhen Airlines (including Kunming Airlines), Air Macau, Dalian Airlines and Air China Inner Mongolia.

	January to June 2018	January to June 2017	Increase/ (decrease)
Capacity			
ASK (million)	**133,799.77**	118,991.56	12.44%
International	**50,093.75**	42,784.11	17.08%
Mainland China	**78,868.08**	71,715.75	9.97%
Hong Kong, Macau and Taiwan	**4,837.94**	4,491.70	7.71%
AFTK (million)	**7,024.12**	6,408.22	9.61%
International	**4,650.72**	4,213.16	10.39%
Mainland China	**2,231.45**	2,057.90	8.43%
Hong Kong, Macau and Taiwan	**141.95**	137.16	3.50%
ATK (million)	**19,094.49**	17,142.48	11.39%
Traffic			
RPK (million)	**107,679.81**	96,415.01	11.68%
International	**38,876.94**	33,415.18	16.35%
Mainland China	**64,951.22**	59,645.82	8.89%
Hong Kong, Macau and Taiwan	**3,851.65**	3,354.01	14.84%
RFTK (million)	**3,827.03**	3,530.75	8.39%
International	**2,963.33**	2,685.84	10.33%
Mainland China	**808.97**	791.82	2.17%
Hong Kong, Macau and Taiwan	**54.73**	53.09	3.10%
Passengers carried (thousand)	**53,752.20**	49,201.13	9.25%
International	**7,458.54**	6,465.87	15.35%
Mainland China	**43,831.04**	40,604.65	7.95%
Hong Kong, Macau and Taiwan	**2,462.62**	2,130.61	15.58%
Cargo and mail carried (tonnes)	**908,626.25**	873,733.17	3.99%
Kilometres flown (million)	**698.70**	639.04	9.34%
Block hours (thousand)	**1,105.93**	1,031.73	7.19%
Number of flights	**352,680**	311,873	13.08%
International	**46,211**	40,874	13.06%
Mainland China	**288,271**	254,469	13.28%
Hong Kong, Macau and Taiwan	**18,198**	16,530	10.09%
RTK (million)	**13,375.42**	12,092.16	10.61%

	January to June 2018	January to June 2017	Increase/ (decrease)
Load factor			
Passenger load factor (RPK/ASK)	**80.48%**	81.02%	(0.54 ppt)
International	**77.61%**	78.10%	(0.49 ppt)
Mainland China	**82.35%**	83.17%	(0.82 ppt)
Hong Kong, Macau and Taiwan	**79.61%**	74.68%	4.93 ppt
Cargo and mail load factor (RFTK/AFTK)	**54.48%**	55.09%	(0.61 ppt)
International	**63.72%**	63.75%	(0.03 ppt)
Mainland China	**36.25%**	38.48%	(2.23 ppt)
Hong Kong, Macau and Taiwan	**38.56%**	38.71%	(0.15 ppt)
Overall load factor (RTK/ATK)	**70.05%**	70.54%	(0.49 ppt)
Daily utilisation of aircraft (block hours per day per aircraft)	**9.54**	9.47	0.07 hour
Yield			
Yield per RPK (RMB)	**0.5282**	0.5289	(0.13%)
International	**0.4084**	0.4158	(1.78%)
Mainland China	**0.5902**	0.5818	1.44%
Hong Kong, Macau and Taiwan	**0.6928**	0.7154	(3.16%)
Yield per RFTK (RMB)	**1.3260**	1.2706	4.36%
International	**1.3329**	1.2656	5.32%
Mainland China	**1.1494**	1.1730	(2.01%)
Hong Kong, Macau and Taiwan	**3.5643**	2.9762	19.76%
Unit cost			
Operating cost per ASK (RMB)	**0.4452**	0.4449	0.07%
Operating cost per ATK (RMB)	**3.1199**	3.0882	1.03%

BUSINESS OVERVIEW

During the Reporting Period, the Group's ASKs and RPKs reached 133,799 million and 107,680 million, representing a year-on-year increase of 12.44% and 11.68%, respectively. The passenger load factor was 80.48%, representing a year-on-year decrease of 0.54 ppt. The Group's AFTKs and RFTKs reached 7,024 million and 3,827 million, representing a year-on-year increase of 9.61% and 8.39%, respectively. The Group's cargo and mail load factor was 54.48%, representing a year-on-year decrease of 0.61 ppt.

Development of Fleet

During the Reporting Period, the Group introduced 15 aircraft (including one B787-9 aircraft, one B777-300ER aircraft, two A330-300 aircraft, three B737-8MAX aircraft, five B737-800 aircraft, two B737-700 aircraft and one A320NEO aircraft). And the Group phased out 8 aircraft (including two B777-200 aircraft, one B737-800 aircraft, two A320 aircraft and three B737-700 aircraft). As of 30 June 2018, the Group had a total of 662 aircraft, with an average age of 6.74 years.

Among the aircraft set out above, the Company operated a fleet of 397 aircraft in total, with an average age of 6.76 years. The Company introduced 8 aircraft and phased out 7 aircraft among which one was sold to Air Macau in the first half of 2018.

Details of the fleet of the Group are set out in the table below:

	30 June 2018				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Passenger aircraft	**641**	**272**	**173**	**196**	**6.65**
Airbus	**312**	**130**	**86**	**96**	**6.98**
A319	47	32	6	9	11.16
A320/A321	202	71	73	58	6.21
A330	63	27	7	29	6.35
Boeing	**329**	**142**	**87**	**100**	**6.33**
B737	275	115	68	92	6.54
B747	11	9	2	0	10.46
B777	29	6	17	6	5.25
B787	14	12	0	2	1.36
Cargo aircraft	**15**	**10**	**5**	**0**	**11.04**
B747F	3	3	0	0	16.02
B757F	4	4	0	0	21.85
B777F	8	3	5	0	3.76
Business jets	**6**	**1**	**0**	**5**	**5.78**
Total	**662**	**283**	**178**	**201**	**6.74**

	Introduction Plan			Phase-out Plan		
	2018	2019	2020	2018	2019	2020
Passenger aircraft						
Airbus	**25**	**31**	**23**	**2**	**9**	**9**
A319	0	0	0	2	5	3
A320/A321	15	27	23	0	4	6
A330	4	0	0	0	0	0
A350	6	4	0	0	0	0
Boeing	**29**	**34**	**31**	**20**	**10**	**8**
B737	25	34	31	17	10	8
B777	2	0	0	3	0	0
B787	2	0	0	0	0	0
Total	**54**	**65**	**54**	**22**	**19**	**17**

Hub Network

In the first half of 2018, the Company together with Dalian Airlines and Air China Inner Mongolia newly launched or resumed 28 domestic and international routes, comprising 21 domestic and 7 international routes. As for the Beijing Hub, the Company launched international routes of Beijing-Barcelona, Beijing-Houston-Panama, Beijing-Copenhagen, Beijing-Hanoi, etc.; as at the end of the Reporting Period, the Company launched around 30 direct routes from Beijing to the countries along the Belt and Road. The capacity of Beijing as one of the key bases increased by 6.8% year-on-year by optimizing the capacity deployment structure of the Beijing Hub and increasing the deployment of wide-body aircraft for key routes departing from Beijing. We delivered through check-in baggage services on routes from 19 European cities to domestic destinations via Beijing. As at the end of June 2018, this service has covered 35 waypoints in Europe, America and Australia; the number of O&D connected by the Beijing Hub increased to 6,050 from 5,918 as at the end of 2017; the onward transit products of the Beijing Hub were promoted and the passengers transfer services were enhanced. The number of onward transit passengers via Beijing increased by 25.4% year on year. The Chengdu International Hub launched new international and domestic routes such as Chengdu-Bangkok, Chengdu-Huai'an and Chengdu-Hotan, and the capacity contributed increased by 10.3% year-on-year. Shanghai and Shenzhen international gateways have continuously improved the planning of route network and deployment of wide-body aircraft through interconnection with surrounding areas. In addition, the quadrilateral strategic layout has been continuously optimized and the route network has been further developed as the Company launched new international and domestic routes such as Hangzhou-Nha Trang, Dalian-Shijiazhuang-Yinchuan, and Hangzhou-Xi'an-Karamay.

As at the end of June 2018, the Company's passenger routes have expanded to 434 in total, across six continents of the world, comprising 308 domestic, 109 international and 17 regional routes. The Company's network covered 42 countries and regions and 189 cities, comprising 69 international, 4 regional and 116 domestic cities. Through Star Alliance, the Company's route network extended to 1,317 destinations in 193 countries.

Sales and Marketing

The Company compiled the 2018 Global Sales Yearbook (《2018年全球銷售地年鑒》) and the Global Market Opportunity Information Calendar (《全球機會市場信息日曆》), and continuously strengthened the building of sales and marketing capacity. Thanks to the diversification of domestic and international interlining products and refined revenue management, the sales revenue of domestic and international interlining services achieved a year-on-year growth of 14%. The Company seized the opportunity of domestic price reform to adjust the prices of premium cabins on 99 domestic routes and the price of economy cabin on 22 domestic routes, which resulted in a year-on-year increase in the revenue of RMB356 million. By enriching marketing activities in relation to and expanding the customer base of premium classes, the domestic and international revenue for premium cabins increased by 8% and 15%, respectively, on a year-on-year basis. The total number of "Phoenix Miles" members amounted to 54.21 million, and revenue contribution increased by 12% compared to the same period last year. The Company steadily promoted business model innovation, and enhanced e-commerce channel sales capabilities. Our APP has been upgraded nine times which added 580 new functions and realized product optimization, achieving sales revenue of RMB2.64 billion, representing an increase of 53% as compared to the same period last year. We have completed the E-service for frequent flyers business and expanded the mileage usage channels, which significantly enhanced our customers' satisfaction and loyalty. The customer experience on ancillary products has also improved. In the first half of 2018, our cumulative sales revenue from ancillary products such as paid seat selection and boarding gate cabin upgrade reached RMB92.32 million, representing a year-on-year increase of 43%.

Brand Value

With the steady development of brand building projects, the brand communication and innovation capabilities have been enhanced. We carried out comprehensive brand promotion projects in markets in China, the UK, Germany and France promoting in all directions through traditional and new media. Advertising media exposure covered 1.3 billion people and Internet media received 20.56 million clicks on its advertisements. The Company actively planned in-depth interactive activities and implemented the "Landing with Dreams" H5 interactive events, with full media coverage reaching nearly 1 billion people and online activities engaging more than 1 million people. We deepened brand public relations communication, cooperated with multiple media platforms to publicize and promote brand marketing events, and enhanced the audience's memory of the brand's core. We expanded our brand influence by registering a theme blog for our IP image "Panda (胖安達)", and planning the "Panda Celebrates Children's Day with You" theme flight activities. We also participated in the first China Independent Brand Expo to show our brand image as an international airline company. Joint marketing agreements were signed with the tourist bureau in Copenhagen and Australia, and "Munich Express" cooperation agreement was signed with Beijing Capital Airport and Munich Airport to strengthen brand synergy. The successful first flight of theme painting aircraft "Colorful World Garden (多彩世園號)" and "Flowering World (花開盛世號)" for the Beijing World Horticultural Exposition effectively enhanced our brand influence and reputation. The Company was selected as one of China's Top 500 Most Valuable Brands released by the World Brand Lab, with a brand value of RMB145.295 billion.

Products and Services

Under its "passenger first" principle, the Company has optimized the whole-process product and service system, and consistently enhanced the quality of products and services, so as to improve passenger experience. We promoted the construction of "Smart Airport" and created a new mode of "self-service-oriented, manual-assisted" check-in service. The proportion of all-channel self-service check-in reached 70.5%. We opened fully self-service baggage check-in service areas in Beijing, Chengdu, Chongqing, Shanghai, Hangzhou and other cities. We also implemented "paperless and convenient travel" project, and launched QR code electronic boarding pass inspection services in 23 domestic and 8 international and regional airports. The Company built the premium class lounges brand, and promoted the "Move Under One Roof – Beijing terminal joint operation" with Star Alliance. We also expanded the construction of our domestic first class lounge on the second floor and the floating island lounge project on the fourth floor at the T3C building of Beijing Capital Airport. The Company has built and operated 95583 global service centre, set up a global linkage mechanism for irregular flights, a pretreatment mechanism and an emergency response mechanism to boost travel security for passengers. We improved the "mobile cabin" project by adding 37 functional modules, which extended to the ground service department, and connected the passenger interface whole service information chain. We continued to revise and improve the rules and standards of service business; and further promoted the standardization of services by formulating Code for Ground Operation of Mobile Cabin (《移動客艙地面操作規範》) and A350-900 Passenger Service Interface Product Manual (《A350-900旅客服務界面產品手冊》), and revising the Regulations for Management of Injury, Death and Serious Diseases of Passengers (《旅客傷亡、重病事件處置管理規程》) and Manual for Passenger Baggage Transport Service (《旅客行李運輸服務手冊》).

External Cooperation

Through in-depth cooperation with Lufthansa under a joint operation arrangement, we have made steady progress in pushing forward with our SME customer scheme and have participated in 7 SME customer platforms operated by Lufthansa in Europe in total. We continued to integrate contracts with regional corporate customers in China and Europe to provide passengers with more flight choices while effectively enhancing the route yield level of both parties. In addition, we entered into a passenger route joint operation agreement with Air Canada, which would allow both parties to provide passengers with quality travel services through measures including optimizing flight schedules, integrating their frequent-flyer programme and corporate customer scheme, and carrying out joint sales and marketing campaigns. We also continued to enhance our cooperation with Cathay Pacific, United Airlines, Scandinavian Airlines and Air New Zealand in relation to code sharing, flight schedule coordination and service improvement. Such joint operations and cooperation have brought satisfactory results and synergy effects. We actively deepened our cooperation with Star Alliance and officially launched the project "Move Under One Roof" with Star Alliance and Beijing Capital International Airport to improve passengers' flight experience and enhance the overall competitiveness of the Company in the future by implementing various measures including airport automation and transfer processes optimisation.

