中國國際航空股份有限公司

AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00753)

2018 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

- During the Reporting Period, the Group recorded a revenue of RMB136,774 million with profit before tax of RMB9,977 million. The net profit attributable to equity shareholders of the Company was RMB7,351 million, representing a year-on-year increase of 1.47%.
- The Board recommends the payment of a cash dividend of RMB1.0328 (including tax) for every ten shares for the year 2018, totaling approximately RMB1,500 million based on the current total issued shares of 14,524,815,185 shares of the Company.

2018 ANNUAL RESULTS

The Board hereby announces the audited consolidated financial results of the Group for the year ended 31 December 2018 together with the corresponding comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	3	**136,774,403**	121,362,899
Other income and gains	5	**4,108,700**	2,663,303
		140,883,103	124,026,202
Operating expenses			
Jet fuel costs		**(38,481,303)**	(28,409,213)
Employee compensation costs		**(24,450,250)**	(22,392,361)
Depreciation and amortisation		**(14,503,676)**	(13,596,319)
Take-off, landing and depot charges		**(15,354,941)**	(13,863,338)
Aircraft and engine operating lease expenses		**(7,165,554)**	(7,310,649)
Aircraft maintenance, repair and overhaul costs		**(6,612,844)**	(6,213,096)
Air catering charges		**(3,787,134)**	(3,462,347)
Other operating lease expenses		**(1,117,478)**	(1,078,057)
Other flight operation expenses		**(9,419,344)**	(9,721,535)
Selling and marketing expenses		**(4,373,023)**	(4,496,533)
General and administrative expenses		**(1,535,617)**	(1,595,189)
Net impairment gains/(losses)		**264,392**	(131,853)
		(126,536,772)	(112,270,490)
Profit from operations	6	**14,346,331**	11,755,712
Finance income		**172,564**	223,746
Finance costs	7	**(2,914,097)**	(3,055,064)
Share of results of associates		**526,570**	(604,671)
Share of results of joint ventures		**222,226**	228,408
Exchange (loss)/gain, net		**(2,376,577)**	2,938,101
Profit before taxation		**9,977,017**	11,486,232
Income tax expense	8	**(1,762,146)**	(2,844,783)
Profit for the year		**8,214,871**	8,641,449
Attributable to:			
– Equity shareholders of the Company		**7,350,661**	7,244,321
– Non-controlling interests		**864,210**	1,397,128
Profit for the year		**8,214,871**	8,641,449
Earnings per share			
– Basic and diluted	9	**RMB53.52 cents**	**RMB53.79 cents**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**8,214,871**	8,641,449
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	**(31,921)**	–
– Income tax relating to items that will not be reclassified to profit or loss	**7,980**	–
– Remeasurement of net defined benefit liability	**(16,840)**	(13,301)
– Share of other comprehensive (expense) income of associates and joint ventures	**(73,364)**	180,538
Items that may be reclassified subsequently to profit or loss:		
– Fair value gains on:		
Available-for-sale securities	**–**	127,474
Investments in debt instruments measured at fair value through other comprehensive income	**18,878**	–
– Impairment assessment of investments in debt instruments measured at fair value through other comprehensive income	**6,827**	–
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(6,415)**	(31,869)
– Share of other comprehensive income of associates and joint ventures	**10,425**	1,561,413
– Exchange differences on translation of foreign operations	**999,423**	(1,454,550)
Other comprehensive income for the year (net of tax)	**914,993**	369,705
Total comprehensive income for the year	**9,129,864**	9,011,154
Attributable to:		
– Equity shareholders of the Company	**8,279,120**	7,613,176
– Non-controlling interests	**850,744**	1,397,978
Total comprehensive income for the year	**9,129,864**	9,011,154

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment		**171,662,659**	168,536,471
Lease prepayments		**2,599,058**	3,300,124
Investment properties		**650,786**	674,738
Intangible assets		**36,913**	76,021
Goodwill		**1,099,975**	1,099,975
Interests in associates		**15,253,744**	14,199,540
Interests in joint ventures		**1,427,063**	1,239,396
Advance payments for aircraft and flight equipment		**21,303,650**	20,480,204
Deposits for aircraft under operating leases		**613,346**	567,889
Available-for-sale securities		**–**	1,334,953
Equity instruments at fair value through other comprehensive income		**268,071**	–
Debt instruments at fair value through other comprehensive income		**1,040,419**	–
Deferred tax assets		**2,840,321**	2,501,518
Other non-current assets		**1,134,996**	873,813
		219,931,001	214,884,642
Current assets			
Non-current assets held for sale		**–**	284,169
Inventories		**1,877,494**	1,535,769
Accounts receivable	*11*	**5,373,972**	3,490,427
Bills receivable		**403**	348
Prepayments, deposits and other receivables		**4,220,036**	5,122,517
Financial assets at fair value through profit or loss		**–**	19,938
Restricted bank deposits		**1,044,389**	697,167
Cash and cash equivalents		**6,763,183**	5,562,907
Held-to-maturity securities		**–**	10,000
Other current assets		**4,446,630**	4,036,700
		23,726,107	20,759,942
Total assets		**243,657,108**	235,644,584

	NOTES	31 December 2018 RMB'000	31 December 2017 RMB'000
Current liabilities			
Air traffic liabilities		**(8,886,274)**	(7,405,757)
Accounts payable	*12*	**(14,726,428)**	(13,254,188)
Other payables and accruals		**(10,833,540)**	(12,737,976)
Current taxation		**(1,023,938)**	(1,825,063)
Obligations under finance leases		**(7,125,586)**	(6,344,699)
Interest-bearing bank loans and other borrowings		**(27,194,901)**	(29,146,097)
Provision for major overhauls		**(1,447,693)**	(1,418,055)
Contract liabilities		**(1,301,518)**	–
		(72,539,878)	(72,131,835)
Net current liabilities		**(48,813,771)**	(51,371,893)
Total assets less current liabilities		**171,117,230**	163,512,749
Non-current liabilities			
Obligations under finance leases		**(45,848,095)**	(37,798,582)
Interest-bearing bank loans and other borrowings		**(15,585,481)**	(22,108,289)
Provision for major overhauls		**(4,174,398)**	(3,586,943)
Provision for early retirement benefit obligations		**(3,105)**	(4,869)
Long-term payables		**(154,171)**	(193,712)
Contract liabilities		**(3,062,739)**	–
Defined benefit obligations		**(263,862)**	(263,575)
Deferred income		**(647,973)**	(3,568,127)
Deferred tax liabilities		**(879,372)**	(1,130,054)
		(70,619,196)	(68,654,151)
NET ASSETS		**100,498,034**	94,858,598
CAPITAL AND RESERVES			
Issued capital		**14,524,815**	14,524,815
Treasury shares		**(3,047,564)**	(3,047,564)
Reserves		**81,680,090**	74,570,311
Total equity attributable to equity shareholders of the Company		**93,157,341**	86,047,562
Non-controlling interests		**7,340,693**	8,811,036
TOTAL EQUITY		**100,498,034**	94,858,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("Companies Ordinance").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB48,814 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 RMB113,111 million as at 31 December 2018, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2018. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the IASB for the first time in the current year:

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 early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 15 Revenue from Contracts with Customers

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

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.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Air traffic revenue, including passenger revenue, cargo and mail revenue
- Revenue from airline-related services, including ground service income, aircraft engineering income and others
- Sale of goods

Information about the Group's performance obligations is disclosed in Note 3.

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.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the 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	Reclassification	Remeasurement	Carrying amounts under IFRS 15 at 1 January 2018*
		RMB'000	*RMB'000*	*RMB'000*	*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*	(12,737,976)	1,225,519	(17,303)	(11,529,760)
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

* The amounts in this column are before the adjustment from the application of IFRS 9.

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.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	**Adjustments**	**Amounts without application of IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Interests in associates	15,253,744	(133,474)	15,120,270
Non-current liabilities			
Contract liabilities	(3,062,739)	3,062,739	–
Deferred income	(647,973)	(3,062,739)	(3,710,712)
Current liabilities			
Air traffic liabilities	(8,886,274)	(581,708)	(9,467,982)
Other payables and accruals	(10,833,540)	(1,281,185)	(12,114,725)
Current taxation	(1,023,938)	133,959	(889,979)
Contract liabilities	(1,301,518)	1,301,518	–
Capital and reserves			
Reserves	81,680,090	(538,967)	81,141,123
Non-controlling interests	7,340,693	(21,923)	7,318,770

Impact on the consolidated statement of profit or loss

	As reported	**Adjustments**	**Amounts without application of IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	136,774,403	(47,285)	136,727,118
Share of results of associates	526,570	(2,365)	524,205
Profit before taxation	**9,977,017**	**(49,650)**	**9,927,367**
Income tax expense	(1,762,146)	11,353	(1,750,793)
Profit for the year	**8,214,871**	**(38,297)**	**8,176,574**
– Equity shareholders of the Company	7,350,661	(34,430)	7,316,231
– Non-controlling interests	864,210	(3,867)	860,343

2.2 IFRS 9 Financial Instruments and the related amendments

In the current year, 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 financial guarantee contracts 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 under ECL model) 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*.

