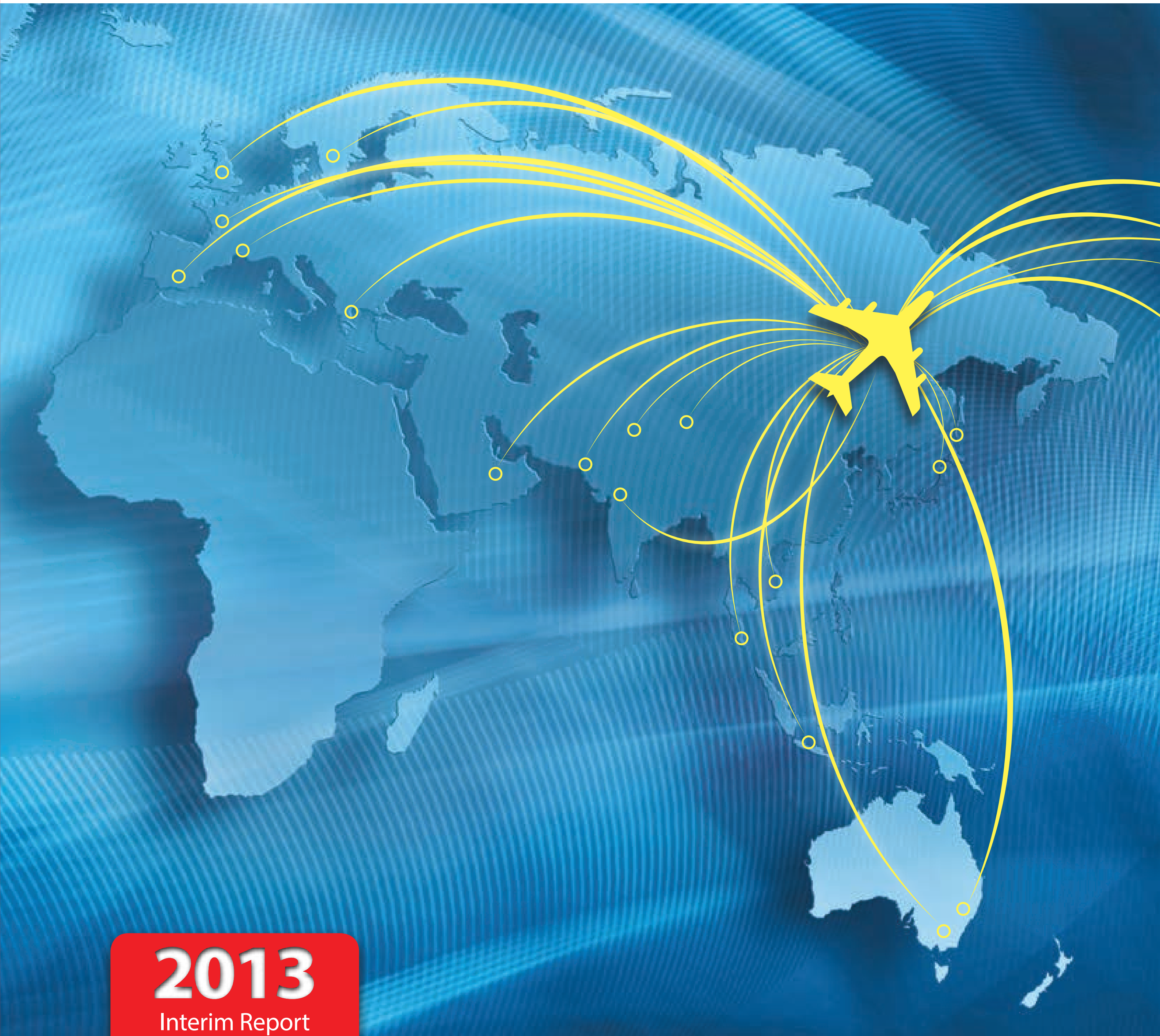
AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 753 HongKong 601111 Shanghai AIRC London



2013
Interim Report

Contents

Corporate Information

REGISTERED CHINESE NAME:
中國國際航空股份有限公司

ENGLISH NAME:
Air China Limited

REGISTERED OFFICE:
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28 Tianzhu Road
Airport Industrial Zone
Shunyi District
Beijing
China

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Hong Kong International Airport
Hong Kong

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DIRECTORS:
Wang Changshun
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Christopher Dale Pratt
Ian Sai Cheung Shiu
Cai Jianjiang
Fan Cheng
Fu Yang
Li Shuang
Han Fangming
Yang Yuzhong

SUPERVISORS:
Li Qinglin
Zhang Xueren
Zhou Feng
Xiao Yanjun
Su Zhiyong

LEGAL REPRESENTATIVE OF THE COMPANY:
Wang Changshun

JOINT COMPANY SECRETARIES:
Rao Xinyu
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:
Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:
Haiwen & Partners *(as to PRC Law)*
Sullivan & Cromwell *(as to Hong Kong and English Law)*

INTERNATIONAL AUDITORS:
KPMG

H SHARE REGISTRAR AND TRANSFER OFFICE:
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LISTING VENUES:
Hong Kong, London and Shanghai