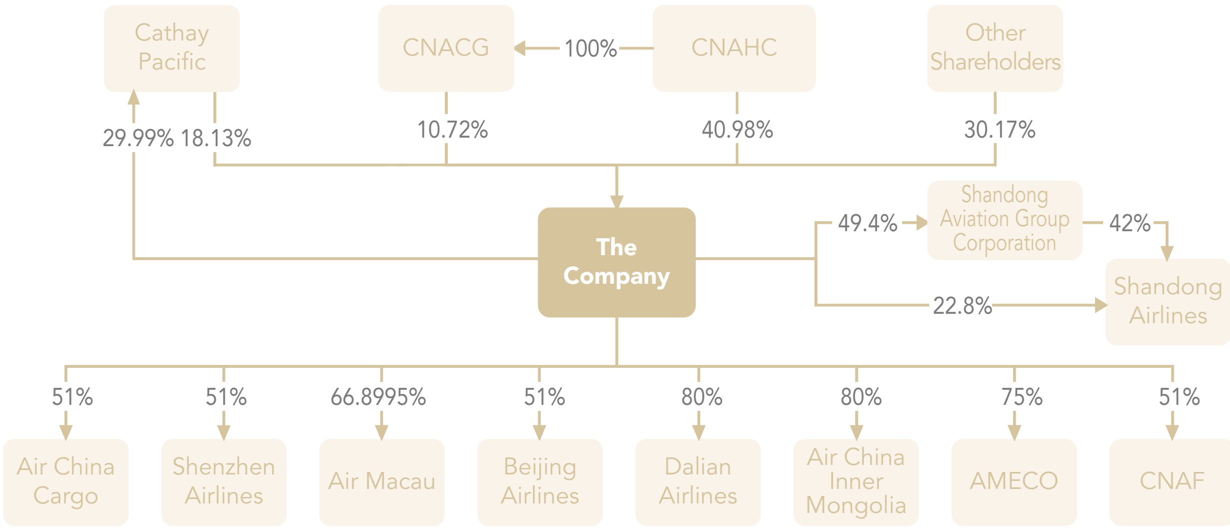
Cost Controls

With its rich management experience in optimizing wide-body aircraft operation, the Company has fully commenced the work of "whole fleet operation optimisation". By focusing on key areas such as production organization and cost efficiency improvement, we strengthened our control over production process organization and resource utilization through reinforcing the role of market in guiding the formulation of production plans and resource allocation. We also conducted aircraft performance optimisation management and accelerated the process of integrated management of airline catering to improve decision-making efficiency and resource synergy, and therefore further improved our cost efficiency.

Prospects

The second half of 2018 will see both opportunities and challenges. China will continue to push forward the implementation of its new development concepts and materialize the requirement for high quality development while retaining its stable and healthy economic growth. On one hand, in light of the improving supply and demand dynamic in civil aviation industry and the progressive reform of the marketization of ticket price, the Company is confident in the realization of high quality development. On the other hand, the Company is facing challenges from adverse factors including increasingly fierce market competition in the industry, rising oil price and significant exchange rate fluctuation. The Group will continue to enhance its strategic measures, optimize the implementation mechanism of reform, comprehensively strengthen its control over corporate operation and improve its resilience against risks for the target of becoming a top-tier aviation group in the world with global competitiveness.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



Air China Cargo

Air China Cargo was established in 2003. Headquartered in Beijing, Air China Cargo takes Shanghai as its main long-distance air freighter operation base and is primarily engaged in air cargo and mail transportation. The registered capital of Air China Cargo is RMB5,235,294,118. Air China holds 51% of its equity interest.

As at the end of the Reporting Period, Air China Cargo operated a fleet of 15 aircraft with an average age of 11.04 years.

During the Reporting Period, the AFTKs of Air China Cargo reached 6,359 million, representing a year-on-year increase of 8.86%. Its RFTKs reached 3,508 million, representing a year-on-year increase of 8.40%. The volume of cargo and mail carried was 0.7116 million tonnes, representing a year-on-year increase of 2.71%. The cargo and mail load factor was 55.17%, representing a year-on-year decrease of 0.23 ppt.

During the Reporting Period, Air China Cargo's consolidated revenue was RMB5,558 million, representing a year-on-year increase of 12.25%, of which cargo and mail transportation revenue amounted to RMB4,875 million, representing a year-on-year increase of 13.26%. The profit attributable to the equity shareholders was RMB117 million, representing a year-on-year decrease of 58.45%.

Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB5,360,000,000. Air China holds 51% of its equity interest.

As at the end of the Reporting Period, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 207 aircraft with an average age of 6.41 years. During the Reporting Period, 6 aircraft were introduced and 2 aircraft were phased out.

During the Reporting Period, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 31,999 million, representing a year-on-year increase of 10.09%. Its RPKs reached 26,231 million, representing a year-on-year increase of 9.71%. Shenzhen Airlines (including Kunming Airlines) carried 17.3539 million passengers, representing a year-on-year increase of 9.38%. The average passenger load factor was 81.98%, representing a year-on-year decrease of 0.28 ppt.

In terms of air cargo, the AFTKs of Shenzhen Airlines (including Kunming Airlines) reached 580 million, representing a year-on-year increase of 19.10%. Its RFTKs reached 290 million, representing a year-on-year increase of 9.53%. The volume of cargo and mail carried by Shenzhen Airlines (including Kunming Airlines) was 0.1752 million tonnes, representing a year-on-year increase of 10.20%, while the cargo and mail load factor was 50.00%, representing a year-on-year decrease of 4.36 ppt.

During the Reporting Period, Shenzhen Airlines recorded a consolidated revenue of RMB15,053 million, representing a year-on-year increase of 14.07%, of which, air traffic revenue amounted to RMB14,677 million, representing a year-on-year increase of 14.49%. The profit attributable to equity shareholders was RMB527 million, representing a year-on-year decrease of 38.04%.

Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP442,042,000. Air China holds 66.8995% of its equity interest.

As at the end of the Reporting Period, Air Macau operated a fleet of 18 aircraft with an average age of 7.79 years. In the first half of 2018, 1 new aircraft was introduced.

During the Reporting Period, the ASKs of Air Macau reached 3,172 million, representing a year-on-year increase of 5.16%. Its RPKs reached 2,588 million, representing a year-on-year increase of 19.23%. It carried a total of 1.5262 million passengers, representing a year-on-year increase of 17.49%, with an average passenger load factor of 81.59%, representing a year-on-year increase of 9.63 ppt.

In terms of air cargo, the AFTKs of Air Macau reached 50.4049 million, representing a year-on-year increase of 4.96%. Its RFTKs reached 15.7187 million, representing a year-on-year decrease of 1.55%. 9,708.14 tonnes of cargo and mail were carried, representing a year-on-year decrease of 3.72%; the cargo and mail load factor was 31.18%, representing a year-on-year decrease of 2.06 ppt.

During the Reporting Period, Air Macau recorded a revenue of RMB1,642 million, representing a year-on-year increase of 19.45%, of which, air traffic revenue amounted to RMB1,628 million, representing a year-on-year increase of 19.33%. The profit after taxation was RMB116 million, as compared to the net loss of RMB15 million in the same period last year.

Beijing Airlines

Beijing Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 51% of its equity interest.

As at the end of the Reporting Period, Beijing Airlines operated a fleet of 5 entrusted business jets and one self-owned business jet with an average age of 5.78 years.

During the Reporting Period, Beijing Airlines completed 228 flights, representing a year-on-year decrease of 9.16%. It completed 780.8 flying hours, representing a year-on-year decrease of 4.42%. It carried a total of 1,247 passengers, representing a year-on-year increase of 24.70%.

During the Reporting Period, Beijing Airlines recorded a revenue of RMB55 million, representing a year-on-year decrease of 2.88%, of which, charter service revenue amounted to RMB13 million, representing a year-on-year increase of 0.37%. It recorded a net loss of RMB17 million, representing a year-on-year decrease in loss of 21.38%.

Dalian Airlines

Dalian Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 80% of its equity interest.

As at the end of the Reporting Period, Dalian Airlines operated a fleet of 11 aircraft with an average age of 5.07 years.

During the Reporting Period, the ASKs of Dalian Airlines reached 1,557 million, representing a year-on-year increase of 16.68%. Its RPKs reached 1,315 million, representing a year-on-year increase of 17.38%. It carried a total of 1.1755 million passengers, representing a year-on-year increase of 11.61%, with an average passenger load factor of 84.45%, representing a year-on-year increase of 0.50 ppt.

In terms of air cargo, the AFTKs of Dalian Airlines reached 19.3242 million, representing a year-on-year increase of 9.22%. Its RFTKs reached 7.3806 million, representing a year-on-year decrease of 8.11%. It carried a total of 6,824.71 tonnes of cargo and mail, representing a year-on-year decrease of 1.77%. Its cargo and mail load factor was 38.19%, representing a year-on-year decrease of 7.20 ppt.

During the Reporting Period, Dalian Airlines recorded a revenue of RMB802 million, representing a year-on-year increase of 14.10%, of which, air traffic revenue amounted to RMB799 million, representing a year-on-year increase of 13.65%. Profit after taxation was RMB80 million, representing a year-on-year increase of 6.99%.

Air China Inner Mongolia

Air China Inner Mongolia was established in 2013 with a registered capital of RMB1 billion. Air China holds 80% of its equity interest.

As at the end of the Reporting Period, Air China Inner Mongolia operated a fleet of 8 aircraft with an average age of 7.37 years, out of which 3 were aircraft under wet leases. 1 aircraft was introduced during the Reporting Period.

During the Reporting Period, the ASKs of Air China Inner Mongolia reached 997 million, representing a year-on-year increase of 26.63%. Its RPKs reached 806 million, representing a year-on-year increase of 24.32%. It carried a total of 0.8251 million passengers, representing a year-on-year increase of 21.63%, with an average passenger load factor of 80.87%, representing a year-on-year decrease of 1.50 ppt.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 15.0568 million, representing a year-on-year increase of 11.42%. Its RFTKs reached 5.4303 million, representing a year-on-year decrease of 0.50%. The amount of cargo and mail carried by Air China Inner Mongolia was 5,211.06 tonnes, representing a year-on-year increase of 7.51%, with a cargo and mail load factor of 36.07%, representing a year-on-year decrease of 4.32 ppt.

During the Reporting Period, Air China Inner Mongolia recorded a revenue of RMB611 million, representing a year-on-year increase of 13.05%, of which, air traffic revenue amounted to RMB604 million, representing a year-on-year increase of 12.81%. Profit after taxation was RMB67 million, representing a year-on-year increase of 24.10%.

AMECO

AMECO was established in 1989 and principally engaged in maintenance, repair and overhaul of aircraft, engines and components. The registered capital of AMECO is USD300,052,800, and Air China holds 75% of its equity interest.

During the Reporting Period, AMECO recorded a revenue of RMB3,519 million, representing a year-on-year increase of 21.30%. Profit after taxation amounted to RMB71 million, as compared to the net loss of RMB39 million for the corresponding period of last year.

CNAF

CNAF was established in 1994 and principally engaged in the provision of financial services to CNAHC Group and the Group. The registered capital of CNAF is RMB1,127,961,864, with Air China holding 51% of its equity interest.

During the Reporting Period, CNAF recorded a revenue of RMB93 million, representing a year-on-year decrease of 4.40%, and profit after taxation of RMB53 million, representing a year-on-year increase of 27.25%.

Cathay Pacific

Cathay Pacific was established in 1946 in Hong Kong and is listed on the Hong Kong Stock Exchange. Air China holds 29.99% of its equity interest.

As at the end of the Reporting Period, Cathay Pacific operated a fleet of 206 aircraft. 1 aircraft were introduced and 3 were phased out in the first half of the year.

During the Reporting Period, the ASKs of Cathay Pacific reached 75,770 million, representing a year-on-year increase of 3.2%. Its RPKs reached 63,810 million, representing a year-on-year increase of 2.5%. A total of 17.485 million passengers were carried, representing a year-on-year increase of 1.9%, with an average passenger load factor of 84.2%, representing a year-on-year decrease of 0.5 ppt.

In terms of air cargo, the AFTKs of Cathay Pacific reached 8,542 million, representing a year-on-year increase of 4.1%. Its RFTKs reached 5,831 million, representing a year-on-year increase of 7.3%. It carried a total of 1.038 million tonnes of cargo and mail, representing a year-on year increase of 7.5%. The cargo and mail load factor was 68.3%, representing a year-on-year increase of 2.1 ppt.

During the Reporting Period, Cathay Pacific recorded a consolidated revenue of RMB44,560 million, representing a year-on-year increase of 10.27%, of which, air traffic revenue amounted to RMB40,652 million, representing a year-on-year increase of 8.24%. The loss attributable to equity shareholders was RMB221 million, representing a year-on-year decrease in loss of 87.78%.

Shandong Airlines

Shandong Airlines was established in 1999 with a registered capital of RMB400 million. Air China and Shandong Aviation Group Corporation hold 22.8% and 42% of its equity interest, respectively, while Air China holds 49.4% of equity interest of Shandong Aviation Group Corporation.

As at the end of the Reporting Period, Shandong Airlines operated a fleet of 119 aircraft with an average age of 4.85 years. During the Reporting Period, 10 aircraft were introduced while 4 aircraft were phased out (including 2 CRJ700s).

During the Reporting Period, the ASKs of Shandong Airlines reached 21,188 million, representing a year-on-year increase of 13.21%. Its RPKs reached 17,759 million, representing a year-on-year increase of 15.36%. It carried a total of 12.1862 million passengers, representing a year-on-year increase of 13.94%, with an average passenger load factor of 83.82%, representing a year-on-year increase of 1.56 ppt.

In terms of air cargo, the AFTKs of Shandong Airlines reached 352 million, representing a year-on-year increase of 6.99%. Its RFTKs reached 141 million, representing a year-on-year increase of 9.30%. It carried a total of 0.0844 million tonnes of cargo and mail, representing a year-on-year increase of 9.33%. The cargo and mail load factor was 40.15%, representing a year-on-year increase of 1.08 ppt.

During the Reporting Period, Shandong Airlines recorded a consolidated revenue of RMB8,729 million, representing a year-on-year increase of 15.61%, of which air traffic revenue amounted to RMB8,418 million, representing a year-on-year increase of 14.92%. The profit attributable to equity shareholders was RMB204 million, representing a year-on-year increase of 126.13%.

PARTICULARS OF EMPLOYEES

As at the end of the Reporting Period, the Company had a total of 29,429 employees and its subsidiaries had a total of 59,845 employees.

The Company adheres to the principles of combining incentives with control and aligning the improvement in performance with the increase in wages, and upholds a remuneration concept of "paying salary with reference to the value of job, personal ability as well as performance appraisal" in developing and implementing the remuneration policies primarily based on the value of job. The Group has attached great importance and devoted significant efforts to the training of officers and employees. With the concept of "training as a service" and the emphasis on the development of expertise and professionalism, we have carried out various on-line and off-line training programmes of different levels and categories which will provide strong support in respect of both knowledge and talents for the sustainable development and strategy implementation of the Group.

The following discussion and analysis are based on the Group's interim condensed consolidated financial statements and notes thereto prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules and are designed to assist the readers in further understanding the information provided in this report so as to better understand the financial conditions and results of operations of the Group as a whole.