Summary of effects arising from initial application of IFRS 9

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

	Notes	Equity instruments at fair value through other comprehensive income ("FVTOCI")	Debt instruments at FVTOCI	Available-for-sale ("AFS") securities	Financial assets at fair value through profit or loss ("FVTPL")	Held-to-maturity securities	Other current assets	Prepayments, deposits and other receivables	Capital reserve	Retained earnings
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

(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 the 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 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.

(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. Except for those which had been determined as credit impaired under IAS 39 have been assessed individually, the remaining balances are grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including restricted bank deposits, cash and cash equivalents, deposits and other receivables, financial assets included in other current assets and other non-current assets, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are assessed and measured on lifetime ECL basis as those 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.

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	IFRS 15	IFRS 9	1 January 2018 (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Interests in associates	14,199,540	131,109	–	14,330,649
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
Current assets				
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
Held-to-maturity securities	10,000	–	(10,000)	–
Other current assets	4,036,700	–	10,000	4,046,700
Total assets	235,644,584	131,109	–	235,775,693
Current liabilities				
Air traffic liabilities	(7,405,757)	531,393	–	(6,874,364)
Other payables and accruals	(12,737,976)	1,208,216	–	(11,529,760)
Current taxation	(1,825,063)	(122,606)	–	(1,947,669)
Contract liabilities	–	(1,225,519)	–	(1,225,519)
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
Non-current liabilities				
Contract liabilities	–	(2,822,657)	–	(2,822,657)
Deferred income	(3,568,127)	2,822,657	–	(745,470)
Net assets	94,858,598	522,593	–	95,381,191
CAPITAL AND RESERVES				
Reserves	74,570,311	504,537	–	75,074,848
Non-controlling interests	8,811,036	18,056	–	8,829,092
TOTAL EQUITY	94,858,598	522,593	–	95,381,191

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[2]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combination and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new IFRS mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB51,395 million. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Upon application of IFRS 16, the Group will apply the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of IFRS 9. In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17and IFRIC-4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings and non-controlling interests without restating comparative information.

3. REVENUE

A. For the year ended 31 December 2018

	2018
	RMB'000
Revenue from contracts with customers	136,537,210
Rental income (included in revenue of airline operations segment)	237,193
Total revenue	136,774,403

Disaggregation of revenue from contracts with customers

	2018	
Segments	**Airline operations**	**Other operations**
	RMB'000	*RMB'000*
Type of goods or services		
Airline operations		
Passenger	120,429,994	–
Cargo and mail	11,405,573	–
Ground service income	980,542	–
Others	2,122,542	–
	134,938,651	–
Other operations		
Aircraft engineering income	–	1,405,590
Import and export service income	–	83,896
Others	–	109,073
	–	1,598,559
Total	134,938,651	1,598,559
Geographical markets		
Mainland China	84,685,095	1,598,559
Hong Kong, Macau and Taiwan	6,029,445	–
Europe	14,865,700	–
North America	11,806,117	–
Japan and Korea	7,607,451	–
Asia Pacific and others	9,944,843	–
Total	134,938,651	1,598,559

Performance obligations for contracts with customers

Passenger revenue is recognised when transportation services are provided. Besides, the Group recognises the expected breakage amount as passenger revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. Ticket sales for transportation not yet provided are recorded in air traffic liabilities.

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The amount allocated to the miles earned by the frequent-flyer programme members is recorded in contract liabilities and deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire. During the year, the Group recognised revenue of RMB1,701 million which was included in frequent-flyer programme at the beginning of the year.

Cargo and mail revenue is recognised when transportation services are provided.

Revenue from other airline-related services is recognised when the related performance obligations are satisfied.

Sale of goods is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer.

Transaction price allocated to the remaining performance obligation for contracts with customers

The customer loyalty points in frequent-flyer programme have a three-year term and these points can be redeemed anytime at customers' discretion during the valid period.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 *RMB'000*
Passenger	106,743,570
Cargo and mail	10,254,641
Ground service income	935,947
Aircraft engineering income	1,045,262
Import and export service income	74,827
Rental income	149,937
Others	2,158,715
Total	121,362,899

4. 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.

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 years ended 31 December 2018 and 2017 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2018

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	**135,175,844**	**1,598,559**	**–**	**136,774,403**
Intersegment sales	**269,463**	**7,242,982**	**(7,512,445)**	**–**
Revenue for reportable segments under CASs and IFRSs	**135,445,307**	**8,841,541**	**(7,512,445)**	**136,774,403**
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	**9,408,692**	**597,120**	**(47,907)**	**9,957,905**
Effect of differences between IFRSs and CASs				**19,112**
Profit before taxation for the year under IFRSs				**9,977,017**

Year ended 31 December 2017

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	120,066,345	1,296,554	–	121,362,899
Intersegment sales	247,297	8,689,539	(8,936,836)	–
Revenue for reportable segments under CASs and IFRSs	120,313,642	9,986,093	(8,936,836)	121,362,899
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	11,077,352	453,377	(49,842)	11,480,887
Effect of differences between IFRSs and CASs				5,345
Profit before taxation for the year under IFRSs				11,486,232

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2018 and 2017 and the reconciliations of reportable segment assets, liabilities and other information 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 31 December 2018 under CASs	**236,739,437**	**22,396,863**	**(15,420,294)**	**243,716,006**
Effect of differences between IFRSs and CASs				**(58,898)**
Total assets under IFRSs				**243,657,108**
Total assets for reportable segments as at 31 December 2017 under CASs	228,104,759	19,166,617	(11,553,560)	235,717,816
Effect of differences between IFRSs and CASs				(73,232)
Total assets under IFRSs				235,644,584

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2018 under CASs and IFRSs	**144,807,641**	**13,576,780**	**(15,225,347)**	**143,159,074**
Total liabilities for reportable segments as at 31 December 2017 under CASs and IFRSs	141,208,964	11,026,686	(11,449,664)	140,785,986

Year ended 31 December 2018

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*	Effect of differences between IFRSs and CASs *RMB'000*	Amounts under IFRSs *RMB'000*
Other segment information						
Share of profits less losses of associates and joint ventures	**472,676**	**276,120**	**–**	**748,796**	**–**	**748,796**
Impairment (gains)/losses of financial assets recognised in profit or loss, net	**(269,618)**	**49,857**	**(44,631)**	**(264,392)**	**–**	**(264,392)**
Impairment losses of non-financial assets recognised in profit or loss, net	**631**	**12,758**	**–**	**13,389**	**–**	**13,389**
Depreciation and amortisation	**14,242,781**	**298,751**	**(14,579)**	**14,526,953**	**(23,277)**	**14,503,676**
Finance income	**221,360**	**150,020**	**(198,816)**	**172,564**	**–**	**172,564**
Finance costs	**3,079,036**	**58,268**	**(223,207)**	**2,914,097**	**–**	**2,914,097**
Income tax expense	**1,650,556**	**123,252**	**(16,440)**	**1,757,368**	**4,778**	**1,762,146**
Interests in associates and joint ventures	**14,964,461**	**1,576,427**	**–**	**16,540,888**	**139,919**	**16,680,807**
Additions to non-current assets	**34,109,509**	**188,996**	**–**	**34,298,505**	**–**	**34,298,505**

Year ended 31 December 2017

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*	Effect of differences between IFRSs and CASs *RMB'000*	Amounts under IFRSs *RMB'000*
Other segment information						
Share of profits less losses of associates and joint ventures	(651,618)	275,355	–	(376,263)	–	(376,263)
Impairment losses of financial assets recognised in profit or loss, net	6,550	163,053	(37,750)	131,853	–	131,853
Impairment losses of non-financial assets recognised in profit or loss, net	251,242	212,913	–	464,155	26,807	490,962
Depreciation and amortisation	13,346,813	287,822	(12,082)	13,622,553	(26,234)	13,596,319
Finance income	200,591	139,146	(115,991)	223,746	–	223,746
Finance costs	3,159,331	52,335	(156,602)	3,055,064	–	3,055,064
Income tax expense	2,751,642	109,390	(17,585)	2,843,447	1,336	2,844,783
Interests in associates and joint ventures	13,914,145	1,384,872	–	15,299,017	139,919	15,438,936
Additions to non-current assets	30,458,830	180,937	–	30,639,767	–	30,639,767

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2018 and 2017, respectively:

Year ended 31 December 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	**86,520,847**	**6,029,445**	**14,865,700**	**11,806,117**	**7,607,451**	**9,944,843**	**136,774,403**

Year ended 31 December 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	78,528,959	5,274,802	12,848,155	10,499,908	5,785,753	8,425,322	121,362,899

In determining the Group's geographical information, revenue is attributed to the segments based on the origin or 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. According to the business demand, the Group needs to flexibly allocate the aircraft to match the need of the route network. An analysis of the assets of the Group by geographical distribution has therefore not been included.

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year ended 31 December 2018 (2017: Nil).