PROFIT ANALYSIS

During the Reporting Period, the Group recorded a profit attributable to the equity shareholders of the Company of RMB3,476 million, representing a year-on-year increase of 4.05%. During the first half of 2018, the air transport market of the PRC has a general balance between supply and demand where there was a strong need for domestic travel and a modest need for international/regional travel. However, the relatively fast-growing transport capacity has surpassed the growing demand. The Group acted in accordance with the market condition and further strengthened the advantages of economies of scale of our core air transport business by adopting measures including optimising operational arrangement, stabilising the yield level and refining cost control. For the Reporting Period, the Group has achieved satisfactory results despite the adverse impacts from factors such as oil price rebounding and currency depreciation.

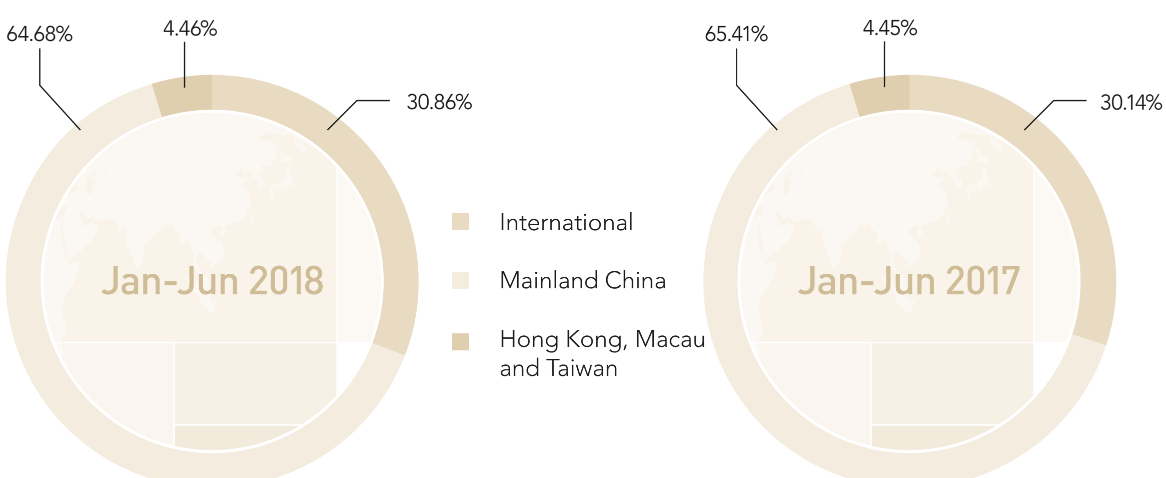
REVENUE

During the Reporting Period, the Group's revenue was RMB64,242 million, representing an increase of RMB6,862 million or 11.96%, on a year-on-year basis. Among the total revenue, revenue from our air traffic operations contributed RMB61,969 million, representing an increase of RMB6,477 million or 11.67%, on a year-on-year basis. Other operating revenue was RMB2,273 million, representing an increase of RMB385 million or 20.35%, on a year-on-year basis.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**19,827,425**	**30.86%**	17,291,921	30.14%	14.66%
Mainland China	**41,551,486**	**64.68%**	37,531,316	65.41%	10.71%
Hong Kong, Macau and Taiwan	**2,863,411**	**4.46%**	2,557,381	4.45%	11.97%
Total	**64,242,322**	**100.00%**	57,380,618	100.00%	11.96%

Proportion of Revenue Contribution by Geographical Segments in Graph



AIR PASSENGER REVENUE

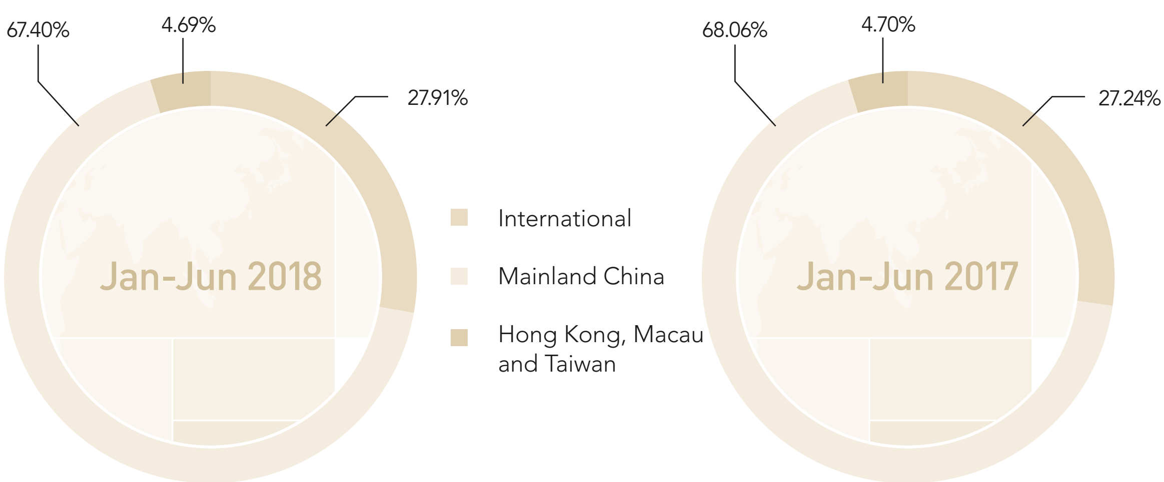
During the Reporting Period, the Group recorded an air passenger revenue of RMB56,894 million, representing an increase of RMB5,889 million or 11.55% over that of the same period of 2017. Among the air passenger revenue, the increase of capacity contributed an increase of RMB6,347 million to the revenue, and the drop of passenger load factor brought a decrease of RMB388 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB70 million. During the Reporting Period, the Group's capacity, passenger load factor and yield per RPK are as follows:

	For the six months ended 30 June		
	2018	2017	Change
Available seat kilometres (million)	**133,799.77**	118,991.56	12.44%
Passenger load factor (%)	**80.48**	81.02	(0.54 ppt)
Yield per RPK (RMB)	**0.5282**	0.5289	(0.13%)

AIR PASSENGER REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**15,877,693**	**27.91%**	13,892,644	27.24%	14.29%
Mainland China	**38,347,915**	**67.40%**	34,713,335	68.06%	10.47%
Hong Kong, Macau and Taiwan	**2,668,322**	**4.69%**	2,399,375	4.70%	11.21%
Total	**56,893,930**	**100.00%**	51,005,354	100.00%	11.55%

Proportion of Air Passenger Revenue Contribution by Geographical Segments in Graph



AIR CARGO AND MAIL TRANSPORTATION REVENUE

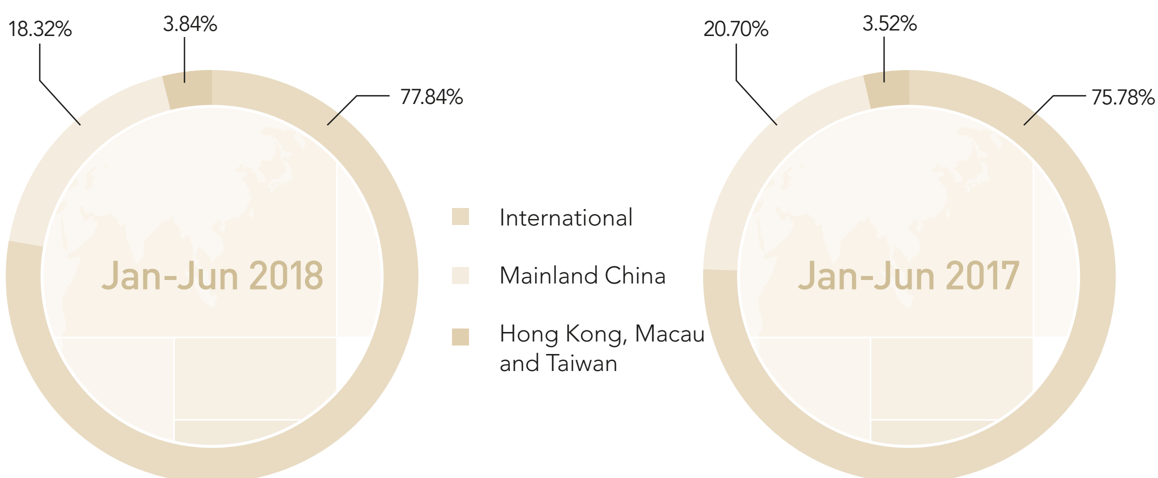
During the Reporting Period, the Group's air cargo and mail transportation revenue was RMB5,075 million, representing an increase of RMB589 million, or 13.12%, as compared to that of the same period of 2017. Among the Group's air cargo and mail transportation revenue, the increase in capacity of cargo and mail contributed to an increase in revenue of RMB431 million, the decrease in load factor resulted in a decrease in revenue of RMB54 million, and the increase in yield of cargo and mail contributed to an increase in revenue of RMB212 million. The capacity, load factor and yield of our air cargo and mail transportation operations for the Reporting Period are as follows:

	For the six months ended 30 June		
	2018	2017	Change
Available freight tonne kilometres (million)	**7,024.12**	6,408.22	9.61%
Cargo and mail load factor (%)	**54.48**	55.09	(0.61ppt)
Yield per RFTK (RMB)	**1.3260**	1.2706	4.36%

AIR CARGO AND MAIL TRANSPORTATION REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**3,949,732**	**77.84%**	3,399,277	75.78%	16.19%
Mainland China	**929,866**	**18.32%**	928,815	20.70%	0.11%
Hong Kong, Macau and Taiwan	**195,089**	**3.84%**	158,006	3.52%	23.47%
Total	**5,074,687**	**100.00%**	4,486,098	100.00%	13.12%

Proportion of Air Cargo and Mail Transportation Revenue Contribution by Geographical Segments in Graph



OPERATING EXPENSES

During the Reporting Period, the Group's operating expenses were RMB59,574 million, representing an increase of 12.53% as compared to that of RMB52,939 million in the same period of 2017. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2018		2017		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Jet fuel costs	**17,581,987**	**29.51%**	13,629,016	25.74%	29.00%
Take-off, landing and depot charges	**7,370,150**	**12.37%**	6,656,849	12.57%	10.72%
Depreciation and amortisation	**7,025,077**	**11.79%**	6,538,174	12.35%	7.45%
Aircraft maintenance, repair and overhaul costs	**3,415,660**	**5.73%**	3,111,576	5.88%	9.77%
Employee compensation costs	**11,596,358**	**19.47%**	10,525,998	19.88%	10.17%
Air catering charges	**1,806,920**	**3.03%**	1,638,989	3.10%	10.25%
Aircraft operating lease expenses	**3,503,772**	**5.88%**	3,675,180	6.94%	(4.66%)
Selling and marketing expenses	**2,114,512**	**3.55%**	2,166,118	4.09%	(2.38%)
General and administrative expenses	**589,720**	**0.99%**	642,784	1.21%	(8.26%)
Others	**4,569,491**	**7.68%**	4,354,083	8.24%	4.95%
Total	**59,573,647**	**100.00%**	52,938,767	100.00%	12.53%

- Jet fuel costs increased by RMB3,953 million, or 29.00%, on a year-on-year basis, mainly due to the increase in the consumption and the prices of jet fuel.

- Take-off, landing and depot charges increased by RMB713 million on a year-on-year basis, primarily due to an increase in the number of take-offs and landings.

- Depreciation and amortisation expenses increased by RMB487 million on a year-on-year basis mainly due to the increase in the number of self-owned and finance leased aircraft during the Reporting Period.

- Aircraft maintenance, repair and overhaul costs increased by RMB304 million on a year-on-year basis, mainly due to the expansion of fleet.

- Employee compensation costs increased by RMB1,070 million on a year-on-year basis, mainly due to our business expansion and the increase in number of employees.

- Air catering charges increased by RMB168 million on a year-on-year basis, mainly due to the increase in the number of passengers.

- Aircraft operating lease expenses decreased by RMB171 million on a year-on-year basis, mainly due to the decrease of the number of aircraft under operating leases and the exchange rate changes of US dollar as compared with the corresponding period last year.

- Selling and marketing expenses decreased by RMB52 million on a year-on-year basis, mainly due to the decrease in agency fees.

- General and administrative expenses decreased by RMB53 million on a year-on-year basis, mainly due to a year-on-year decrease in tax and surcharges.

- Other operating expenses mainly included contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items, which increased by 4.95% on a year-on-year basis.

EXCHANGE GAINS AND LOSSES AND FINANCE COSTS

During the Reporting Period, the Group recorded a net exchange loss of RMB518 million, as compared to the net exchange gain of RMB1,270 million for the same period of 2017, which was mainly due to the appreciation in the exchange rate of US dollars against RMB during the Reporting Period. The Group incurred interest expenses of RMB1,370 million (excluding those capitalised) during the Reporting Period, representing a year-on-year decrease of RMB222 million.

SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the Group's share of results of its associates was a profit of RMB77 million, as compared to a loss of RMB514 million for the same period of 2017, mainly due to the year-on-year decrease in the loss of Cathay Pacific, an associate of the Company, during the Reporting Period. The Group recorded a loss on investment of Cathay Pacific of RMB157 million during the Reporting Period, representing a year-on-year decrease in loss of RMB508 million.

During the Reporting Period, the Company's share of results of its joint ventures was a profit of RMB115 million, representing a year-on-year increase of RMB2 million. This was mainly due to the slight increase in the profits of joint ventures during the Reporting Period.

ANALYSIS OF ASSETS STRUCTURE

As at the end of the Reporting Period, the total assets of the Group amounted to RMB245,437 million, representing an increase of 4.16% from those as at 31 December 2017, among which current assets accounted for RMB24,367 million, or 9.93% of the total assets, while non-current assets accounted for RMB221,070 million, or 90.07% of the total assets.

Among the current assets, cash and cash equivalents were RMB8,961 million, representing an increase of 61.08% from those as at 31 December 2017, mainly because the Group owned relatively abundant cash flows in the peak season and has reserved certain internal funds to repay debts which will due in the near future.

Among the non-current assets, the net book value of property, plant and equipment as at the end of the Reporting Period was RMB169,912 million, representing an increase of 0.82% from that as at 31 December 2017.

ASSETS MORTGAGE

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB81,413 million (RMB81,064 million as at 31 December 2017) and land use rights with a net book value of approximately RMB29 million (RMB34 million as at 31 December 2017). At the same time, the Group had approximately RMB911 million (approximately RMB697 million as at 31 December 2017) in bank deposits with title being restricted, which were mainly reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

During the Reporting Period, the Group's capital expenditure amounted to RMB10,010 million, of which the total investment in aircraft and engines was RMB9,203 million. Other capital expenditure amounted to RMB807 million, mainly including investments in expensive rotatable parts, flight simulators, infrastructure construction, IT system construction, procurement of ground equipment and cash component of the long-term investments.

EQUITY INVESTMENT

As at the end of the Reporting Period, the Group's equity investment in its associates was RMB15,352 million, representing an increase of 8.12% from that as at 31 December 2017, of which the equity investment in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines was RMB12,459 million, RMB1,367 million and RMB913 million, respectively. Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines recorded a net loss attributable to the parent of RMB221 million, a net profit attributable to the parent of RMB201 million and a net profit attributable to the parent of RMB204 million, respectively, for the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,210 million, representing a decrease of 2.36% from that as at 31 December 2017.

DEBT STRUCTURE ANALYSIS

As at the end of the Reporting Period, the total liabilities of the Group amounted to RMB146,874 million, representing an increase of 4.32% from those as at 31 December 2017, among which current liabilities were RMB77,054 million and non-current liabilities were RMB69,820 million, representing 52.46% and 47.54% of the total liabilities, respectively.

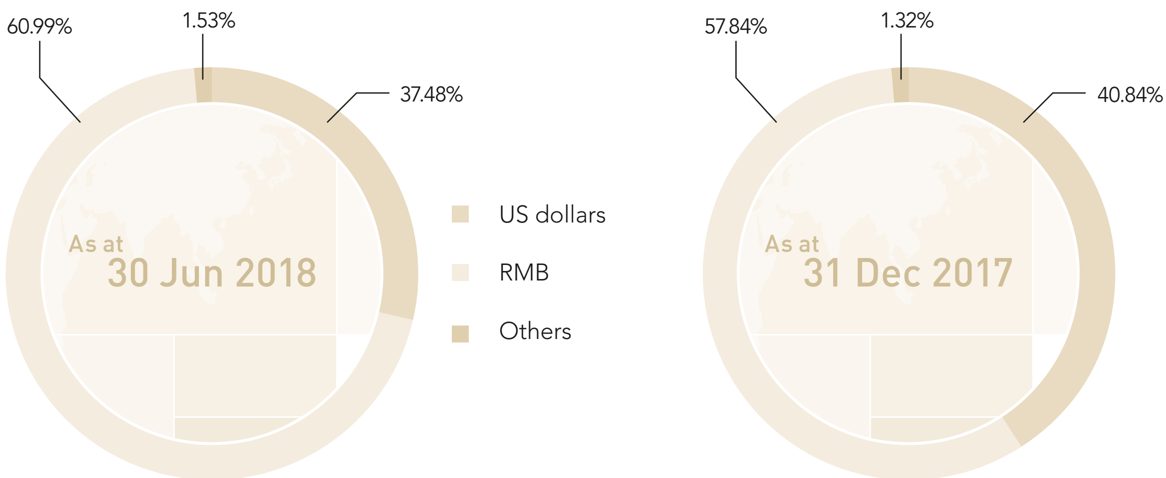
Among the current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB38,497 million, representing an increase of 10.33% from those as at 31 December 2017, mainly due to the increase of working capital loans of the Group.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and liabilities under finance leases) amounted to RMB60,494 million, representing an increase of 0.98% from those as at 31 December 2017.

Details of interest-bearing liabilities of the Group by currency are set out below:

	30 June 2018		31 December 2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
US dollars	**37,101,784**	**37.48%**	38,719,435	40.84%	(4.18%)
RMB	**60,378,896**	**60.99%**	54,830,969	57.84%	10.12%
Others	**1,510,752**	**1.53%**	1,248,538	1.32%	21.00%
Total	**98,991,432**	**100.00%**	94,798,942	100.00%	4.42%

Proportion of Interest-bearing Liabilities by Currency in Graph



COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 7.14% from RMB77,742 million as at 31 December 2017 to RMB72,191 million as at the end of the Reporting Period. The Group's commitments under operating leases, which mainly consisted of the payments in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB49,564 million as at the end of the Reporting Period, representing a decrease of 3.55% as compared with those as at 31 December 2017. The Group's investment commitments, which were mainly used in the investment agreements entered into, amounted to RMB58 million as at the end of the Reporting Period, which was basically flat with that of 31 December 2017.

Details of the Group's contingent liabilities are set out in note 23 of the condensed consolidated financial statements included in this interim report.

GEARING RATIO

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 59.84%, representing an increase of 0.09 ppt as compared to the gearing ratio of 59.75% as at 31 December 2017. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

As at the end of the Reporting Period, the Group's net current liabilities (current liabilities minus current assets) were RMB52,687 million, representing an increase of RMB1,315 million from those as at 31 December 2017. The Group's current ratio (current assets divided by current liabilities) was 0.32, representing an increase as compared to that of 0.29 as at 31 December 2017.

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the Reporting Period, the Group's net cash inflow generated from operating activities was RMB11,712 million, representing an increase of 28.89% as compared with that of RMB9,087 million in the same period of 2017, which was mainly due to the increase of transportation revenue and the decrease of operating receivables during the Reporting Period. Net cash outflow from investment activities was RMB8,451 million, representing an increase of 62.99% from that of RMB5,185 million in the same period of 2017, mainly due to the year-on-year decrease in the cash income from disposal of fixed assets and the year-on-year increase in the amount paid for purchase and construction of fixed assets and other long-term assets during the Reporting Period. The Group recorded a net cash inflow from financing activities of RMB120 million, representing a decrease of RMB326 million compared with the corresponding period in 2017.

The Company has obtained bank facilities of up to RMB147,397 million granted by several banks in the PRC, among which approximately RMB26,322 million has been utilised. The remaining amount is sufficient to meet our demands on working capital.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group holds a substantial amount of financial liabilities and financial assets dominated in foreign currencies. When exchange rate fluctuates, gains and losses resulting from foreign exchanges are substantial enough to affect the Group's operating results. Exchange rate fluctuation also affects the Group's costs generated from overseas purchase of aircraft, equipment, jet fuel and expenses relating to take-off and landing in overseas airports, and it could also have an impact on the demands of Chinese citizens for overseas travel, which in turn affects the operating results of the Group to a certain degree. In addition, interest rate fluctuation could also affect the Group's finance costs, which will affect the Group's operating results.

POTENTIAL RISKS

Market Fluctuation Risks

In the first half of the year, under the guiding principle of maintaining stability while seeking development, through implementing new development concept, fulfilling the requirement of high-quality development and focusing on supply-side structural reform, China's economy remained stable and made steady progress. However, recently, some changes have emerged bringing new problems and new challenges while external uncertainties have increased. Impacted by uncertainties in factors including macro-economy, the fluctuation risk of air transport market has increased.

External Risks

This year has witnessed the escalating trade friction between the US and China and the increasing risks in the international market. According to the current duty measures, the tariffs on B737NG series and B737MAX aircraft which will be imported by the Group from the US will increase to 25% which will increase our operating costs. The trade friction and increase in tariffs may impact the air passenger and freight transport demand between the US and China, which will in turn impact the revenue of the US-China routes.

In response to such situation, the Group will actively follow the nation's overall strategy and act in accordance with relevant government policies in relation to aircraft import, air passenger and freight transport. In addition, the Group will strive to further improve its assessment on the market and adjust its transport capacity resource allocation accordingly in a timely manner so as to further optimize supply and demand balance and maintain stable yield level.

Industry Competition Risks

Bilateral and multilateral joint venture arrangements among large network carriers are being constantly strengthened as competition takes new forms. While China's top three airlines are accelerating their penetration in the global market, an increasing number of medium-sized domestic airlines are actively applying for flying medium- and long-distance international routes. As a result, the international air traffic rights will become more valuable and scarce in the future. While the Company is enjoying the advantages in locations and timeslots in respect of the long-distance routes to Europe and America, it still has much to improve compared with the leading airlines in Europe and America in terms of network, products and services. Regional airlines that spring up during an industry deregulation promoted the trend of low-cost aviation operations, which will further intensify the competition in the domestic market and may impact future yield of the Group.

Alternative Competition Risks

China has built up the world's largest high-speed railway network and is extending its reach towards the central and western China. High-speed railway transportation features high frequency, low cost, punctuality, high speed, convenience and comfort, and has become the main choice of travellers for short- and medium-distance transportation, which put civil aviation in an inferior position. In the short term, high-speed rail carriers will continue to snatch market shares from the airlines after they reach network operation, increase the overall speed and the frequency and extend the operating schedule. However, in the long term, it will change China's geographic pattern of economy as high-speed railway transportation and civil aviation may actually cooperate and compete, and the air-rail interline operation will become a strong support to the construction of international hubs. As for the domestic routes, as medium and short distance routes account for the lowest proportion in the industry, the Group may suffer from the competition from high-speed railway transportation, but only to a limited extent.

De-hubbing Risks

The international reach from the airports of China's second-tier cities has been developing rapidly, with an obvious de-hubbing trend. Taking international long-distance routes above the range of 5,000 kilometres as example, in 2009, there were only three second-tier cities in China which operated international long-distance routes, and as of June 2018 the number has increased to 20. Long-distance routes flying from second-tier cities have been growing rapidly, which now covers Europe, America, Australia and Africa. With the gradual expansion of long-distance routes, airlines with wide-body aircraft have been actively involved in the development of long-distance market in second-tier cities. Such development will have certain impact on the Company's hubbed operations.

Oil Price Fluctuation Risks

For the present, oil price is still at a relatively low level. However, in the future, with uncertainties in global economy recovery, crude oil supply, US dollar interest rate increase cycle and geopolitics, risks of oil price fluctuation still exist. Jet fuel cost is one of the Group's major operating costs, the fluctuation of which is closely related with the performance of the Group. During the Reporting Period, with other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel cost will rise or fall by about RMB879 million.

Exchange Rate Fluctuation Risks

Since the beginning of the year, monetary policies of major economies in the world have continued the trend of diversification where the US continued to push forward "increasing interest rate" and "reducing balance sheet", while the EURO zone and Japan kept implementing QE policies. Recent strong economic data of the US have provided further support for a strong US dollar while increasing interest rate hike expectation. Impacted by US-China trade friction and unfavourable external political and economic landscape, RMB has depreciated against US dollar. However, the continuing high-quality economy growth of China established a solid foundation for the stablisation of RMB exchange rate. With the implementation of proactive fiscal policy and sound monetary policy, RMB is expected to be more resilient against US dollar and stay stable against the currency basket.

Certain financial leasing liabilities, bank and other borrowings of the Group are primarily denominated in US dollar, Euro and Yen. Some of the income and expenses of the Group's international operations are denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and equity as at 30 June 2018 by RMB235 million, respectively; the appreciation or depreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and equity as at 30 June 2018 by RMB3.167 million; and the appreciation or depreciation of RMB against Yen by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and equity by RMB9.72 million, respectively.

CHANGES IN DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE INFORMATION

1. Mr. Xue Yasong was elected as the employee representative director of the Company by the second session of the employee representative meeting of the Company held on 29 March 2018, with a term from the date of the above resolution being passed to the expiry of the fifth session of the Board.

2. Mr. John Robert Slosar retired from his positions as the chairman and an executive director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited, with effect from 1 July 2018.

3. Mr. Liu Deheng has been appointed as an external director of Aviation Industry Corporation of China, Ltd., with effect from March 2018.

DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Mr. John Robert Slosar is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H Shares of the Company as at the end of the Reporting Period, which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Cathay Dragon. Mr. Cai Jianjiang, the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, the executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Cathay Dragon compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations which are also served by the Company.

Save as disclosed above, none of the Directors or Supervisors of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which shall be disclosed under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and chief executive of the Company, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Types of interests	Type and number of shares of the Company held	Percentage of the total issued shares of the Company	Percentage of the total issued A Shares of the Company	Percentage of the total issued H Shares of the Company	Short position
CNAHC[1]	Beneficial owner	5,952,236,697 A Shares	40.98%	59.75%	–	–
	Interest of controlled corporation	1,332,482,920 A Shares	9.17%	13.38%	–	–
	Interest of controlled corporation	223,852,000 H Shares	1.54%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A Shares	9.17%	13.38%	–	–
	Beneficial owner	223,852,000 H Shares	1.54%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,633,725,455 H Shares	18.13%	–	57.72%	–
Swire Pacific Limited[2]	Interest of controlled corporation	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited[2]	Interest of controlled corporation	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons Limited[2]	Interest of controlled corporation	2,633,725,455 H Shares	18.13%	–	57.72%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at the end of the Reporting Period:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A Shares and 223,852,000 H Shares of the Company directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 55.10% equity interest and 63.97% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% equity interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

TOTAL NUMBER OF SHAREHOLDERS

Total number of holders of ordinary shares as at the end of the reporting period (account)	161,429, of which 3,314 accounts are registered holders of H Shares

DETAILS OF SHAREHOLDERS

Unit: Share

Shareholding of the top 10 shareholders							
Name of shareholder	Change(s) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)	Number of shares held subject to selling restrictions	Shares pledged or frozen Status	Shares pledged or frozen Number	Nature of shareholder
China National Aviation Holding Corporation Limited	0	5,952,236,697	40.98	513,478,818	Frozen	127,445,536	State
Cathay Pacific Airways Limited	0	2,633,725,455	18.13	0	Nil	0	Foreign legal person
HKSCC NOMINEES LIMITED	2,883,980	1,687,658,499	11.62	0	Nil	0	Foreign legal person
China National Aviation Corporation (Group) Limited	0	1,556,334,920	10.72	0	Frozen	36,454,464	Foreign legal person
China National Aviation Fuel Group Corporation	-659,800	468,485,702	3.23	0	Nil	0	State-owned legal person
China Securities Finance Corporation Limited	-218,710,147	283,409,000	1.95	0	Nil	0	State-owned legal person
Zhongyuan Equity Investment Management Co., Ltd	-5,830,104	256,739,405	1.77	0	Unknown	256,739,405	State-owned legal person
China Structural Reform Fund Co., Ltd	-115,499,959	115,565,509	0.80	0	Nil	0	State-owned legal person
National Social Security Fund 118	18,929,783	89,964,678	0.62	0	Nil	0	State-owned legal person
The Monetary Authority of Macao (self-owned funds)	42,417,510	49,122,166	0.34	0	Nil	0	Unknown

Unit: Share

Shareholdings of the top 10 shareholders not subject to selling restrictions			
Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares	
		Class	Number
China National Aviation Holding Corporation Limited	5,438,757,879	RMB ordinary shares	5,438,757,879
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,687,658,499	Overseas listed foreign shares	1,687,658,499
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares	1,332,482,920
		Overseas listed foreign shares	223,852,000
China National Aviation Fuel Group Corporation	468,485,702	RMB ordinary shares	468,485,702
China Securities Finance Corporation Limited	283,409,000	RMB ordinary shares	283,409,000
Zhongyuan Equity Investment Management Co., Ltd	256,739,405	RMB ordinary shares	256,739,405
China Structural Reform Fund Co., Ltd	115,565,509	RMB ordinary shares	115,565,509
National Social Security Fund 118	89,964,678	RMB ordinary shares	89,964,678
The Monetary Authority of Macao (self-owned funds)	49,122,166	RMB ordinary shares	49,122,166

Descriptions on relationships of the above shareholders as related parties or concerted parties	CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.
Descriptions on holders of preferred shares with resumed voting rights and the number of shares held	Nil

1. HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,687,658,499 H shares held by it in the Company do not include the 166,852,000 H shares held by it as nominee of CNACG.