5. OTHER INCOME AND GAINS

	2018	2017
	RMB'000	*RMB'000*
Government grants	**3,133,872**	2,479,288
Dividend income	**7,418**	14,337
Gain/(loss) on disposal of		
– Interest in associates	**163,184**	–
– Subsidiaries	**405,543**	–
– Property, plant and equipment	**20,593**	(37,186)
– Non-current assets held for sale	**59,893**	46,414
Net gain/(loss) arising on financial assets measured at fair value through profit or loss	**60**	(60)
Others	**318,137**	160,510
	4,108,700	2,663,303

6. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**14,357,683**	13,453,155
Depreciation of investment properties	**32,912**	32,518
Amortisation of intangible assets	**38,803**	38,835
Amortisation of lease prepayments	**74,278**	71,811
Impairment of property, plant and equipment	**16**	149,160
Provision for inventories	**13,373**	341,802
Operating lease expenses:		
– Aircraft and flight equipment	**7,165,554**	7,310,649
– Land and buildings and others	**1,117,478**	1,078,057
Auditors' remuneration:		
– Audit related services	**18,315**	17,438
– Other services	**525**	70

7. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on interest-bearing bank loans and other borrowings	**2,104,602**	2,488,219
Interest on finance leases	**1,437,361**	1,032,137
Imputed interest expenses on defined benefit obligations	**10,822**	8,518
	3,552,785	3,528,874
Less: Interest capitalised	**(638,688)**	(473,810)
	2,914,097	3,055,064

The interest capitalisation rates during the year ranged from 2.67% to 4.75% (2017: 3.09% to 4.38%) per annum relating to the costs of related borrowings during the year.

8. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
– Mainland China	**2,341,423**	3,615,672
– Hong Kong and Macau	**23,664**	11,939
Over-provision in respect of prior years	**(13,444)**	(5,217)
Deferred tax	**(589,497)**	(777,611)
	1,762,146	2,844,783

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches and two subsidiaries which are taxed at a preferential rate of 15% (2017: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2017: 25%) during the year. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 8.25%, 16.5% and 12% (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 years.

The taxation for the year can be reconciled to the profit before taxation per consolidated statement of profit or loss as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**9,977,017**	11,486,232
Tax at the applicable tax rate of 25%	**2,494,254**	2,871,558
Preferential tax rates on income of group entities	**(136,952)**	(159,809)
Tax effect of share of profits less losses of associates and joint ventures	**(187,199)**	94,066
Tax effect of non-deductible expenses	**65,086**	43,055
Tax effect of non-taxable income	**(255,466)**	(10,850)
Deductible temporary differences and tax losses not recognised	**15,847**	11,530
Utilisation of tax losses not recognised in prior years	**(106,952)**	(274,684)
Utilisation of deductible temporary differences not recognised in prior years	**(113,028)**	(1,139)
Over-provision in respect of prior years	**(13,444)**	(5,217)
Withholding tax on undistributed earnings of subsidiaries	**–**	276,273
Taxation for the year	**1,762,146**	2,844,783

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**7,350,661**	7,244,321

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**13,734,961**	13,466,675

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding.

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

10. DIVIDENDS

Dividends for the shareholders of ordinary shares of the Company recognised as distribution during the year:

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

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2018 of RMB1.0328 per ten ordinary share (approximately RMB1,500 million in aggregate for ordinary shares) has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

11. ACCOUNTS RECEIVABLE

	2018	2017
	RMB'000	*RMB'000*
Accounts receivable	**5,590,112**	3,674,827
Less: Allowance for credit losses	**(216,140)**	(184,400)
	5,373,972	3,490,427

The ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date, net of allowance for credit losses, was as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**2,548,148**	2,743,074
31 to 60 days	**696,437**	463,564
61 to 90 days	**514,171**	100,562
Over 90 days	**1,615,216**	183,227
	5,373,972	3,490,427

12. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable as at the end of the reporting period was as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**7,587,233**	5,605,426
31 to 60 days	**1,440,778**	1,880,067
61 to 90 days	**1,063,182**	1,395,745
Over 90 days	**4,635,235**	4,372,950
	14,726,428	13,254,188

The accounts payable are non-interest-bearing and have normal credit terms up to 90 days.

CONSOLIDATED BALANCE SHEET

At 31 December 2018

(Prepared under the Accounting Standards for Business Enterprises of the PRC)

ASSETS	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
Current assets		
Cash and bank	**7,807,572**	6,260,074
Financial assets at fair value through profit or loss	**–**	19,938
Bills receivable and accounts receivable	**5,374,375**	3,490,775
Other receivables	**3,031,157**	2,009,253
Prepayments	**1,188,879**	3,113,262
Inventories	**1,877,494**	1,535,769
Held-for-sale assets	**–**	283,562
Other current assets	**4,446,630**	4,036,700
Non-current assets maturing within one year	**–**	10,000
Total current assets	**23,726,107**	20,759,333
Non-current assets		
Available-for-sale financial asset	**–**	1,336,996
Debt instruments at fair value through other comprehensive income	**1,040,419**	–
Long-term receivables	**1,142,235**	784,339
Long-term equity investments	**16,540,888**	15,299,017
Equity instruments at fair value through other comprehensive income	**270,114**	–
Investment properties	**170,942**	330,768
Fixed assets	**160,402,819**	158,274,275
Construction in progress	**32,179,581**	30,340,891
Intangible assets	**3,759,144**	4,400,762
Goodwill	**1,102,185**	1,102,185
Long-term deferred expenses	**606,105**	657,364
Deferred tax assets	**2,775,467**	2,431,886
Total non-current assets	**219,989,899**	214,958,483
Total assets	**243,716,006**	235,717,816

LIABILITIES AND SHAREHOLDERS' EQUITY	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
Current liabilities		
Short-term loans	**17,561,546**	19,505,560
Short-term bonds payable	**3,467,482**	1,214,962
Bills payable and accounts payable	**16,174,121**	14,672,242
Domestic air traffic liabilities	**3,238,429**	2,565,696
International air traffic liabilities	**5,647,845**	4,840,061
Receipts in advance	**–**	518,413
Contract liabilities	**1,301,518**	–
Employee compensations payable	**2,806,901**	2,533,032
Taxes payable	**1,428,926**	2,361,253
Other payables	**7,162,819**	7,982,938
Non-current liabilities repayable within one year	**13,441,489**	15,560,928
Total current liabilities	**72,231,076**	71,755,085
Non-current liabilities		
Long-term loans	**3,185,481**	7,608,289
Corporate bonds	**12,400,000**	14,500,000
Long-term payables	**4,208,771**	3,669,405
Obligations under finance leases	**45,848,095**	37,798,582
Defined benefit obligations	**263,862**	263,575
Accrued liabilities	**431,705**	492,869
Deferred income	**647,973**	3,568,127
Deferred tax liabilities	**879,372**	1,130,054
Other non-current liabilities	**3,062,739**	–
Total non-current liabilities	**70,927,998**	69,030,901
Total liabilities	**143,159,074**	140,785,986
Shareholders' equity		
Issued capital	**14,524,815**	14,524,815
Capital reserve	**26,270,841**	26,270,841
Other comprehensive income	**(962,968)**	(1,693,743)
Reserve funds	**10,409,470**	9,177,905
Retained earnings	**42,880,893**	37,771,234
General reserve	**93,188**	69,742
Equity attributable to shareholders of the Company	**93,216,239**	86,120,794
Non-controlling interests	**7,340,693**	8,811,036
Total shareholders' equity	**100,556,932**	94,931,830
Total liabilities and shareholders' equity	**243,716,006**	235,717,816

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

The effects of differences between the consolidated financial statements of the Group prepared under IFRSs and CASs are as follows:

	2018	2017
	RMB'000	*RMB'000*
Net profit attributable to shareholders of the Company under CASs	**7,336,327**	7,240,312
Deferred taxation	**(4,778)**	(1,336)
Differences in value of fixed assets and other non-current assets	**19,112**	5,345
Net profit attributable to shareholders of the Company under IFRSs	**7,350,661**	7,244,321

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Equity attributable to shareholders of the Company under CASs	**93,216,239**	86,120,794
Deferred taxation	**64,854**	69,632
Differences in value of fixed assets and other non-current assets	**(263,671)**	(282,783)
Unrealised profit of the disposal of Hong Kong Dragon Airlines	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs	**93,157,341**	86,047,562

SUMMARY OF OPERATING DATA

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

	2018	2017	Increase/ (decrease)
Capacity			
ASK *(million)*	**273,600.29**	247,815.03	10.41%
International	**103,475.62**	90,723.28	14.06%
Mainland China	**160,134.78**	147,938.97	8.24%
Hong Kong, Macau and Taiwan	**9,989.88**	9,152.77	9.15%
AFTK *(million)*	**14,240.47**	13,319.36	6.92%
International	**9,610.71**	8,871.19	8.34%
Mainland China	**4,347.17**	4,169.82	4.25%
Hong Kong, Macau and Taiwan	**282.59**	278.35	1.52%
ATK *(million)*	**38,920.17**	35,672.57	9.10%
Traffic			
RPK *(million)*	**220,528.34**	201,078.49	9.67%
International	**80,390.72**	71,039.18	13.16%
Mainland China	**132,102.72**	122,876.89	7.51%
Hong Kong, Macau and Taiwan	**8,034.91**	7,162.42	12.18%
RFTK *(million)*	**7,969.51**	7,552.65	5.52%
International	**6,207.65**	5,791.72	7.18%
Mainland China	**1,649.10**	1,646.49	0.16%
Hong Kong, Macau and Taiwan	**112.76**	114.44	(1.47%)
Passengers carried *(thousand)*	**109,726.59**	101,576.66	8.02%
International	**15,365.15**	13,487.46	13.92%
Mainland China	**89,257.14**	83,524.14	6.86%
Hong Kong, Macau and Taiwan	**5,104.30**	4,565.07	11.81%
Cargo and mail carried *(tonnes)*	**1,908,369.07**	1,841,636.93	3.62%
Kilometres flown *(million)*	**1,425.35**	1,323.36	7.71%
Block hours *(thousand)*	**2,245.15**	2,115.24	6.14%
Number of flights	**716,718**	670,505	6.89%
International	**94,783**	86,005	10.21%
Mainland China	**584,723**	549,955	6.32%
Hong Kong, Macau and Taiwan	**37,212**	34,545	7.72%
RTK *(million)*	**27,518.49**	25,385.38	8.40%