2. According to the "Implementation Measures on Partial Transfer of State-owned Shares to the National Social Security Fund in the Domestic Securities Market" (Cai Qi [2009] No. 94) (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》(財企[2009]94號)) and the Notice ([2009] No. 63) jointly issued by the Ministry of Finance, the State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and the National Council for Social Security Fund, 127,445,536 shares and 36,454,464 shares held by CNAHC, the controlling shareholder of the Company, and CNACG respectively are frozen at present.

Unit: Share

Shareholdings of the top 10 shareholders subject to selling restrictions and conditions of selling restrictions					
No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Listing and trading of shares subject to selling restrictions		Selling restrictions
			Date of being permitted for listing and trading	Number of shares to be listed and traded	
1	China National Aviation Holding Corporation Limited	513,478,818	2020-03-10	513,478,818	Non-public offering of A shares subject to selling restrictions

Descriptions on relationships of the above shareholders as related parties or concerted parties	Nil

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Reporting Period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted and formulated a code of conduct on terms no less stringent than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code and the Company's code of conduct throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company (the term "securities" has the meaning ascribed to it under paragraph 1 of Appendix 16 to the Listing Rules).

INTERIM DIVIDEND

No interim dividend will be paid by the Company for the six months ended 30 June 2018.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company's interim report for the six months ended 30 June 2018, the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

OTHER INFORMATION

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed herein, the Company confirms that the current information of the Company in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2017 Annual Report.

AIRCRAFT FINANCE LEASE

On 27 March 2018, the Company and CNACG entered into a 2018-2019 aircraft finance lease service framework agreement (the "**Framework Agreement**") with a term commencing from the date of approval by the independent shareholders of the Company to 31 December 2019. Pursuant to the Framework agreement, CNACG Group agreed to provide finance lease services to the Group in relation to the leased aircraft. The Framework Agreement, the transactions contemplated thereunder and the maximum transaction amounts for the period from 1 June 2018 to 31 December 2018 and for the year 2019 were approved at the annual general meeting of the Company held on 25 May 2018. For details, please refer to the announcements of the Company dated 27 March 2018 and 25 May 2018.

On 8 May 2018, the Company and CNAC Beijing Financial Leasing Co., Ltd. entered into an aircraft finance lease agreement, pursuant to which CNAC Beijing Financial Leasing Co., Ltd. agreed to provide finance leasing to the Company in relation to one Boeing B777-300ER aircraft. For details, please refer to the announcement of the Company dated 8 May 2018.

SUBSEQUENT EVENTS

On 30 August 2018, the Company entered into an equity transfer agreement with Capital Holding, pursuant to which, the Company has conditionally agreed to sell and Capital Holding has conditionally agreed to purchase 51% equity interests of Air China Cargo at a consideration of RMB2,438,837,520 (the "**Disposal**"). Upon completion of the Disposal, Air China Cargo will cease to be a subsidiary of the Company. For details, please refer to the announcement of the Company dated 30 August 2018.

In accordance with requirements of relevant regulatory authorities and the operating needs of the Company, on 30 August 2018, the Board has resolved to propose to amend the business scope and the articles of association of the Company. For details, please refer to the announcement of the Company dated 30 August 2018.

An extraordinary general meeting of the Company will be held to seek shareholders' approval in respect of the Disposal and the proposed amendments to the articles of association of the Company mentioned above.

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF AIR CHINA LIMITED
(中國國際航空股份有限公司)
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 91, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4A	**64,242,322**	57,380,618
Other income and gains	5	**1,972,760**	1,365,854
		66,215,082	58,746,472
Operating expenses			
Jet fuel costs		**(17,581,987)**	(13,629,016)
Employee compensation costs		**(11,596,358)**	(10,525,998)
Take-off, landing and depot charges		**(7,370,150)**	(6,656,849)
Depreciation and amortisation		**(7,025,077)**	(6,538,174)
Aircraft and engine operating lease expenses		**(3,503,772)**	(3,675,180)
Aircraft maintenance, repair and overhaul costs		**(3,415,660)**	(3,111,576)
Air catering charges		**(1,806,920)**	(1,638,989)
Other flight operation expenses		**(4,180,080)**	(3,866,439)
Selling and marketing expenses		**(2,114,512)**	(2,166,118)
General and administrative expenses		**(589,720)**	(642,784)
Other operating lease expenses		**(572,748)**	(481,165)
Impairment losses, net of reversal		**183,337**	(6,479)
		(59,573,647)	(52,938,767)
Profit from operations	6	**6,641,435**	5,807,705
Finance income		**59,682**	89,706
Finance costs	7	**(1,370,145)**	(1,592,410)
Share of results of associates		**77,487**	(513,836)
Share of results of joint ventures		**115,289**	112,988
Exchange (loss)/gain, net		**(517,697)**	1,269,684
Profit before taxation		**5,006,051**	5,173,837
Income tax expense	8	**(1,101,553)**	(1,253,054)
Profit for the period		**3,904,498**	3,920,783
Attributable to:			
– Equity shareholders of the Company		**3,476,157**	3,340,730
– Non-controlling interests		**428,341**	580,053
Profit for the period		**3,904,498**	3,920,783
Earnings per share			
– Basic and diluted	10	**RMB25.31 cents**	RMB25.32 cents

For the six months ended 30 June 2018

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Profit for the period	**3,904,498**	3,920,783
Other comprehensive (expense) income for the period		
Items that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	**(8,030)**	(17,922)
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	**(11,203)**	–
– Share of other comprehensive expense of associates and joint ventures	**(1,436)**	–
– Income tax relating to items that will not be reclassified to profit or loss	**2,801**	–
Items that may be reclassified subsequently to profit or loss:		
– Fair value gains on:		
Available-for-sale securities	**–**	107,727
Investments in debt instruments measured at fair value through other comprehensive income	**5,234**	–
– Exchange differences on translation of foreign operations	**171,814**	(636,313)
– Share of other comprehensive income (expense) of associates and joint ventures	**936,330**	(133,787)
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(1,299)**	(26,932)
Other comprehensive income (expense) for the period (net of tax)	**1,094,211**	(707,227)
Total comprehensive income for the period	**4,998,709**	3,213,556
Attributable to:		
– Equity shareholders of the Company	**4,569,603**	2,616,771
– Non-controlling interests	**429,106**	596,785
Total comprehensive income for the period	**4,998,709**	3,213,556

At 30 June 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**169,911,576**	168,536,471
Lease prepayments	12	**3,269,042**	3,300,124
Investment properties		**832,364**	674,738
Intangible assets		**56,617**	76,021
Goodwill		**1,099,975**	1,099,975
Interests in associates	13	**15,352,023**	14,199,540
Interests in joint ventures		**1,210,155**	1,239,396
Advance payments for aircraft and flight equipment		**24,147,908**	20,480,204
Deposits for aircraft under operating leases		**555,024**	567,889
Available-for-sale securities		**–**	1,334,953
Equity instruments at fair value through other comprehensive income		**288,790**	–
Debt instruments at fair value through other comprehensive income		**898,151**	–
Deferred tax assets		**2,586,843**	2,501,518
Other non-current assets		**861,718**	873,813
		221,070,186	214,884,642
Current assets			
Non-current assets held for sale		**32,675**	284,169
Inventories		**1,848,745**	1,535,769
Accounts receivable	14	**4,605,821**	3,490,427
Bills receivable		**363**	348
Prepayments, deposits and other receivables	15	**3,313,149**	5,122,517
Financial assets at fair value through profit or loss	16	**83,632**	19,938
Restricted bank deposits		**911,296**	697,167
Cash and cash equivalents		**8,960,504**	5,562,907
Held-to-maturity securities		**–**	10,000
Other current assets		**4,610,669**	4,036,700
		24,366,854	20,759,942
Total assets		**245,437,040**	235,644,584

At 30 June 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Current liabilities			
Air traffic liabilities		**(7,838,481)**	(7,405,757)
Accounts payable	17	**(14,657,658)**	(13,254,188)
Dividends payable		**(1,669,918)**	–
Other payables and accruals	18	**(11,282,588)**	(13,336,701)
Current taxation		**(605,838)**	(1,825,063)
Obligations under finance leases	19	**(6,635,100)**	(6,237,472)
Interest-bearing bank loans and other borrowings	20	**(31,861,987)**	(28,654,599)
Provision for major overhauls		**(1,634,852)**	(1,418,055)
Contract liabilities		**(867,175)**	–
		(77,053,597)	(72,131,835)
Net current liabilities		**(52,686,743)**	(51,371,893)
Total assets less current liabilities		**168,383,443**	163,512,749
Non-current liabilities			
Obligations under finance leases	19	**(38,148,441)**	(37,798,582)
Interest-bearing bank loans and other borrowings	20	**(22,345,904)**	(22,108,289)
Provision for major overhauls		**(3,992,228)**	(3,586,943)
Provision for early retirement benefit obligations		**(4,089)**	(4,869)
Long-term payables		**(216,985)**	(193,712)
Defined benefit obligations		**(263,424)**	(263,575)
Contract liabilities		**(3,153,516)**	–
Deferred income		**(741,152)**	(3,568,127)
Deferred tax liabilities		**(954,850)**	(1,130,054)
		(69,820,589)	(68,654,151)
NET ASSETS		**98,562,854**	94,858,598

At 30 June 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
CAPITAL AND RESERVES			
Issued capital	21	**14,524,815**	14,524,815
Treasury shares	22	**(3,047,564)**	(3,047,564)
Reserves		**77,974,533**	74,570,311
Total equity attributable to equity shareholders of the Company		**89,451,784**	86,047,562
Non-controlling interests		**9,111,070**	8,811,036
TOTAL EQUITY		**98,562,854**	94,858,598

For the six months ended 30 June 2018

	Note	Attributable to equity shareholders of the Company									
		Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2017 (Audited)		**14,524,815**	**(3,047,564)**	**29,725,260**	**9,177,905**	**69,742**	**(2,711,954)**	**38,309,358**	**86,047,562**	**8,811,036**	**94,858,598**
Adjustments (see note 3)		**–**	**–**	**(197,684)**	**–**	**–**	**–**	**702,221**	**504,537**	**18,056**	**522,593**
As at 1 January 2018 (Restated)		**14,524,815**	**(3,047,564)**	**29,527,576**	**9,177,905**	**69,742**	**(2,711,954)**	**39,011,579**	**86,552,099**	**8,829,092**	**95,381,191**
Changes in equity for the six months ended 30 June 2018											
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**3,476,157**	**3,476,157**	**428,341**	**3,904,498**
Other comprehensive income		**–**	**–**	**926,594**	**–**	**–**	**166,852**	**–**	**1,093,446**	**765**	**1,094,211**
Total comprehensive income		**–**	**–**	**926,594**	**–**	**–**	**166,852**	**3,476,157**	**4,569,603**	**429,106**	**4,998,709**
Appropriation of discretionary reserve funds		**–**	**–**	**–**	**695,805**	**–**	**–**	**(695,805)**	**–**	**–**	**–**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(147,128)**	**(147,128)**
Dividends declared in respect of the previous year	9	**–**	**–**	**–**	**–**	**–**	**–**	**(1,669,918)**	**(1,669,918)**	**–**	**(1,669,918)**
As at 30 June 2018 (Unaudited)		**14,524,815**	**(3,047,564)**	**30,454,170**	**9,873,710**	**69,742**	**(2,545,102)**	**40,122,013**	**89,451,784**	**9,111,070**	**98,562,854**
As at 1 January 2017		13,084,751	(3,047,564)	18,183,216	7,829,643	66,709	(1,300,075)	33,982,575	68,799,255	7,597,144	76,396,399
Changes in equity for the six months ended 30 June 2017											
Profit for the period		–	–	–	–	–	–	3,340,730	3,340,730	580,053	3,920,783
Other comprehensive (expense) income		–	–	(106,023)	–	–	(617,936)	–	(723,959)	16,732	(707,227)
Total comprehensive (expense) income		–	–	(106,023)	–	–	(617,936)	3,340,730	2,616,771	596,785	3,213,556
Non-public offering of shares		1,440,064	–	9,778,036	–	–	–	–	11,218,100	–	11,218,100
Transaction costs related to non-public offering of shares		–	–	(16,726)	–	–	–	–	(16,726)	–	(16,726)
Appropriation of discretionary reserve funds		–	–	–	652,457	–	–	(652,457)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(176,120)	(176,120)
Dividends declared in respect of the previous year	9	–	–	–	–	–	–	(1,564,468)	(1,564,468)	–	(1,564,468)
As at 30 June 2017 (Unaudited)		14,524,815	(3,047,564)	27,838,503	8,482,100	66,709	(1,918,011)	35,106,380	81,052,932	8,017,809	89,070,741

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Operating activities		
Cash generated from operations	**15,774,727**	12,226,201
Income tax paid	**(2,579,805)**	(1,618,499)
Interest paid	**(1,482,920)**	(1,520,901)
Net cash generated from operating activities	**11,712,002**	9,086,801
Investing activities		
Payment for the purchase of property, plant and equipment	**(3,406,995)**	(1,990,708)
Increase in advance payments for aircraft and flight equipment	**(5,731,019)**	(5,806,355)
Proceeds from sale of property, plant and equipment and held-for-sale assets	**304,998**	2,429,830
Purchases of		
– financial assets at fair value through profit or loss	**(248,000)**	(19,938)
– debt instruments at fair value through other comprehensive income	**(330,846)**	–
Proceeds from disposal of		
– financial assets at fair value through profit or loss	**585,490**	–
– debt instruments at fair value through other comprehensive income	**93,674**	–
Disposal of investment in an associate	**161,894**	–
Dividends received from joint ventures and associates	**264,007**	161,680
Cash flows arising from other investing activities	**(143,802)**	40,890
Net cash used in investing activities	**(8,450,599)**	(5,184,601)
Financing activities		
Proceeds from issuance of shares	**–**	11,218,100
Payment of transaction costs attributable to issuance of shares	**–**	(16,726)
New bank loans and other loans	**16,268,570**	16,904,831
Proceeds from issuance of corporate bonds	**3,500,000**	–
Repayment of bank loans and other loans	**(15,235,046)**	(22,103,773)
Repayment of corporate bonds	**(1,200,000)**	(2,347,438)
Repayment of principal under finance leases	**(3,066,487)**	(3,033,094)
Dividends paid	**(147,128)**	(176,120)
Net cash generated from financing activities	**119,909**	445,780
Net increase in cash and cash equivalents	**3,381,312**	4,347,980
Cash and cash equivalents at 1 January	**5,562,907**	6,848,018
Effect of foreign exchanges rates changes	**16,285**	(60,728)
Cash and cash equivalents at 30 June	**8,960,504**	11,135,270

1. CORPORATE INFORMATION

Air China Limited (the "Company") was established as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on The Stock Exchange of Hong Kong Limited (the "HKSE") and the London Stock Exchange (the "LSE") while the Company's A shares are listed on the Shanghai Stock Exchange. In the opinion of the directors of the Company (the "Directors"), the Company's parent and ultimate holding company is China National Aviation Holding Corporation Limited ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council.

The principal activities of the Company and its subsidiaries (together referred to as the "Group") are provision of airline and airline-related services, including aircraft engineering services and airport ground handling services.

The registered office of the Company is located at Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which most of the group entities operate (the functional currency of the Company and most of the entities comprising the Group), and all values are rounded to the nearest thousand ('000) unless otherwise indicated.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34") issued by the International Accounting Standards Board (the "IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately RMB52,687 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB121,075 million as at 30 June 2018, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing these condensed consolidated financial statements for the six months ended 30 June 2018. Accordingly, these condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual periods beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC – 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which resulted in changes in accounting policies, amounts reported and disclosures as described below.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Air traffic revenue
- Revenue from airline-related services
- Sale of goods

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability, also together with air traffic liability, represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Passenger ticket breakage

Passenger ticket breakage consists of flight tickets that remain unused past the departure date or the ultimate expiration date. Prior to the adoption of IFRS 15, revenue of the Group arising from passenger ticket breakage was recognised when the likelihood of the passenger exercising their remaining rights becomes remote.

Upon adoption of IFRS 15, for those passenger flight tickets the Group expects to be entitled to breakage because the passenger has not required the Group to perform and is unlikely to do so, the Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue). This estimation is made such that the revenue recognised from passenger ticket breakage is highly probable not to result in a significant reversal of cumulative revenue in the future.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**Carrying amounts under IFRS 15 at 1 January 2018 RMB'000**
Non-current assets					
Interests in associates	b	14,199,540	–	131,109	**14,330,649**
Non-current liabilities					
Contract liabilities	c	–	(2,822,657)	–	**(2,822,657)**
Deferred income	c	(3,568,127)	2,822,657	–	**(745,470)**
Current liabilities					
Air traffic liabilities	a	(7,405,757)	–	531,393	**(6,874,364)**
Other payables and accruals	a, c, d	(13,336,701)	1,225,519	(17,303)	**(12,128,485)**
Current taxation	a	(1,825,063)	–	(122,606)	**(1,947,669)**
Contract liabilities	c, d	–	(1,225,519)	–	**(1,225,519)**
Capital and reserves					
Reserves	a, b	74,570,311	–	504,537	**75,074,848**
Non-controlling interests	a	8,811,036	–	18,056	**8,829,092**

Notes:

(a) At the date of initial application of IFRS 15, passenger ticket breakage of RMB531 million, the respective value-added tax liability of RMB17 million and current taxation of RMB123 million were recognised with the corresponding adjustments of RMB373 million and RMB18 million made to retained earnings and non-controlling interests.

(b) The net effects arising from the initial application of IFRS 15 resulted in an increase in the carrying amount of interests in associates of RMB131 million with a corresponding adjustment made to retained earnings.

(c) At the date of initial application of IFRS 15, deferred income (including current portion of RMB707 million previously included in other payables and accruals and non-current portion of RMB2,823 million) relating to the frequent-flyer programme of RMB3,530 million was reclassified to contract liabilities.

(d) At the date of initial application of IFRS 15, advance billings to customers for aircraft engineering services of RMB519 million previously included in other payables and accruals was reclassified to contract liabilities.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15 (Continued)

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Non-current assets			
Interests in associates	15,352,023	(137,430)	15,214,593
Non-current liabilities			
Contract liabilities	(3,153,516)	3,153,516	–
Deferred income	(741,152)	(3,153,516)	(3,894,668)
Current liabilities			
Air traffic liabilities	(7,838,481)	(550,885)	(8,389,366)
Other payables and accruals	(11,282,588)	(845,138)	(12,127,726)
Current taxation	(605,838)	126,103	(479,735)
Contract liabilities	(867,175)	867,175	–
Capital and reserves			
Reserves	77,974,533	(522,119)	77,452,414
Non-controlling interests	9,111,070	(18,056)	9,093,014

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15 (Continued)

Impact on the condensed consolidated statement of profit or loss

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Revenue	64,242,322	(14,758)	64,227,564
Share of results of associates	77,487	(6,321)	71,166
Profit before taxation	5,006,051	(21,079)	4,984,972
Income tax expense	(1,101,553)	3,497	(1,098,056)
Profit for the period	3,904,498	(17,582)	3,886,916

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement.*

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of capital reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amount of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the capital reserve, and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivable, bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, financial assets included in other current assets and other non-current assets, and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable and bills receivable. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in capital reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Equity instruments at FVTOCI RMB'000	Debt instruments at FVTOCI RMB'000	Available-for-sale ("AFS") securities RMB'000	Financial assets at FVTPL RMB'000	Held-to-maturity securities RMB'000	Other current assets RMB'000	Prepayments, deposits and other receivables RMB'000	Capital reserve RMB'000	Retained earnings RMB'000
Closing balance at 31 December 2017-IAS 39		–	–	1,334,953	19,938	10,000	4,036,700	5,122,517	29,725,260	38,309,358
Effect arising from initial application of IFRS 9:										
Reclassification										
From AFS securities	a	299,992	654,961	(1,334,953)	380,000	–	–	–	–	–
From held-to-maturity securities	b	–	–	–	–	(10,000)	10,000	–	–	–
From other receivables	a	–	–	–	13,559	–	–	(13,559)	–	–
Impairment on AFS	a	–	–	–	–	–	–	–	(25,713)	25,713
Impact of interests in associates	a	–	–	–	–	–	–	–	(171,971)	171,971
Opening balance at 1 January 2018-IFRS 9		299,992	654,961	–	413,497	–	4,046,700	5,108,958	29,527,576	38,507,042

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) AFS investments

From AFS equity investments to FVTOCI

At the date of initial application of IFRS 9, approximately RMB300 million were reclassified from AFS securities to equity instruments at FVTOCI, of which RMB43 million related to unquoted equity investments previously measured at cost less impairment under IAS 39 and RMB257 million related to unlisted securities of a listed company previously measured at fair value under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. The fair value gains of RMB248 million relating to those investments previously carried at fair value continued to accumulate in capital reserve and non-controlling interests. In addition, impairment losses previously recognised of RMB26 million were transferred from retained earnings to capital reserve as at 1 January 2018.

From AFS debt investments to FVTOCI

Listed bonds with a fair value of RMB626 million and negotiable certificates of deposit with a fair value of RMB29 million were reclassified from AFS securities to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB5.04 million continued to accumulate in the capital reserve from 1 January 2018.

From AFS debt investments to FVTPL

Entrusted products and financing products with a fair value of RMB380 million were reclassified from AFS securities to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Interests receivable on these products of RMB14 million were reclassified from prepayments, deposits and other receivables to financial assets at FVTPL as well.

Impact of interests in associates

The net effect arising from the initial application of IFRS 9 by Cathay Pacific Airways Limited ("Cathay Pacific", an associate of the Group) resulted in an increase of RMB172 million in retained earnings with a corresponding adjustment to capital reserve.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(b) Held-to-maturity investments

Listed bonds of RMB10 million previously classified as held-to-maturity investments were reclassified to other current assets and measured at amortised cost upon application of IFRS 9.

(c) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and bills receivable. To measure the ECL, some receivables are assessed individually and others are grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise restricted bank deposits, cash and cash equivalents, deposits and other receivables, other current assets and other non-current assets, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are measured on lifetime ECL basis as their credit risk had increased significantly since initial recognition.

All of the Group's debt instruments at FVTOCI are listed bonds and negotiable certificates of deposit that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

Application of ECL model did not have any significant impact on retained earnings as at 1 January 2018.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
Non-current assets				
Property, plant and equipment	168,536,471	–	–	**168,536,471**
Lease prepayments	3,300,124	–	–	**3,300,124**
Investment properties	674,738	–	–	**674,738**
Intangible assets	76,021	–	–	**76,021**
Goodwill	1,099,975	–	–	**1,099,975**
Interests in associates	14,199,540	131,109	–	**14,330,649**
Interests in joint ventures	1,239,396	–	–	**1,239,396**
Advance payments for aircraft and flight equipment	20,480,204	–	–	**20,480,204**
Deposits for aircraft under operating leases	567,889	–	–	**567,889**
Available-for-sale securities	1,334,953	–	(1,334,953)	**–**
Equity instruments at fair value through other comprehensive income	–	–	299,992	**299,992**
Debt instruments at fair value through other comprehensive income	–	–	654,961	**654,961**
Deferred tax assets	2,501,518	–	–	**2,501,518**
Other non-current assets	873,813	–	–	**873,813**
	214,884,642	131,109	(380,000)	**214,635,751**

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
Current assets				
Non-current assets held for sale	284,169	–	–	**284,169**
Inventories	1,535,769	–	–	**1,535,769**
Accounts receivable	3,490,427	–	–	**3,490,427**
Bills receivable	348	–	–	**348**
Prepayments, deposits and other receivables	5,122,517	–	(13,559)	**5,108,958**
Financial assets at fair value through profit or loss	19,938	–	393,559	**413,497**
Restricted bank deposits	697,167	–	–	**697,167**
Cash and cash equivalents	5,562,907	–	–	**5,562,907**
Held-to-maturity securities	10,000	–	(10,000)	**–**
Other current assets	4,036,700	–	10,000	**4,046,700**
	20,759,942	–	380,000	**21,139,942**
Total assets	235,644,584	131,109	–	**235,775,693**
Current liabilities				
Air traffic liabilities	(7,405,757)	531,393	–	**(6,874,364)**
Accounts payable	(13,254,188)	–	–	**(13,254,188)**
Other payables and accruals	(13,336,701)	1,208,216	–	**(12,128,485)**
Current taxation	(1,825,063)	(122,606)	–	**(1,947,669)**
Obligations under finance leases	(6,237,472)	–	–	**(6,237,472)**
Interest-bearing bank loans and other borrowings	(28,654,599)	–	–	**(28,654,599)**
Provision for major overhauls	(1,418,055)	–	–	**(1,418,055)**
Contract liabilities	–	(1,225,519)	–	**(1,225,519)**
	(72,131,835)	391,484	–	**(71,740,351)**
Net current liabilities	(51,371,893)	391,484	380,000	**(50,600,409)**
Total assets less current liabilities	163,512,749	522,593	–	**164,035,342**

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
Non-current liabilities				
Obligations under finance leases	(37,798,582)	–	–	**(37,798,582)**
Interest-bearing bank loans and other borrowings	(22,108,289)	–	–	**(22,108,289)**
Provision for major overhauls	(3,586,943)	–	–	**(3,586,943)**
Provision for early retirement benefit obligations	(4,869)	–	–	**(4,869)**
Long-term payables	(193,712)	–	–	**(193,712)**
Defined benefit obligations	(263,575)	–	–	**(263,575)**
Contract liabilities	–	(2,822,657)	–	**(2,822,657)**
Deferred income	(3,568,127)	2,822,657	–	**(745,470)**
Deferred tax liabilities	(1,130,054)	–	–	**(1,130,054)**
	(68,654,151)	–	–	**(68,654,151)**
NET ASSETS	94,858,598	522,593	–	**95,381,191**
CAPITAL AND RESERVES				
Issued capital	14,524,815	–	–	**14,524,815**
Treasury shares	(3,047,564)	–	–	**(3,047,564)**
Reserves	74,570,311	504,537	–	**75,074,848**
Total equity attributable to equity shareholders of the Company	86,047,562	504,537	–	**86,552,099**
Non-controlling interests	8,811,036	18,056	–	**8,829,092**
TOTAL EQUITY	94,858,598	522,593	–	**95,381,191**

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.4 New key source of estimation uncertainty

The Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. This estimation is made such that the revenue recognised from passenger ticket breakage is highly probable not to result in a significant reversal of cumulative revenue in the future. As at 30 June 2018, the carrying amount of air traffic liabilities was RMB7,838 million.