	2018	2017	Increase/ (decrease)
Load factor			
Passenger load factor (RPK/ASK)	**80.60%**	81.14%	(0.54 ppt)
International	**77.69%**	78.30%	(0.61 ppt)
Mainland China	**82.49%**	83.06%	(0.57 ppt)
Hong Kong, Macau and Taiwan	**80.43%**	78.25%	2.18 ppt
Cargo and mail load factor (RFTK/AFTK)	**55.96%**	56.70%	(0.74 ppt)
International	**64.59%**	65.29%	(0.70 ppt)
Mainland China	**37.94%**	39.49%	(1.55 ppt)
Hong Kong, Macau and Taiwan	**39.90%**	41.11%	(1.21 ppt)
Overall load factor (RTK/ATK)	**70.70%**	71.16%	(0.46 ppt)
Daily utilisation of aircraft (block hours per day per aircraft)	**9.52**	9.47	0.05 hour
Yield			
Yield per RPK *(RMB)*	**0.5461**	0.5307	2.90%
International	**0.4376**	0.4167	5.02%
Mainland China	**0.6028**	0.5877	2.57%
Hong Kong, Macau and Taiwan	**0.6998**	0.6844	2.25%
Yield per RFTK *(RMB)*	**1.4312**	1.3578	5.41%
International	**1.4569**	1.3735	6.07%
Mainland China	**1.1853**	1.1700	1.31%
Hong Kong, Macau and Taiwan	**3.6093**	3.2608	10.69%
Unit cost			
Operating cost per ASK *(RMB)*	**0.4625**	0.4530	2.10%
Operating cost per ATK *(RMB)*	**3.2512**	3.1473	3.30%

FLEET INFORMATION

During the year of 2018, the Group introduced 50 aircraft, including six A350, one B787-9, two B777-300ER, three A330-300, fourteen B737-8MAX, nine B737-800, two B737-700, eight A320NEO, three A321NEO and two A320, among which five were bought with our own funds, thirty-four were acquired under finance leases and eleven were acquired under operating leases. On the other hand, the Group phased out 21 aircraft, including one B747-400, four B777-200, four B737-800, two A320, two A319, seven B737-700 and one business jet.

As at the end of 2018, the Group had a total of 669 passenger aircraft including business jets, with an average age of 6.62 years. Among the aircraft set out above, the Company operated a fleet of 409 aircraft in total, with an average age of 6.77 years. The Company introduced 28 aircraft and phased out 15 aircraft, among which one was sold to Air Macau and three were sold to Beijing Airlines.

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

	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Passenger aircraft	**664**	**276**	**188**	**200**	**6.62**
Airbus	**329**	**136**	**94**	**99**	**7.04**
A319	45	32	6	7	11.64
A320/A321	214	76	75	63	6.35
A330	64	28	7	29	6.75
A350	6	0	6	0	0.23
Boeing	**335**	**140**	**94**	**101**	**6.21**
B737	283	116	74	93	6.46
B747	10	8	2	0	9.47
B777	28	4	18	6	4.71
B787	14	12	0	2	1.86
Cargo aircraft	**15**	**10**	**5**	**0**	**11.54**
B747F	3	3	0	0	16.53
B757F	4	4	0	0	22.35
B777F	8	3	5	0	4.26
Business jets	**5**	**1**	**0**	**4**	**6.41**
Total	**684**	**287**	**193**	**204**	**6.73**

Note: On 28 December 2018, the Company completed the disposal of 51% equity interests of Air China Cargo to Capital Holding, and since then the Group ceased to own the 15 cargo aircraft listed above.

Passenger aircraft	Introduction Plan 2019	2020	2021	Phase-out Plan 2019	2020	2021
Airbus	**39**	**24**	**1**	**6**	**8**	**1**
A319	0	0	0	2	2	0
A320/A321	34	24	1	4	6	1
A330	1	0	0	0	0	0
A350	4	0	0	0	0	0
Boeing	**33**	**33**	**5**	**11**	**3**	**0**
B737	32	33	5	11	3	0
B787	1	0	0	0	0	0
Total	**72**	**57**	**6**	**17**	**11**	**1**

2018 REVIEW

2018 was the first year for putting the guiding principles of the 19th National Congress of the Communist Party of China fully into effect. With the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Group comprehensively strengthened the Party's leadership and the Party building, and continuously enhanced the modern corporate system. The Group also spared no effort in safety management, strived for improving economic benefits, actively improved service quality, continued to deepen reform and fully performed its political and social responsibilities as a state-owned enterprise, laying a solid foundation for its high-quality sustainable development with sound and stable progress in all respects.

The Group made steady progress in the three critical battles (i.e. prevention and mitigation of material risks, targeted poverty alleviation and pollution control), demonstrating the responsible attitude of a state-owned enterprise. By actively preventing financial risks and enhancing the management of liquidity, the gearing ratio of the Group had reduced to 58.75%. More specifically, the Group continuously optimized the debt structure, with inventory interest-bearing USD debts squeezed and foreign exchange risk effectively contained. The Group was also engaged in financing channel expansion, flexible debt swaps, effective control of the scale of debts, and reduction of capital costs. Apart from that, enhanced efforts were made by the Group to develop the overall risk and internal control systems to ensure that all business activities are conducted in compliance with laws and regulations. Furthermore, the Group pushed forward its poverty alleviation campaign by deeply carrying out the opinions on poverty alleviation work and the "8+2" support system development scheme, and helping designated poverty alleviation areas to proceed with their poverty eradication tasks smoothly. On the environmental front, the Group was also actively engaged in the environmental protection campaign by executing the "Three-Year Action Plan to Win the Blue Sky Defense War", improving its energy saving and environmental protection management system as well as resource utilization efficiency, and mitigating the environmental impact of its production and operations.

By following the overarching principle of seeking improvement while maintaining stability, the Group delivered better resource allocation and positive performance in its principal business, despite facing adverse factors such as intensified market competition, drastic rise in jet fuel costs and the reversed exchange gains and losses caused by exchange rate fluctuations. Specifically, by focusing on the "intensive" development, the Group continuously optimized its production organization to ensure stable increase of resource input into transport capacity, constant structural optimization and sustained increase of yield level. Aside from that, the Group promoted the whole-fleet operation optimization, vigorously carried out measures to enhance quality and efficiency, and improved its cost competitiveness effectively. The Group has also been working to develop a diamond-shaped airline hubs network with global competitiveness, in line with the national strategies on integrated development of the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macau Greater Bay Area. Moreover, the Group has accelerated the deployment of its global network to become one of the most important carriers operating flights between China and Europe and between China and the US. In response to the Belt and Road Initiative, the Group has opened up 56 international routes to 28 cities in 19 countries along Belt and Road. In practicing the concept of "Caring Service", the Group sped up its service transformation and upgrade, which obviously improved the passenger satisfaction. With the steady improvement in its marketing capability, the Group witnessed the results from the business model transformation. The revenue for the whole year from its first-class and business-class services saw a 10.1% year-on-year increase, together with a 45.9% year-on-year increase in the cumulative sales revenue from ancillary products. The Group also recorded a 29.6% year-on-year rise in the number of registered users on its mobile platform and a 50% year-on-year increase in the relevant sales revenue. On top of that, the Group has garnered more than 56 million "Phoenix Miles" members in total, with an 11.6% year-on-year increase in revenue contributed by frequent fliers. In advancing its premium brand strategy, the Group participated in the first Exposition on China Indigenous Brands, and the brand value of Air China increased year by year. In 2018, the Company won the 2018 "Top-100 Enterprise Award" for Chinese listed companies.

In 2018, the Group's revenue amounted to RMB136,774 million with an aggregate profit before tax of RMB9,977 million. Net profit attributable to equity shareholders of the Company was RMB7,351 million, representing a year-on-year increase of 1.47%. The Group recorded 2,245.2 thousand accident-free flight hours, with a year-on-year increase of 6.14%; traffic measured by RTK reached 27,518 million tonne kilometres, with a year-on-year increase of 8.40%; 110 million passengers were carried, with a year-on-year increase of 8.02%; the volume of cargo and mail carried amounted to 1,908.4 thousand tonnes, up 3.62% on a year-on-year basis.

2019 marks the 70th anniversary of the founding of the new China, and a crucial year for fully building a moderately prosperous society in all respects. By following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and adhering to the development philosophy of "Innovation, Coordination, Green, Openness and Sharing", the Group will deepen its reform in an all-rounded manner and stimulate the inner drive for growth, center on high-quality sustainable development, and continuously improve the quality of its operations, striving to develop Air China into a top-tier aviation group in the world with global competitiveness.