4A. REVENUE

	Six months ended 30 June 2018 RMB'000 (Unaudited)
Revenue from contracts with customers for goods or services	**64,130,789**
Rental income (included in revenue of airline operations segment)	**111,533**
Total	**64,242,322**

4A. REVENUE (Continued)

Disaggregation of revenue from contracts with customers for goods or services

	Six months ended 30 June 2018	
Segments	Airline operations RMB'000 (Unaudited)	Other operations RMB'000 (Unaudited)
Type of goods or services		
Airline operations		
Passenger	56,893,930	–
Cargo and mail	5,074,687	–
Ground service income	478,686	–
Others	1,023,959	–
	63,471,262	–
Other operations		
Aircraft engineering income	–	569,539
Import and export service income	–	39,788
Others	–	50,200
	–	659,527
Total	63,471,262	659,527

4A. REVENUE (Continued)

Disaggregation of revenue from contracts with customers for goods or services (Continued)

Segments	Six months ended 30 June 2018 Airline operations RMB'000 (Unaudited)	Other operations RMB'000 (Unaudited)
Geographical markets		
Mainland China	40,780,426	659,527
Hong Kong, Macau and Taiwan	2,863,411	–
Europe	6,278,529	–
North America	5,171,763	–
Japan and Korea	3,469,931	–
Asia Pacific and others	4,907,202	–
Total	63,471,262	659,527
Timing of revenue recognition		
A point in time	63,443,677	659,527
Over time	27,585	–
Total	63,471,262	659,527

4B. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. The Group has the following reportable operating segments:

(a) the "airline operations" segment which mainly comprises the provision of air passenger and air cargo services; and

(b) the "other operations" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

In determining the Group's geographical information, revenue is attributed to the segments based on the origin and destination of each flight. Assets, which consist principally of aircraft and ground equipment, supporting the Group's worldwide transportation network, are mainly registered/located in Mainland China. An analysis of the assets of the Group by geographical distribution has therefore not been included.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the six months ended 30 June 2018 and 2017 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

4B. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2018

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	**63,582,795**	**659,527**	**–**	**64,242,322**
Intersegment sales	**99,649**	**3,651,791**	**(3,751,440)**	**–**
Revenue for reportable segments under CASs and IFRSs	**63,682,444**	**4,311,318**	**(3,751,440)**	**64,242,322**
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	**4,776,241**	**277,396**	**(57,770)**	**4,995,867**
Effect of differences between IFRSs and CASs				**10,184**
Profit before taxation for the period under IFRSs				**5,006,051**

For the six months ended 30 June 2017

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	56,882,475	498,143	–	57,380,618
Intersegment sales	82,804	3,766,046	(3,848,850)	–
Revenue for reportable segments under CASs and IFRSs	56,965,279	4,264,189	(3,848,850)	57,380,618
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	5,117,946	49,997	(13,186)	5,154,757
Effect of differences between IFRSs and CASs				19,080
Profit before taxation for the period under IFRSs				5,173,837

4B. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2018 and 31 December 2017 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 30 June 2018 under CASs (unaudited)	**238,450,420**	**20,624,206**	**(13,571,992)**	**245,502,634**
Effect of differences between IFRSs and CASs				**(65,594)**
Total assets as at 30 June 2018 under IFRSs (unaudited)				**245,437,040**
Total assets for reportable segments as at 31 December 2017 under CASs (audited)	228,104,759	19,166,617	(11,553,560)	235,717,816
Effect of differences between IFRSs and CASs				(73,232)
Total assets as at 31 December 2017 under IFRSs (audited)				235,644,584

4B. SEGMENT INFORMATION (Continued)

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2018 and 2017, respectively:

For the six months ended 30 June 2018

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	**41,551,486**	**2,863,411**	**6,278,529**	**5,171,763**	**3,469,931**	**4,907,202**	**64,242,322**

For the six months ended 30 June 2017

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	37,531,316	2,557,381	5,534,033	4,751,018	2,894,483	4,112,387	57,380,618

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**1,679,916**	1,282,931
Dividend income	**2,053**	11,763
Gain (loss) on disposal of		
– Interest in an associate	**161,894**	–
– Property, plant and equipment	**72,184**	(2,194)
Net gain arising on financial assets measured at fair value through profit or loss	**2,058**	89
Others	**54,655**	73,265
	1,972,760	1,365,854

Note: Certain air traffic revenue in the comparative figure was reclassified to government grants to conform with the presentation in this period in respect of subsidies granted by various local governments controlled parties to encourage the Group to operate certain routes to cities where these governments are located.

6. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**6,939,392**	6,469,650
Depreciation of investment properties	**31,786**	14,756
Amortisation of lease prepayments	**34,495**	34,311
Amortisation of intangible assets	**19,404**	19,457
Impairment losses, net of reversal	**(183,337)**	6,479
Operating lease expenses:		
– Aircraft and related equipment	**3,503,772**	3,675,180
– Land and buildings and others	**572,748**	481,165

7. FINANCE COSTS

An analysis of the Group's finance costs during the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings and finance leases	**1,671,149**	1,794,159
Less: Interest capitalised	**(301,004)**	(201,749)
	1,370,145	1,592,410

The interest capitalisation rates during the period range from 2.67% to 4.57% per annum (six months ended 30 June 2017: 3.09% to 3.92% per annum) relating to the costs of related borrowings during the period.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	**1,345,774**	1,906,068
– Hong Kong and Macau	**18,173**	–
Over – provision in respect of prior years	**(3,367)**	(5,473)
Deferred taxation	**(259,027)**	(647,541)
	1,101,553	1,253,054

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches and a subsidiary which are taxed at a preferential rate of 15% (six months ended 30 June 2017: 15%) during the current period, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2017: 25%) during the current period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2017: 16.5% and 12%), respectively.

In respect of majority of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for overseas airlines activities in the current and prior periods.

9. DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period

In accordance with the Company's articles of association, the profit after tax of the Company for the purpose of dividend distribution is based on the lesser of (i) the profit determined in accordance with CASs; and (ii) the profit determined in accordance with IFRSs.

The Directors decided not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved during the current interim period

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the current interim period, of RMB1.1497 per ten shares (including tax) (six months ended 30 June 2017: RMB1.0771 per ten shares (including tax))	**1,669,918**	1,564,468

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,476 million (six months ended 30 June 2017 (unaudited): RMB3,341 million) and the weighted average of 13,734,960,921 ordinary shares (six months ended 30 June 2017: 13,193,942,334 shares) in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding (Note 13).

The Group had no potential ordinary shares in issue during both periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired aircraft and flight equipment with an aggregate cost of RMB7,699 million (six months ended 30 June 2017: RMB5,031 million). Total property, plant and equipment with carrying amount of RMB123 million were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB1,620 million), resulting in a gain on disposal of RMB9 million (six months ended 30 June 2017: a loss on disposal of RMB2 million).

As at 30 June 2018, the Group's aircraft and flight equipment, buildings and machinery with an aggregate carrying amount of approximately RMB11,907 million (31 December 2017: RMB13,107 million) were pledged to secure certain bank loans of the Group.

The aggregate carrying amount of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB69,506 million (31 December 2017: RMB67,957 million). These aircraft were pledged under certain lease agreements of the Group.

As at 30 June 2018, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying amount of approximately RMB3,463 million (31 December 2017: RMB3,646 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2018.

12. LEASE PREPAYMENTS

The Group's lease prepayments in respect of land are located in Mainland China.

As at 30 June 2018, the Group's land use rights with an aggregate carrying amount of approximately RMB29 million (31 December 2017: RMB34 million) were pledged to secure certain bank loans of the Group.

As at 30 June 2018, the Group had title certificates for all the land acquired. As at 31 December 2017, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate carrying amount of approximately RMB48 million.

13. INTERESTS IN ASSOCIATES

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Share of net assets		
– Listed shares in the PRC	**845,822**	820,269
– Listed shares in Hong Kong	**10,065,844**	9,097,056
– Unlisted investments	**1,854,690**	1,743,985
Goodwill	**2,605,477**	2,585,072
	15,371,833	14,246,382
Less: impairment	**(19,810)**	(46,842)
	15,352,023	14,199,540
Market value of listed shares	**13,252,870**	13,097,468

Summarised financial information in respect of Cathay Pacific, the only individually material associate of the Group, and a reconciliation to the carrying amount in the condensed consolidated financial statements, are disclosed below. The summarised financial information below represents amounts shown in the associate's condensed financial statements prepared in accordance with IFRSs.

Cathay Pacific

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Gross amounts of the associate's		
Current assets	**25,914,365**	27,447,105
Non-current assets	**130,838,160**	130,019,949
Current liabilities	**(38,426,812)**	(34,504,693)
Non-current liabilities	**(63,326,084)**	(71,744,483)
Equity	**54,999,629**	51,217,878
– Equity attributable to equity shareholders of the associate	**54,848,714**	51,074,937
– Equity attributable to NCI of the associate	**150,915**	142,941

13. INTERESTS IN ASSOCIATES (Continued)

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Revenue	**44,559,246**	40,410,757
Loss for the period	**(62,963)**	(1,807,372)
Other comprehensive income (expense)	**3,176,687**	(208,848)
Total comprehensive income (expense)	**3,113,724**	(2,016,220)
Dividend received from the associate	**49,513**	–

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**54,848,714**	51,074,937
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**16,449,129**	15,317,374
Elimination of reciprocal shareholding	**(6,383,289)**	(6,220,319)
Goodwill	**2,392,692**	2,372,287
Carrying amount	**12,458,532**	11,469,342

Aggregate information of associates that are not individually material

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Aggregate carrying amounts of individually immaterial associates in the condensed consolidated financial statements	**2,893,491**	2,730,198

13. INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material (Continued)

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Aggregate amounts of the Group's share of those associates'		
– Profit for the period	**234,361**	151,572
– Other comprehensive (expense) income for the period	**(1,107)**	21,870
Total comprehensive income for the period	**233,254**	173,442

14. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

The ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date, net of provision for impairment, is as follows:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within 30 days	**3,116,867**	2,743,074
31 to 60 days	**683,111**	463,564
61 to 90 days	**210,115**	100,562
Over 90 days	**595,728**	183,227
	4,605,821	3,490,427

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period, net of provision for impairment, is as follows:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Manufacturers' credits	**802,687**	732,563
Prepaid aircraft operating lease rentals	**610,273**	611,984
Prepaid for jet fuel	**115,993**	2,000,376
Other prepayments	**406,299**	500,902
	1,935,252	3,845,825
Deposits and other receivables	**1,377,897**	1,276,692
	3,313,149	5,122,517

As at 30 June 2018, the gross amounts due from Shenzhen Huirun Investment Co., Ltd. ("Huirun") and Shenzhen Airlines Property Development Co., Ltd. and its subsidiaries were RMB885,547,000 (31 December 2017: RMB1,075,182,000) and RMB649,486,000 (31 December 2017: RMB649,486,000), respectively, for which full provision had been made.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Financing products	**83,632**	–
Money market fund	**–**	19,938
	83,632	19,938

17. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable, based on the transaction date, as at the end of the reporting period is as follows:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within 30 days	**7,213,461**	5,605,426
31 to 60 days	**1,421,845**	1,880,067
61 to 90 days	**1,252,239**	1,395,745
Over 90 days	**4,770,113**	4,372,950
	14,657,658	13,254,188

18. OTHER PAYABLES AND ACCRUALS

An analysis of other payables and accruals as at the end of the reporting period is as follows:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Accrued salaries, wages and benefits	**2,754,012**	2,643,064
Receipts in advance for employee residence	**203,795**	609,260
Accrued operating expenses	**409,863**	514,850
Other taxes payable	**368,660**	536,190
Deposits received from sales agents	**1,050,590**	887,690
Due to a non-controlling shareholder of a subsidiary	**100,000**	100,000
Interest payable	**784,809**	610,089
Current portion of deferred income related to the frequent-flyer programme	**–**	707,106
Current portion of deferred income related to government grants	**32,907**	32,907
Current portion of long-term payables	**18,864**	8,393
Deposits received by China National Aviation Finance Co., Ltd. ("CNAF"), a subsidiary of the Company, from related parties	**2,078,286**	3,137,574
Others	**3,480,802**	3,549,578
	11,282,588	13,336,701

19. OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under finance lease agreements expiring during the years from 2018 to 2030 (31 December 2017: 2018 to 2029) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the minimum lease payments which are principally denominated in foreign currencies, is as follows:

	At 30 June 2018		At 31 December 2017	
	Minimum lease payments RMB'000 (Unaudited)	**Present values of minimum lease payments RMB'000 (Unaudited)**	Minimum lease payments RMB'000 (Audited)	Present values of minimum lease payments RMB'000 (Audited)
Amounts repayable				
– Within 1 year	**7,864,322**	**6,635,100**	7,352,188	6,237,472
– After 1 year but within 2 years	**6,876,975**	**5,805,690**	6,453,959	5,543,525
– After 2 years but within 5 years	**18,287,035**	**16,078,574**	17,297,727	15,355,311
– After 5 years	**17,262,063**	**16,264,177**	18,104,668	16,899,746
Total minimum finance lease payments	**50,290,395**	**44,783,541**	49,208,542	44,036,054
Less: Amounts representing finance costs	**(5,506,854)**		(5,172,488)	
Present values of minimum lease payments	**44,783,541**		44,036,054	
Less: Portion classified as current liabilities	**(6,635,100)**		(6,237,472)	
Non-current portion	**38,148,441**		37,798,582	

The Group's finance leases were secured by the Group's aircraft with net carrying amount of approximately RMB69,506 million (31 December 2017: RMB67,957 million) (Note 11).

At 30 June 2018, the obligations under finance leases of the Group with an aggregate amount of US$265 million (equivalent to RMB1,754 million) (31 December 2017: US$279 million (equivalent to RMB1,821 million)) were guaranteed by Cathay Pacific, an associate of the Group.

Under the terms of the finance lease agreements, the Group has the option to purchase these aircraft at the end of or during the lease term, at market value or at the price as stipulated in the finance lease agreements.

20. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Bank loans:		
– Secured	**6,687,243**	7,649,748
– Unsecured	**25,071,219**	22,963,837
	31,758,462	30,613,585
Corporate bonds:		
– Secured	**10,000,000**	10,000,000
– Unsecured	**12,449,429**	10,149,303
	22,449,429	20,149,303
	54,207,891	50,762,888

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Bank loans repayable:		
– Within 1 year	**25,212,558**	23,005,296
– After 1 year but within 2 years	**3,193,647**	3,441,120
– After 2 years but within 5 years	**2,713,713**	3,183,086
– After 5 years	**638,544**	984,083
	31,758,462	30,613,585
Corporate bonds repayable:		
– Within 1 year	**6,649,429**	5,649,303
– After 1 year but within 2 years	**4,000,000**	4,000,000
– After 2 years but within 5 years	**10,300,000**	4,000,000
– After 5 years	**1,500,000**	6,500,000
	22,449,429	20,149,303
Total interest-bearing bank loans and other borrowings	**54,207,891**	50,762,888
Less: Portion classified as current liabilities	**(31,861,987)**	(28,654,599)
Non-current portion	**22,345,904**	22,108,289

20. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

As at 30 June 2018, the interest rates of the Group's bank loans and other loans ranged from 1.45% to 6.00% (31 December 2017: 0.00% to 5.40%) per annum.

As at 30 June 2018, the interest rates of the Group's corporate bonds ranged from 2.84% to 5.30% (31 December 2017: 2.84% to 5.30%) per annum.

The Group's bank loans and corporate bonds of approximately RMB16,687 million as at 30 June 2018 (31 December 2017: RMB17,650 million) were secured by:

(a) Mortgages pledges over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate carrying amount of approximately RMB11,907 million as at 30 June 2018 (31 December 2017: RMB13,107 million) (Note 11); and land use rights with an aggregate carrying amount of approximately RMB29 million as at 30 June 2018 (31 December 2017: RMB34 million) (Note 12);

(b) As at 30 June 2018, bank loans of the Group with an aggregate amount of US$88 million (equivalent to RMB582 million) were guaranteed by an associate of the Group (31 December 2017: US$117 million (equivalent to RMB765 million)); and

(c) As at 30 June 2018, corporate bonds issued by the Group with a face value of RMB10,000 million (31 December 2017: RMB10,000 million) were guaranteed by CNAHC.

As at 30 June 2018, corporate bonds with carrying amount of RMB4,499 million (31 December 2017: RMB2,198 million) were issued by Shenzhen Airlines Company Limited ("Shenzhen Airlines"), a subsidiary of the Company.

21. ISSUED CAPITAL

The numbers of shares of the Company and their nominal values as at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018		31 December 2017	
	Number of shares	**Nominal value RMB'000 (Unaudited)**	Number of shares	Nominal value RMB'000 (Audited)
Registered, issued and fully paid:				
– H shares of RMB1.00 each:				
Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
– A shares of RMB1.00 each:				
Tradable	**9,448,653,003**	**9,448,653**	8,522,067,640	8,522,068
Trade-restricted	**513,478,818**	**513,479**	1,440,064,181	1,440,064
	14,524,815,185	**14,524,815**	14,524,815,185	14,524,815

22. TREASURY SHARES

As at 30 June 2018, the Group owned a 29.99% (31 December 2017: 29.99%) equity interest in Cathay Pacific, which in turn owned a 18.13% (31 December 2017: 18.13%) equity interest in the Company. Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's condensed consolidated financial statements as treasury shares through deduction from equity.

23. CONTINGENT LIABILITIES

As at 30 June 2018, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

(b) In May 2011, Shenzhen Airlines received a summons issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loans borrowed by Huirun. The Directors consider that the provision of RMB130,000,000 which was provided in prior years in respect of this legal claim is adequate.

(c) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 30 June 2018, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB40,143,000 (31 December 2017: RMB53,865,000) and for pilot trainees' tuition loans amounting to RMB161,000 (31 December 2017: RMB172,000). The Directors consider that the fair value of these guarantees are insignificant.

24. FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2018	Fair value measurements as at 30 June 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Financial assets at fair value through profit or loss	**83,632**	**–**	**83,632**	**–**
Debt instruments at fair value through other comprehensive income	**898,151**	**396,308**	**501,843**	**–**
Equity instruments at fair value through other comprehensive income	**288,790**	**–**	**–**	**288,790**
Total financial assets at fair value	**1,270,573**	**396,308**	**585,475**	**288,790**

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Financial assets:				
– Money market fund	19,938	19,938	–	–
Available-for-sale equity securities	257,267	–	–	257,267
Available-for-sale debt securities	1,034,961	354,202	680,759	–
Total financial assets at fair value	1,312,166	374,140	680,759	257,267

24. FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of debt instruments at fair value through other comprehensive income and financial assets at fair value through profit or loss were estimated by reference to the quoted prices in a non-active market.

(iii) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of equity instruments at fair value through other comprehensive income was mainly estimated by reference to the quoted prices in an active market with an adjustment of discount for lack of marketability.

(b) Fair values of financial assets and liabilities carried at other than fair value

Except as detailed in the following table, the Directors consider that the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017.

	Carrying amounts		Fair values	
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited)
Financial liabilities				
– Corporate bonds (fixed rate)	**20,250,370**	18,949,853	**19,396,765**	18,231,547

24. FINANCIAL INSTRUMENTS (Continued)

(b) Fair values of financial assets and liabilities carried at other than fair value (Continued)

Fair value hierarchy as at 30 June 2018

	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Financial liabilities				
Corporate bonds (fixed rate)	**–**	**19,396,765**	**–**	**19,396,765**

Fair value hierarchy as at 31 December 2017

	Level 1 RMB'000 (Audited)	Level 2 RMB'000 (Audited)	Level 3 RMB'000 (Audited)	Total RMB'000 (Audited)
Financial liabilities				
Corporate bonds (fixed rate)	–	18,231,547	–	18,231,547

25. COMMITMENTS

(a) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
– Aircraft and flight equipment	**71,313,947**	77,130,746
– Buildings and others	**876,993**	611,254
Total capital commitments	**72,190,940**	77,742,000

25. COMMITMENTS (Continued)

(b) Investment commitments

The Group had the following amounts of investment commitments as at the end of the reporting period:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
– investment commitment to a joint venture	**23,158**	22,870
– investment commitment to an associate	**35,000**	35,000

(c) Operating lease commitments

The Group leases certain office premises, aircraft and flight equipment under operating lease arrangements.

At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within 1 year	**7,096,154**	6,990,927
After 1 year but within 5 years	**22,790,393**	22,778,784
Over 5 years	**19,677,912**	21,621,602
	49,564,459	51,391,313

26. RELATED PARTY TRANSACTIONS

(a) **During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures and its associates:**

(i) **Transactions with related parties**

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Service provided to the CNAHC Group		
Sales commission income	4,321	4,780
Sale of cargo space	26,187	31,820
Government charter flights	178,332	218,235
Air catering income	8,192	8,031
Ground services income	3,830	1,425
Income from advertising media business	7,155	7,146
Others	28,120	2,573
	256,137	274,010
Service provided by the CNAHC Group		
Sales commission expenses	627	693
Air catering charges	557,536	529,783
Airport ground services, take-off landing and depot expenses	485,658	378,521
Management fees	70,929	55,072
Aircraft and flight equipment leasing payments	16,459	15,781
Lease charges for land and buildings	74,365	74,675
Other procurement and maintenance	60,186	52,927
Aviation communication expenses	286,211	277,150
Interest expenses	–	3,975
Media advertisement expenses	80,016	62,527
Others	19,693	27,805
	1,651,680	1,478,909

26. RELATED PARTY TRANSACTIONS (Continued)

(a) **During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures and its associates:**(Continued)

(i) **Transactions with related parties** (Continued)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loans to the CNAHC Group by CNAF		
Net repayment of loans	**215,000**	–
Interest income	**21,203**	20,458
Deposits from the CNAHC Group received by CNAF		
Decrease in deposits received	**1,055,655**	290,126
Interest expenses	**16,755**	28,478
Service provided to joint ventures and associates		
Sales commission income	**19,964**	8,307
Aircraft maintenance income	**42,585**	39,462
Air catering income	**2,224**	1,605
Ground services income	**68,896**	71,803
Frequent-flyer programme income	**22,835**	18,383
Others	**1,878**	1,181
	158,382	140,741

26. RELATED PARTY TRANSACTIONS (Continued)

(a) **During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures and its associates:**(Continued)

(i) **Transactions with related parties** (Continued)

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Service provided by joint ventures and associates		
Sales commission expenses	**2,442**	4,184
Air catering charges	**3,129**	13,271
Airport ground services, take-off, landing and depot expenses	**241,232**	217,201
Repair and maintenance costs	**439,825**	349,518
Aircraft and flight equipment leasing fees	**28**	89,753
Other procurement and maintenance	**42,039**	1,080
Aviation communication expenses	**2,987**	25,151
Interest expenses	**10,780**	–
Airline joint operation expenses	**16,575**	11,624
Frequent-flyer programme expenses	**2,072**	966
Others	**472**	–
	761,581	712,748
Loans to joint ventures and associates by CNAF		
Net repayment of loans	**14,800**	14,800
Interest income	**4,779**	5,344
Deposits from joint ventures and associates received by CNAF		
Decrease in deposits received	**10,633**	183,052
Interest expenses	**8**	189

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

Part of the related transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

26. RELATED PARTY TRANSACTIONS (Continued)

(a) **During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures and its associates:**(Continued)

(ii) **Balances with related parties**

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**314,101**	134,444
Amounts due from associates	**450,066**	203,112
Amounts due from joint ventures	**3,995**	66
Amounts due from other related companies	**47,999**	14,602
Amount due to the ultimate holding company	**71,798**	76,934
Amounts due to associates	**320,228**	577,452
Amounts due to joint ventures	**307,731**	237,999
Amounts due to other related companies	**2,120,543**	810,195

* Outstanding balances with related parties exclude borrowing balances with related parties and outstanding balances between CNAF and related parties.

The above outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

26. RELATED PARTY TRANSACTIONS (Continued)

(a) During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures and its associates:(Continued)

(ii) Balances with related parties (Continued)

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Outstanding borrowing balances with related parties		
Interest-bearing bank loans and other borrowings		
– Due to an associate	**980,000**	980,000
Outstanding balances between CNAF and related parties		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**945,000**	1,160,000
Deposits received	**2,123,819**	3,179,474
Interest payable to related parties	**13,370**	11,362
Interest receivable from related parties	**1,101**	1,368
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**236,800**	251,600
Deposits received	**1,467**	12,100
Interest payable to related parties	**–**	2
Interest receivable from related parties	**264**	309

The outstanding balances between CNAF and related parties represent loans to related parties or deposits received by CNAF from related parties. The applicable interest rates are determined in accordance with the prevailing borrowing rates/deposit saving rates published by the People's Bank of China.

26. RELATED PARTY TRANSACTIONS (Continued)

(b) An analysis of the compensation of key management personnel of the Group is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**6,946**	4,832
Retirement scheme contributions	**684**	384
	7,630	5,216

The breakdown of emoluments for key management personal are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors and supervisors	**649**	541
Senior management	**6,981**	4,675
	7,630	5,216

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Guarantee with related parties

Amount of guaranty at 30 June 2018:

Name of guarantor	Name of guarantee	Amount of guaranty at 30 June 2018 USD'000 (Unaudited)	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo Co., Ltd.	43,813	15/05/2017	15/12/2025
Cathay Pacific	Air China Cargo Co., Ltd.	35,161	15/05/2017	11/03/2026
Cathay Pacific	Air China Cargo Co., Ltd.	9,481	15/05/2017	30/03/2026
Obligations under finance leases:				
Cathay Pacific	Air China Cargo Co., Ltd.	48,446	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo Co., Ltd.	49,960	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo Co., Ltd.	53,128	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo Co., Ltd.	56,827	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo Co., Ltd.	56,687	31/08/2015	30/08/2027

Name of guarantor	Name of guarantee	Amount of guaranty at 30 June 2018 RMB'000 (Unaudited)	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	3,500,000	16/08/2013	16/02/2019
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Guarantee with related parties (Continued)

Amount of guaranty at 31 December 2017:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2017 USD'000 (Audited)	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo Co., Ltd.	54,784	15/05/2017	15/12/2025
Cathay Pacific	Air China Cargo Co., Ltd.	45,574	15/05/2017	11/03/2026
Cathay Pacific	Air China Cargo Co., Ltd.	16,660	15/05/2017	30/03/2026
Obligations under finance leases:				
Cathay Pacific	Air China Cargo Co., Ltd.	51,151	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo Co., Ltd.	52,663	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo Co., Ltd.	55,902	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo Co., Ltd.	59,524	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo Co., Ltd.	59,409	31/08/2015	30/08/2027

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2017 RMB'000 (Audited)	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	3,500,000	16/08/2013	16/02/2019
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

26. RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with other government-related entities in the PRC

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

Apart from above transactions with CNAHC Group, the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

The transactions between the Group and other government-related entities are conducted in the ordinary course of the Group's business within normal business operations. The Group has established its approval process for providing of services, purchase of products, properties and services, purchase of lease service and its financing policy for borrowing. Such approval processes and financing policy do not depend on whether the counterparties are government-related entities or not.

27. EVENT AFTER THE REPORTING PERIOD

On 30 August 2018, the Company entered into an equity transfer agreement with China National Aviation Capital Holding Co., Ltd. ("Capital Holding", a subsidiary of CNAHC), pursuant to which, the Company has conditionally agreed to sell and Capital Holding has conditionally agreed to purchase 51% equity interests of Air China Cargo Co., Ltd., a subsidiary of the Company, at a consideration of RMB2,438,837,520 (the "Disposal"). Upon completion of the Disposal, Air China Cargo Co., Ltd. will cease to be a subsidiary of the Company. The Disposal is subject to the approval by the shareholders of the Company at an extraordinary general meeting.

28. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

CAPACITY MEASUREMENTS

"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
"available seat kilometres" or "ASK(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown
"Block hours"	each whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

TRAFFIC MEASUREMENTS

"passenger traffic"	measured in revenue passenger kilometres, unless otherwise specified
"revenue passenger kilometres" or "RPK(s)"	the number of revenue passengers carried multiplied by the kilometres flown
"cargo and mail traffic"	measured in revenue freight tonne kilometres, unless otherwise specified
"revenue freight tonne kilometres" or "RFTK(s)"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
"revenue tonne kilometres" or "RTK(s)"	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

LOAD FACTORS

"passenger load factor"	revenue passenger kilometres expressed as a percentage of available seat kilometres
"cargo and mail load factor"	revenue freight tonne kilometres expressed as a percentage of available freight tonne kilometres
"overall load factor"	revenue tonne kilometres expressed as a percentage of available tonne kilometres

YIELD MEASUREMENTS

"passenger yield"/"yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield"/"yield per RFTK"	revenues from cargo operations divided by RFTKs

In this interim report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd., a subsidiary of the Company
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd., a subsidiary of the Company
"Air Macau"	Air Macau Company Limited, a subsidiary of the Company
"AMECO"	Aircraft Maintenance and Engineering Corporation, a subsidiary of the Company
"Articles of Association"	the articles of association of the Company, as amended from time to time
"A Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
"Beijing Airlines"	Beijing Airlines Company Limited, a subsidiary of the Company
"Board"	the board of directors of the Company
"Capital Holding"	China National Aviation Capital Holding Co., Ltd., a wholly-owned subsidiary of CNAHC
"CASs"	China Accounting Standards for Business Enterprises
"Cathay Dragon"	Hong Kong Dragon Airlines Limited, a subsidiary of Cathay Pacific
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"CNACG"	China National Aviation Corporation (Group) Limited
"CNACG Group"	CNACG and its subsidiaries
"CNAF"	China National Aviation Finance Co., Ltd., a subsidiary of the Company
"CNAHC"	China National Aviation Holding Corporation Limited
"CNAHC Group"	CNAHC and its subsidiaries

"Company" or "Air China"	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited, a subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (as primary listing venue) and have been admitted into the Official List of the UK Listing Authority (as secondary listing venue)
"IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers
"Reporting Period"	from 1 January 2018 to 30 June 2018
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd., a subsidiary of Shandong Aviation Group Corporation
"Shandong Aviation Group Corporation"	Shandong Aviation Group Company Limited, an associate of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a subsidiary of the Company
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"US dollars"	United States dollars, the lawful currency of the United States

中国国际航空股份有限公司国内及地区航线
AIR CHINA'S DOMESTIC & REGIONAL ROUTES

注：扬州泰州共用同一机场
Note: The cities of Yangzhou and Taizhou share one airport.

截至2018年6月30日开航航线

中国国际航空股份有限公司国际航线
AIR CHINA'S INTERNATIONAL ROUTES