BUSINESS OVERVIEW

In 2018, the Group recorded a revenue of RMB136,774 million, a profit before tax of RMB9,977 million and the net profit attributable to equity shareholders of the Company of RMB7,351 million, which consolidated and improved the competitiveness of our core business. We have steadily expanded the fleet investment scale, strengthened the restructuring of production resources, and continued to enhance aircraft utilization efficiency. In addition, we diligently exploited the potential of production and optimized the matching of aircraft types with the market to meet market needs and effectively bolster the overall yield level of routes. By continuously promoting the refined management and carrying out value management throughout the aircraft life cycle, we saw a continuously increasing yield level. By insisting on new development concepts and focusing on high quality development, the Company continuously improved operating quality, strengthened the cost refined management, and maintained profit and cost competitive advantages.

In 2018, the Group's ASKs and RPKs reached 273,600 million and 220,528 million, representing a year-on-year increase of 10.41% and 9.67%, respectively. The passenger load factor was 80.60%, representing a year-on-year decrease of 0.54 ppt. The Group's AFTKs and RFTKs reached 14,240 million and 7,970 million, representing a year-on-year increase of 6.92% and 5.52%, respectively. The Group's cargo and mail load factor was 55.96%, representing a year-on-year decrease of 0.74 ppt.

In 2018, the Group made new progress in respect of hub network, sales and marketing, brand value, products and services, external cooperation, legal system construction, safety management, employee actualization, supplier management, environmental protection and social welfare, etc.

Hub Network

We adhered to the strategy of developing a diamond-shaped network of hubs and improved the operational efficiency and service quality of the hub network. We cemented and sharpened the competitive edge of Beijing Super Hub which launched new international routes such as Beijing-Barcelona, Beijing-Houston-Panama City and Beijing-Copenhagen and domestic routes such as Beijing-Huizhou and Beijing-Lanzhou-Aksu, and increased the number of flights on certain international and domestic routes such as Beijing-London, Beijing-Moscow and Beijing-Chongqing. The O&D connected by Beijing Hub increased to 6,230 and the number of persons who have received interlining services provided by the hub increased by 935 thousand year on year. We newly launched baggage through check services on routes from 8 cities in the Americas, Europe and Oceania and our baggage through check services are now being provided for routes from 35 cities via Beijing. The value of Beijing Super Hub improved steadily. Our Chengdu International Hub launched a number of new routes such as Chengdu-London, Chengdu-Bangkok and Chengdu-Hetian. Shanghai International Gateway increased the flights of certain international routes including Shanghai-Paris and Shanghai-Nagoya, and we launched new international and domestic routes such as Hangzhou-Yazhuang and Hangzhou-Yuncheng near Shanghai. Shenzhen International Gateway accelerated its pace to establish presence in the international market, and launched new international and domestic routes such as Shenzhen-London, Shenzhen-Jakarta, Shenzhen-Urumqi and Shenzhen-Baotou while increasing the number of flights on the routes such as Shenzhen-Seoul and Shenzhen-Phnom Penh. We also continued to diversify our onward transit products to meet the different needs of transit passengers. We launched Beijing-Munich and Beijing-Hong Kong express lines, expanded the coverage of our transit lounge service at Shanghai Pudong International Airport, started to offer intra-city chauffeured transfer services to VIP passengers in 10 cities including Tianjin and Xi'an and inter-city transfer services in Beijing, Shanghai, Chengdu and Shenzhen. In addition, the Company launched new international and domestic routes such as Guangzhou-Phuket, Guangzhou-Hanoi, Hohhot-Xi'an and Guiyang-Xiamen. In this way, the Company continuously improved its hub construction, expanded the coverage of its route network and diversified its interlining services. In 2019, the Company will open new routes such as Beijing-Bandar Seri Begawan, Hangzhou-Rome, Tianjin-Osaka, Beijing-Kashi, Chengdu-Bazhong-Shanghai.

During the Reporting Period, the Company, Shenzhen Airlines (including Kunming Airlines), Air Macau, Beijing Airlines, Dalian Airlines and Air China Inner Mongolia newly launched or adjusted 155 domestic and international routes, and operated a total of 754 passenger routes, including 138 international routes, 27 regional routes and 589 domestic routes. The Company's passenger routes reached 42 countries and regions and 184 cities, including 66 international cities, 3 regions and 115 domestic cities. The Company proactively carried out international cooperation and offered 14,087 code sharing flights per week through collaboration with 36 global partners, and has expanded its service coverage to 1,317 destinations in 193 countries through its cooperation with the Star Alliance.

Sales and Marketing

The Company continuously optimized its capacity resources distribution and significantly improved its resource utilization efficiency. By adjusting our domestic and international capacity deployment structure, we increased our share in major markets; and by enhancing the matching between aircraft and market, our capacity investment and return of domestic routes that apply wide-body aircraft both reported growth. Our domestic routes maintained the price advantage and the momentum of increasing yield level, and international routes refined sales management and stabilized market share and fares in international gateways. We paid close attention to the changes and development in the market and made corresponding adjustment to the rates of our 57 domestic routes, contributing an increase in annual revenue of approximately RMB1.4 billion. The marketing of first-class and business-class services showed obvious results, driving a remarkable growth in the yield of first-class and business-class services, reporting an increase of 10.1% as compared with the previous year. Besides, the Company established an integrated e-commerce platform that incorporates product sales, service access, channel integration and marketing and has exerted efforts to promote the execution of Phase 2 business model transformation project, realized scenario-based payment services based on frequent fliers' credit points, and widened the monetized application of mileage credits. The Company also carried out 58 iterative developments of mobile platform and website with over 2,400 improved and new functions, and enhanced oversea e-commerce capabilities resulting in a year-on-year growth of 12% in overseas online sales revenue. The number of registered users of our mobile platform increased by 29.6% and the sales revenue increased by 50% on a year-on-year basis. Moreover, the Company continuously expanded ancillary services and products and optimized the management system for ancillary services and products. In particular, the Company launched paid upgrade product at departure gates at 40 domestic airports and 15 international airports. During the Reporting Period, the accumulated sales revenue contributed by ancillary products recorded a year-on-year increase of RMB0.32 billion or 45.9%, and the revenue generated from upgrade product, paid seat selection and prepaid luggage recorded a year-on-year growth of 59%, 27% and 152%, respectively. The total number of "Phoenix Miles" members amounted to over 56 million. With the all-round upgrade of services offered to the frequent flier, fliers' satisfaction greatly improved and customer loyalty and stickiness also remarkably increased, leading to a year-on-year growth of 11.6% and 30% in the revenue and non-aviation related income contributed by frequent fliers, respectively.

Brand Value

The Company systematically promoted the brand planning projects and the brand recognition and reputation have significantly improved. We launched brand management measures and media management measures, and established brand communication evaluation mechanism, brand asset evaluation system and advertising effect analysis system. We actively planned in-depth interactive activities, rolled out the brand image "Landing with Dreams" fully in the Chinese, German, the UK and French markets, and achieved domestic and foreign advertising media exposure to 2.9 billion people. We deepened brand public relations communication, cooperated with multiple media platforms to publicize and promote brand marketing events, so as to enhance the audience's memory of the brand's core. We painted aircraft named "Colorful World Garden (多彩世園號)" and "Flowering World (花開盛世號)" for the Beijing World Horticultural Exposition, and cooperated with Yili Group to carry out the themed marketing of "First Experience of Ice and Snow in Flying(飛享冰雪初體驗)" for the 2022 Beijing Winter Olympics and Winter Paralympics. As the first A350 aircraft in the mainland Chinese market joined the fleet of Air China, we planned the "Escorting for Dreams(為夢想護航)" series of activities, and launched the brand's IP images "Glasses Man Panda(眼鏡俠胖安達)" and "Traveler Panda (旅行家胖安達)". The brand image of Air China was well-received by the public and emotional connection with audience became stronger. We also participated in the first China Independent Brand Expo to present the image of Air China as an international airline company. In addition, we executed joint marketing agreements with Wonderful Copenhagen and Tourism Australia respectively, and entered into "Munich Express" cooperation agreement with Beijing Capital International Airport and Munich Airport to strengthen brand synergy. In 2018, the brand of Air China was selected as one of the "World's 500 Most Influential Brands (世界品牌500強)" released by the World Brand Lab, making Air China the only Chinese airline company on the list with a brand value of RMB145.295 billion. In 2018, the Company also won the "China Top 100 Enterprise Award (中國百強企業獎)", and was among the lists of "BrandZ Top 50 Chinese Global Brand Builders (BrandZ 中國出海品牌50強)".

Product and Service

Upholding a philosophy of offering sincere service, the Company focused on passenger experience and constantly promoted innovative service and optimized the whole-process convenient passenger service assurance mode. The Company issued three standards including the Standard for Resources Allocation of Self-run Lounges of Air China Limited (2018 Edition), to provide guidance for the selection of ground lounges, the introduction and upgrading of aircraft and other hardware product decisions. Based on new standards, the Company upgraded the Hohhot lounge, launched the Shanghai Hongqiao T1 International lounge and replaced the furniture and carpet of the Beijing lounge, with an aim to improve the comfort level of self-run lounges. Our transiting service capability has been enhanced dramatically in terms of service quality and emergency security, as the Company established 95583 global service support centers, set up a remote agent quick response mechanism, improved the transiting counter service and released high-end transiting guidance products. Self-service has been widely applied by the Company. The Company introduced intelligent interaction robot on our mobile platform and official website, and took the lead in achieving automatic application for unaccompanied minors, special meals and other services. For the first time, the Company launched an omni-channel involuntary ticket change and refund function to upgrade the customer experience of irregular flights. Our "paperless and convenient travel" project was also implemented smoothly which was marked by our electronic boarding pass inspection services in 45 domestic and 8 international and regional airports. To offer "A bite of Air China", we improved the food quality of 101 stations across the globe. We also upgraded the quality of aircraft entertainment systems and updated media resources more frequently. The newly introduced A350 offers in-flight internet access. The mobile cabin project was also extended to ground service departments to get through the air-ground passenger information chain.

External Cooperation

A collaborative win-win situation grows steadily along with the deepening of joint and alliance cooperation. We integrated nearly 1,000 joint operation agreements in China-European market with Deutsche Lufthansa AG and joined seven platforms of European small and medium-sized enterprises, recording an increase of 11.1% in air passenger revenue through joint operation and an increase of 8.2% in capacity input on a year-on-year basis and achieving a rise in yield per RPK on both parties. We signed a joint operation agreement with Air Canada to develop the route plan, basic strategies and content of cooperation in all aspects related to joint cooperation. In addition, we established a cooperative framework with United Continental. We also established or extended code sharing cooperation with Singapore Airlines, LOT Polish Airlines, TAP Portugal and Copa Airlines to keep broadening the scope of cooperation. Furthermore, we actively carried out the code sharing cooperation with Star Alliance members and expanded the airline network, which contributed to a year-on-year increase of 10.5% in total revenue arising from cooperation with Star Alliance members. We also completed the benchmarking of operations with Star Alliance and promoted the implementation of the "Move under One Roof" programme proposed by Star Alliance in Beijing Capital International Airport. The intensified and extended joint and alliance cooperation plays an active role in the expansion of airline, development of customer channels, improvement of flight yield level and service level as well as the enhancement of the international competitiveness of the Company.

Legal Construction

The Company fully promoted the construction of its legal system. It strengthened the overall planning and mechanism-based guidance, continued to improve the management level of laws, propelled the development of the internal control on compliance risk and fostered the rule-of-law culture, so as to effectively serve the reform and development as well as the sound operation of the Company. The Company sorted out its compliance management framework and made comprehensive review to all its rules and regulations, issued compliance guideline and training manual in respect of key fields such as Training Manual on Overseas Compliance（《海外合規培訓手冊》） and Legislative Assemblies of Anti-Bribery in Different Jurisdictions （《各法域反賄賂立法彙編》） both in

English and Chinese, and incorporated the compliance into various trainings while arranging over 10 offline compliance trainings on anti-monopoly, data protection and other special topics, thus basically establishing its compliance management system. The Company formulated requirements of internal control management and amended the risk management methods to regularly carry out comprehensive investigations of overseas risks and further strengthen the development of overall risk and internal control system. The Company also strived to improve the utilization of standard contracts and reinforced the contract standardization management, actively promoted the establishment of a full life-cycle contract management model including prior approval, in-process control and post-verification. In addition, the Company tightened its legal review procedures on major projects and critical decisions to prevent and eliminate major legal risks. As for intellectual property protection, the Company established terms of use of core trademarks and continually strengthened the protection of intellectual property rights against trademark infringement, unfair competition, etc.

Safety Management

By unswervingly adhering to the philosophy of safe development with sticking to the approach of "Safety Prime, Prevention First and Comprehensive Management" and implementing the important instructions of General Secretary Xi Jinping on civil aviation safety, the Company continuously improved the aviation safety management system, deepened the application of the safety management system and constantly enhanced safety management capacities. We strengthened risk prevention by carrying out in-depth management and control on daily operation risks, key risks, major change risks, and organization and management risks. We strengthened the application of digital risk assessment systems and enhanced our ability to manage and control operational processes and handle emergencies. By promoting the innovation on aircraft type, equipment and technology, and strengthening the development of maintenance capacity, the Company increasingly improved the safety margin to ensure the continuous safe operation. We promoted strict management of flight trainings, strengthened the supervision and assessment of the qualifications of flight instructors and inspectors, carried out special screening and training of flying skills to improve the overall vocational skills of flight teams. We also organized safety trainings to enhance the overall awareness of safety responsibility. Through diversified emergency training and drills, we increased the efficiency of coordination and interconnection and through improved emergency plans, we constantly enhanced our emergency management capabilities to ensure the continuous safe operations of the Company in an all-around manner.

Employee Self-Achievement

The Company respects and treats all employees equally. By safeguarding their legitimate rights and interests, expanding their growth channels and caring for their occupational health and personal life, we ensured that all our employees could share our development fruits more widely and equally, so as to enhance the enterprise's cohesion and employees' sense of belonging. Specifically, we improved our position management system, which provides unique career development channels for employees to management, business and technical posts; we organized diversified training programs through various online and offline training methods to continuously improve the professional competence and comprehensive quality of our employees; we conducted comprehensive appraisals on our young leaders and key talents at key positions through our self-developed "Assessment-oriented Method";

we continuously implemented "Happiness • Heart Program" to increase our employees' awareness and knowledge of psychological health and improve their physical and psychological health; we optimized our supportive mechanism for special groups, which extends our care to difficult employees, female employees and others alike; we promoted the integration of human resources sharing service platform by improving service standards, building an employee service system and pushing forward the business integration of services sites in Beijing and the construction of services sites outside Beijing of the employee service center to enlarge the service coverage for our staffs; and we organized vocational skills contests, art festivals, basketball matches and other recreational and sports activities to balance employees' work and life, hence increasing the enterprise's cohesion and employees' sense of belonging.

Supplier Management

The Company firmly promoted open procurement and sunshine procurement with a focus on "compliance, efficiency and quality", and strived to improve procurement management capabilities. We formulated or amended the procurement related regulatory documents such as the Supplier Management Procedures (《供應商管理規程》) and the Procurement Management Regulations (《採購管理規定》), comprehensively strengthened procurement risk management and control and continuously promoted standardized management, which has resulted in better procurement compliance. Steady improvement in procurement efficiency was also achieved by the Company through the combination of management optimization with service refinement. The Company further improved the regulations concerning supplier selection, access management and annual performance appraisal to ensure the good operation and maintenance of supplier information base, and established a good cooperative relationship with its suppliers to work together to achieve sustainable development. By attending the first China International Import Expo, the Company signed a total of 8 letters of intent with 7 suppliers for aviation fuel, aircraft engine maintenance and overseas film and television program copyrights, with a total contract value of US$396 million. As of the end of 2018, a total of 2,451 suppliers have been admitted; and in 2018, the Company completed the performance evaluation of 1,924 suppliers, including 1,590 domestic suppliers and 334 foreign suppliers.

Environmental Protection

The Company adhered to the green development concepts and formulated the "Three-Year Action Plan to Win the Blue Sky Defense War". Through improving the energy-saving and environmental protection management system, creating a green operation mode, increasing investment in green security, participating in the design of green mechanism, publicizing green environmental protection and other measures, the Company strived to improve the utilization rate of resources and energy, and reduce the impact of production and operation on the environment. The Company enhanced the overall fuel efficiency by continuing to promote fuel-saving operation and improve the load factors of bellyhold space. In order to effectively implement the green development concepts throughout the whole process of business operation, the Company actively carried out carbon management work and established carbon trading management system and process; constructed a carbon emission data monitoring and management system, carried out capacity-building in response to the global aviation emission reduction mechanism, and completed the certification and procurement of carbon emissions in Beijing and the European Union.

Social Responsibility

The Company performed its social responsibility in the overall development plan by virtue of our advantages to make contribution to the society. The Company had safeguarded the provision of important transportation services involved in the events of PyeongChang 2018 Paralympic Winter Games, Beijing Summit of the Forum on China-Africa Cooperation, Hajj Charters, Celebration on 60th Anniversary of Founding of Ningxia Hui Autonomous Region and the first China International Import Expo. We made every effort in alleviating poverty work by insisting on precise poverty alleviation and further promoting and improving the "8+2" supporting system. Both targeted anti-poverty regions of Sonid Right Banner, Xilingol League Inner, Mongolia Autonomous Region and Zhaoping county, Hezhou City, Guangxi Zhuang Autonomous Region achieved their annual goals in alleviating anti-poverty. The voluntary supporting education activity of "Air China Class" had been carried out on a regular basis with 153 volunteers in 17 batches giving total 887 class hours in the targeted anti-poverty regions. 17 teenagers from targeted anti-poverty regions were invited to participate in the airport pickup ceremony and culture exchange activities in France through cooperation with Airbus SE. The supporting tasks regarding the 380 flights and 255 flights for national material transportation and human organs transportation respectively were successfully completed by us. By expanding the commonweal effect leveraging on our brand strength and advocating advanced culture, we contributed to the creation of a stable and harmonious social environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

The following discussion and analysis are based on the Group's consolidated financial statements and the notes thereto prepared in accordance with the IFRSs and are designed to assist the readers in further understanding the information provided in this announcement so as to better understanding the financial conditions and results of operations of the Group as a whole.

Profit Analysis

During the Reporting Period, the Group proactively grasped market opportunities, and further strengthened the advantages of our core air traffic business by adopting measures such as expanding the scale of production, optimising operational arrangement, stabilising the yield level and refining cost control. During the Reporting Period, despite of influences of unfavorable factors such as the oil price rebound, the Group still achieved satisfactory results. During the Reporting Period, the Group recorded net profit attributable to equity shareholders of the Company of RMB7,351 million, representing a year-on-year increase of 1.47%.

Revenue

During the Reporting Period, the Group's revenue was RMB136,774 million, representing an increase of RMB15,412 million or 12.70% as compared with last year. Among which, air traffic revenue was RMB131,836 million, representing an increase of RMB14,837 million or 12.68% as compared with last year; other operating revenue was RMB4,938 million, representing a year-on-year increase of RMB575 million or 13.15%.

Revenue Contributed by Geographical Segments

	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**86,520,847**	**63.26%**	78,528,959	64.70%	10.18%
Hong Kong, Macau and Taiwan	**6,029,445**	**4.41%**	5,274,802	4.35%	14.31%
Europe	**14,865,700**	**10.87%**	12,848,155	10.59%	15.70%
North America	**11,806,117**	**8.63%**	10,499,908	8.65%	12.44%
Japan and Korea	**7,607,451**	**5.56%**	5,785,753	4.77%	31.49%
Asia Pacific and others	**9,944,843**	**7.27%**	8,425,322	6.94%	18.04%
Total	**136,774,403**	**100.00%**	121,362,899	100.00%	12.70%

Air Passenger Revenue

During the Reporting Period, the Group recorded an air passenger revenue of RMB120,430 million, representing an increase of RMB13,686 million over the previous year. Among the air passenger revenue, the increase of capacity contributed an increase of RMB11,107 million to the revenue, and the decrease of passenger load factor led to a decrease of RMB782 million to the revenue, while the increase of passenger yield resulted in an increase in revenue of RMB3,361 million. The Group's capacity, passenger load factor and yield per RPK in 2018 are as follows:

	2018	2017	Change
ASK *(million)*	**273,600.29**	247,815.03	10.41%
Passenger load factor *(%)*	**80.60**	81.14	(0.54ppt)
Yield per RPK *(RMB)*	**0.5461**	0.5307	2.90%

Air Passenger Revenue Contributed by Geographical Segments

(in RMB'000)	**2018** Amount	**2018** Percentage	2017 Amount	2017 Percentage	Change
Mainland China	**79,627,346**	**66.12%**	72,237,959	67.68%	10.23%
Hong Kong, Macau and Taiwan	**5,622,473**	**4.67%**	4,901,628	4.59%	14.71%
Europe	**11,064,799**	**9.19%**	9,080,477	8.51%	21.85%
North America	**8,069,082**	**6.70%**	7,454,590	6.98%	8.24%
Japan and Korea	**6,854,749**	**5.69%**	5,221,763	4.89%	31.27%
Asia Pacific and others	**9,191,545**	**7.63%**	7,847,153	7.35%	17.13%
Total	**120,429,994**	**100.00%**	106,743,570	100.00%	12.82%

Air Cargo and Mail Revenue

During the Reporting Period, the Group's air cargo and mail revenue was RMB11,406 million, representing an increase of RMB1,151 million as compared with last year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB709 million to the revenue, while the decrease of cargo and mail load factor resulted in a decrease in revenue of RMB143 million, and the increase of yield of cargo and mail resulted in an increase of RMB585 million to the revenue. The capacity, cargo and mail load factor and yield per RFTK in 2018 are as follows:

	2018	2017	Change
Available freight tonne kilometres *(million)*	**14,240.47**	13,319.36	6.92%
Cargo and mail load factor *(%)*	**55.96**	56.70	(0.74ppt)
yield per RFTK *(RMB)*	**1.4312**	1.3578	5.41%

Air Cargo and Mail Revenue Contributed by Geographical Segments

	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,954,665**	**17.14%**	1,926,312	18.78%	1.47%
Hong Kong, Macau and Taiwan	**406,972**	**3.57%**	373,174	3.64%	9.06%
Europe	**3,800,901**	**33.33%**	3,767,678	36.74%	0.88%
North America	**3,737,035**	**32.76%**	3,045,317	29.70%	22.71%
Japan and Korea	**752,702**	**6.60%**	563,990	5.50%	33.46%
Asia Pacific and others	**753,298**	**6.60%**	578,170	5.64%	30.29%
Total	**11,405,573**	**100.00%**	10,254,641	100.00%	11.22%

Operating Expenses

During the Reporting Period, the Group's operating expenses were RMB126,537 million, representing an increase of 12.71% from RMB112,270 million in 2017. The breakdown of the operating expenses is set out below:

	2018		2017		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**38,481,303**	**30.41%**	28,409,213	25.30%	35.45%
Take-off, landing and depot charges	**15,354,941**	**12.13%**	13,863,338	12.35%	10.76%
Depreciation and amortisation	**14,503,676**	**11.46%**	13,596,319	12.11%	6.67%
Aircraft maintenance, repair and overhaul costs	**6,612,844**	**5.23%**	6,213,096	5.53%	6.43%
Employee compensation costs	**24,450,250**	**19.32%**	22,392,361	19.95%	9.19%
Air catering charges	**3,787,134**	**2.99%**	3,462,347	3.08%	9.38%
Selling and marketing expenses	**4,373,023**	**3.46%**	4,496,533	4.01%	(2.75%)
General and administrative expenses	**1,535,617**	**1.21%**	1,595,189	1.42%	(3.73%)
Others	**17,437,984**	**13.79%**	18,242,094	16.25%	(4.41%)
Total	**126,536,772**	**100.00%**	112,270,490	100.00%	12.71%

- Jet fuel costs increased by RMB10,072 million or 35.45% 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 RMB1,492 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.

- Aircraft maintenance, repair and overhaul costs increased by RMB400 million on a year-on-year basis, mainly due to the expansion of fleet size.

- Employee compensation costs increased by RMB2,058 million on a year-on-year basis, mainly due to the impact of the expansion of production scale and the increase in number of employees.

- Air catering charges increased by RMB325 million on a year-on-year basis, mainly due to the increase in the number of passengers.

- Sales and marketing expenses decreased by RMB124 million on a year-on-year basis, mainly due to the Group's efforts in actively raising the proportion of direct sales and vigorously lowering agency fee expenses.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from the core air traffic business which decreased by 4.41% on a year-on-year basis. The decrease was mainly due to the reversal of provision of bad debts and the year-on-year decrease in the operating lease expenses of aircraft and engines, etc. for the year.

Finance Income, Finance Costs and Net Exchange (Loss) Gain

During the Reporting Period, the Group recorded a finance income of RMB173 million, representing a year-on-year decrease of RMB51 million or 22.88%; and incurred a finance costs (excluding the capitalised portion) of RMB2,914 million, representing a year-on-year decrease of RMB141 million. During the Reporting Period, the Group recorded a net exchange loss of RMB2,377 million, as compared to the net exchange gain of RMB2,938 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.

Share of Results of Associates and Joint Ventures

During the Reporting Period, the Group's share of results of its associates and joint ventures was a profit of RMB749 million, as compared to the share of results of its associates and joint ventures as a loss of RMB376 million for the same period of 2017, mainly due to the increase in the profits of Cathay Pacific (an associate of the Group) this year. The Group recorded a gain on investment of Cathay Pacific of RMB202 million during the Reporting Period, as compared with the loss of investment on Cathay Pacific of RMB986 million for the same period of previous year.

Material Acquisitions and Disposals

On 30 August 2018, upon approval at the 7th meeting of the 5th session of the Board of the Company, the Company entered into an equity transfer agreement with Capital Holding, pursuant to which, the Company has sold 51% equity interests of Air China Cargo held by it to Capital Holding, at a consideration of RMB2,438,837,520, which had been fully paid in cash. On 19 October 2018, the disposal was approved by the independent shareholders of the Company at the 1st extraordinary general meeting of 2018. As at 28 December 2018, the registration change for the disposal has been completed at Beijing Municipal Administration of Industry and Commerce, upon which, the Company ceased to hold any share of Air China Cargo. Details are set out in the announcements of the Company dated 30 August 2018, 19 October 2018 and 28 December 2018, and the circular dated 4 September 2018.

Saved as disclosed above, the Company did not make any material acquisitions and disposals of subsidiaries, associates or joint ventures during the Reporting Period.

Assets Structure Analysis

As at the end of the Reporting Period, the total assets of the Group was RMB243,657 million, representing a year-on-year increase of 3.40%, among which current assets accounted for RMB23,726 million or 9.74% of the total assets, while non-current assets accounted for RMB219,931 million or 90.26% of the total assets.

Among the current assets, cash and cash equivalents were RMB6,763 million, accounting for 28.51% of the current assets and representing an increase of 21.58% from the beginning of the year, which was mainly due to the changes of the scope of consolidation of the Group for the Reporting Period and the payment received by the Company at the end of the year for equity transfer.

Among the non-current assets, the net book value of property, plant and equipment amounted to RMB171,663 million, accounting for 78.05% of the non-current assets and representing a year-on-year increase of 1.85%, which was mainly due to the increase in the number of self-owned and financing leased aircraft during the year, depreciation charge for the year and changes of the scope of consolidation of the Group for the Reporting Period.

Asset Mortgage

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated net book value of approximately RMB85,514 million (approximately RMB81,064 million as at 31 December 2017) and land use rights with net book value of approximately RMB28 million (approximately RMB34 million as at 31 December 2017). In addition, as at the end of the Reporting Period, the Group had restricted bank deposits of approximately RMB1,044 million (approximately RMB697 million as at 31 December 2017), 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 a total of RMB16,659 million, of which the total investment in aircraft and engines was RMB15,788 million. Other capital expenditure investment amounted to RMB871 million, mainly including investments in aircraft modifications, flight simulators, infrastructure construction, IT system construction, ground equipment procurement 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 amounted to RMB15,254 million, representing an increase of 7.42% from the beginning of the year. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB12,318 million, RMB1,386 million and RMB926 million, respectively, with such companies recording profits of RMB2,377 million, RMB462 million and RMB347 million, respectively for the year of 2018.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,427 million, representing an increase of 15.14% from the beginning of the year, mainly due to the recognised share of investment income from the joint ventures during the Reporting Period.

Debt Structure Analysis

As at the end of the Reporting Period, the Group's total liabilities were RMB143,159 million, representing a year-on-year increase of 1.69%. Among which, current liabilities amounted to RMB72,540 million, accounting for 50.67% of the total liabilities; and non-current liabilities amounted to RMB70,619 million, accounting for 49.33% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and obligations under finance leases) amounted to RMB34,320 million, representing a decrease of 3.30% from the beginning of the year.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and obligations under finance leases) amounted to RMB61,434 million, representing an increase of 2.55% from the beginning of the year.

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

(in RMB'000)	**2018** Amount	**2018** Percentage	2017 Amount	2017 Percentage	Change
US dollars	**28,814,309**	**30.10%**	38,797,204	40.67%	(25.73%)
RMB	**65,442,352**	**68.34%**	55,351,733	58.02%	18.23%
Others	**1,497,402**	**1.56%**	1,248,730	1.31%	19.91%
Total	**95,754,063**	**100.00%**	95,397,667	100.00%	0.37%

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 33.64% from RMB59,178 million as at 31 December 2017 to RMB39,269 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 RMB51,395 million as at the end of the Reporting Period, representing a year-on-year increase of 0.01%. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB59 million as at the end of the Reporting Period, representing an increase of RMB1 million from RMB58 million as at 31 December 2017.

Capital Expenditure Plan and Relevant Financing Plan for Aircraft and Related Equipment for the Coming Three Years

The Group has set the total budgeted capital expenditure for aircraft and related equipment at RMB46,291 million, of which RMB24,107 million, RMB15,665 million and RMB6,519 million have been allocated to the years of 2019, 2020 and 2021 respectively. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or debt financing.

Gearing Ratio

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 58.75%, representing a decrease of 1.00 percentage points from 59.75% as at 31 December 2017, such decrease was mainly due to the continuous profit making of the Group. 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 RMB48,814 million, representing a decrease of RMB2,558 million as compared to the previous year. The decrease in net current liabilities was mainly due to the decrease in short-term interest-bearing bank loans and other borrowings. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.33, representing an increase from 0.29 as at 31 December 2017.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In the Reporting Period, the Group's net cash inflow from operating activities was RMB28,683 million, representing an increase of 25.60% from RMB22,837 million for the corresponding period last year, which is mainly due to the increase of air traffic revenue and the decrease of operation-related receivables during the Reporting Period. Net cash outflow from investment activities was RMB8,950 million, representing a decrease of 38.92% from RMB14,653 million for the corresponding period last year, mainly due to the year-on-year decrease in the cash payment of advances and remaining balances for aircraft during the Reporting Period. Net cash outflow from financing activities amounted to RMB18,647 million, representing an increase of 100.47% from RMB9,302 million for the corresponding period last year, mainly due to the increase in debt repayment during the Reporting Period. The Company has obtained bank facilities of up to RMB134,595 million granted by several banks in the PRC, of which approximately RMB21,484 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

OPERATIONAL PLAN

With reference to the analysis of the external circumstances and the assessment on our own conditions, the major objectives of the Company, Shenzhen Airlines (including Kunming Airlines), Dalian Airlines, Beijing Airlines, Air China Inner Mongolia for 2019 are determined as follows: completing 2.306 million flight hours, traffic measured by RTK of 26.74 billion tonne kilometres, carrying 0.12 billion passengers, and traffic measured by RFTK of 5.20 billion kilometres.

In order to achieve the above objectives, the Company has established its operational focuses of 2019, including (1) strengthening safety management capability to ensure continuous safe and stable operation; (2) continuing to improve operational quality and accelerate the business model transition; (3) speeding up the transition and upgrading of service and implement major upgrading projects; (4) upholding the hub network strategy to build world-class hubs; (5) comprehensively strengthening our reform to generate internal growth motives; (6) winning the "three critical battles" of preventing and mitigating material risks, targeted poverty alleviation and pollution control which are inherently parts of our responsibilities as a state-owned enterprise; (7) enhancing our innovation capability and strengthen fundamental management work; (8) strengthening the responsibilities in respect of Party internal management and improve the Party building quality; and (9) devoting unwavering efforts to correcting unhealthy tendency and preventing and punishing acts against disciplinary and anticorruption regulations, so as to further promote the improvement of the conduct and anti-corruption practices of the Party.

SHARE CAPITAL STRUCTURE

As at the end of the Reporting Period, the Company had a total share capital of RMB14,524,815,185, divided into 14,524,815,185 shares of RMB1.00 each. The following table sets out the share capital structure of the Company as at the end of the Reporting Period:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	9,962,131,821	68.59%
H Shares	4,562,683,364	31.41%
Total	14,524,815,185	100.00%

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company. For this purpose, the term of “securities” has the meaning ascribed thereto under Paragraph 1 of Appendix 16 to the Listing Rules.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the code provisions as set out in the Corporate Governance Code 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 exacting than the required standards of the Model Code. 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.

SUBSEQUENT EVENTS

On 27 March 2019, the Board proposed to appoint Mr. Cao Jianxiong as a non-executive Director of the 5th session of the Board. Such proposed appointment is subject to approval at the general meeting of the Company. For details, please refer to the announcement of the Company dated 27 March 2019.

DIVIDEND

According to the Articles of Association, the dividends will be distributed in cash by the Company in the event that the distributable profit realized for the current year in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards and regulations are positive. The applicable distributable profit represents the balances of profit after tax realized for the current year in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards, whichever is lower, after making up for the losses and making contributions to the common reserve fund in accordance with the provisions of the Articles of Association as well as deducting otherwise approved by the relevant national departments.

In accordance with above-mentioned policies and based on the actual circumstances of the Company, the Board recommends the appropriation of 10% and 10% of profit after tax realized in the financial statement of the parent company prepared in accordance with the Chinese accounting standard to statutory surplus reserve and discretionary surplus reserve, respectively, and the payment of cash dividend amounting to RMB1,500 million based on 35% of the distributable profit for the current period, i.e. RMB1.0328 (including tax) for every ten shares based on the current total issued shares of 14,524,815,185 shares of the Company for the year 2018.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") to be held on 30 May 2019. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A Shares and the holders of H Shares who are mainland investors investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect shall be paid in RMB while dividends payable to the other holders of H Shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle price of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the AGM.

The Company proposed to pay the aforesaid final dividends on 11 July 2019. For H Shares, the dividends shall be paid to shareholders whose names appear on the register of members of the Company on 10 June 2019. For A Shares, the dividends will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 10 July 2019, and the ex-dividend date of A Shares will be 11 July 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of H Shares will be closed from Tuesday, 30 April 2019 to Thursday, 30 May 2019, both days inclusive, during which no transfer of H Shares will be effected. In order to be entitled to attend and vote at the AGM, the holders of the H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 29 April 2019. The members of the H Shares whose names appear on the register of shareholders of the Company on Tuesday, 30 April 2019 will be entitled to attend the AGM.

The register of members of H Shares of the Company will be closed from Wednesday, 5 June 2019 to Monday, 10 June 2019, both days inclusive, during which no transfer of H Shares will be effected. In order to qualify for the final dividend, the holders of the H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 4 June 2019. The members of the H Shares whose names appear on the register of shareholders of the Company on Monday, 10 June 2019 will be qualified for the final dividend.

ANNUAL REPORT

The annual report for the year ended 31 December 2018 containing all information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

The Company would like to remind the readers of this announcement that the airline operations are substantially influenced by global political and economic developments. Accidental and unexpected incidents may have material impacts on our operations or the industry as a whole. This 2018 annual results announcement of the Company contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT AND RISK CONTROL COMMITTEE

The 2018 annual results of the Company have been reviewed by the audit and risk control committee of the Board.

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

Traffic Measurements

"passenger traffic"	measured in RPK, 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 RFTK, 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"	RPK expressed as a percentage of ASK
"cargo and mail load factor"	RFTK expressed as a percentage of AFTK
"overall load factor"	RTK expressed as a percentage of ATK
"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

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

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

"Air China Cargo"	Air China Cargo Co., Ltd., a company incorporated under the laws of the PRC with limited liability
"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
"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 company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of CNAHC
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"CNAHC"	China National Aviation Holding Corporation Limited
"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

"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)
"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
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Reporting Period"	from 1 January 2018 to 31 December 2018
"RMB"	Renminbi, the lawful currency of the PRC
"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

"Shareholders"	the shareholders of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a subsidiary of the Company
"US dollars"	United States dollars, the lawful currency of the United States

By Order of the Board
Air China Limited
Zhou Feng Tam Shuit Mui
Joint Company Secretaries

Beijing, the PRC, 27 March 2019

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Xue Yasong, Mr. John Robert Slosar, Mr. Wang Xiaokang, Mr. Liu Deheng*, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*