Summary of Financial Information

(RMB'000)	For the six months ended 30 June 2013	For the six months ended 30 June 2012 (restated)	Change (%)
Turnover	46,019,035	46,975,826	-2.04
Profit from operations	1,426,615	2,795,679	-48.97
Profit before tax	1,546,625	1,487,432	3.98
Profit after tax (including profit attributable to non-controlling interests)	1,151,406	1,178,767	-2.32
Profit attributable to non-controlling interests	6,607	136,640	-95.16
Profit attributable to equity shareholders of the Company	1,144,799	1,042,127	9.85
EBITDA[(1)]	6,714,053	7,809,825	-14.03
EBITDAR[(2)]	9,067,386	9,876,798	-8.20
Earnings per share attributable to equity shareholders of the Company (RMB)	0.0931	0.0859	8.38
Return on equity (%)[(3)]	2.23%	2.09%	0.14 ppts

(1) EBITDA represents earnings before finance revenue, finance costs, income taxes, share of profits less losses of associates and joint ventures, depreciation and amortization as computed under IFRSs.

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

(3) Return on equity represents profit for the period attributable to equity shareholders divided by equity attributable to equity shareholders of the Company at period end.

(RMB'000)	30 June 2013	31 December 2012 (restated)	Change (%)
Total assets	196,763,190	185,283,484	6.20
Total liabilities	141,946,217	131,971,243	7.56
Non-controlling interests	3,452,213	3,367,991	2.50
Equity attributable to equity shareholders of the Company (excluding non-controlling interests)	51,364,760	49,944,250	2.84
Shareholder's equity per share (RMB)	4.18	4.12	1.46

Summary of Operating Data

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

	For the six months ended 30 June 2013	For the six months ended 30 June 2012	Increase/decrease
Traffic			
RPK (in millions)	**67,905.28**	62,336.00	8.93%
International	**19,050.89**	18,219.30	4.56%
Domestic	**45,905.33**	41,405.83	10.87%
Hong Kong, Macau and Taiwan	**2,949.06**	2,710.87	8.79%
RFTK (in millions)	**2,366.18**	2,260.93	4.66%
International	**1,631.92**	1,585.84	2.91%
Domestic	**688.87**	624.19	10.36%
Hong Kong, Macau and Taiwan	**45.39**	50.91	-10.83%
Passengers (in thousands)	**37,450.18**	34,747.21	7.78%
International	**3,596.10**	3,649.63	-1.47%
Domestic	**31,976.56**	29,375.82	8.85%
Hong Kong, Macau and Taiwan	**1,877.52**	1,721.76	9.05%
Cargo and mail carried (tonnes)	**697,849.87**	664,600.48	5.00%
Kilometres flown (in millions)	**468.10**	440.90	6.17%
Block hours (in thousands)	**755.48**	712.94	5.97%
Number of flights	**259,345**	247,855	4.64%
International	**25,118**	25,525	-1.59%
Domestic	**218,380**	207,376	5.31%
Hong Kong, Macau and Taiwan	**15,847**	14,954	5.97%
RTK (in millions)	**8,419.18**	7,824.91	7.59%
Capacity			
ASK (in millions)	**83,718.58**	77,881.59	7.49%
International	**23,856.03**	23,166.44	2.98%
Domestic	**55,752.37**	50,980.53	9.36%
Hong Kong, Macau and Taiwan	**4,110.17**	3,734.63	10.06%
AFTK (in millions)	**4,132.68**	3,974.99	3.97%
International	**2,604.85**	2,574.32	1.19%
Domestic	**1,394.15**	1,267.11	10.03%
Hong Kong, Macau and Taiwan	**133.67**	133.56	0.09%
ATK (in millions)	**11,684.01**	10,998.84	6.23%

Summary of Operating Data

	For the six months ended 30 June 2013	For the six months ended 30 June 2012	Increase/decrease
Load factors			
Passenger load factor (RPK/ASK)	**81.11%**	80.04%	1.07 ppts
International	**79.86%**	78.65%	1.21 ppts
Domestic	**82.34%**	81.22%	1.12 ppts
Hong Kong, Macau and Taiwan	**71.75%**	72.59%	-0.84 ppts
Cargo and mail load factor (RFTK/AFTK)	**57.26%**	56.88%	0.38 ppts
International	**62.65%**	61.60%	1.05 ppts
Domestic	**49.41%**	49.26%	0.15 ppts
Hong Kong, Macau and Taiwan	**33.96%**	38.12%	-4.16 ppts
Overall load factor (RTKs expressed as a percentage of ATKs)	**72.06%**	71.14%	0.91 ppts
Yield			
Yield per RPK (RMB)	**0.60**	0.66	-9.09%
International	**0.54**	0.55	-1.82%
Domestic	**0.61**	0.70	-12.86%
Hong Kong, Macau and Taiwan	**0.80**	0.86	-6.98%
Yield per RFTK (RMB)	**1.58**	1.70	-7.06%
International	**1.66**	1.74	-4.60%
Domestic	**1.26**	1.42	-11.27%
Hong Kong, Macau and Taiwan	**3.39**	3.79	-10.55%
Daily utilization (block hours per day per aircraft)	**9.45**	9.63	-0.18 hour
Unit cost			
Operating cost per ASK (RMB)	**0.53**	0.57	-7.02%
Operating cost per ATK (RMB)	**3.82**	4.02	-4.98%

Chairman's Statement

The first half of 2013 witnessed a complex and volatile operating environment both internationally and domestically. The global economy continued its sluggish recovery whilst China's economic growth slowed, facing the pressure from the economic restructuring and transition upgrade. Despite the steady growth in the air passenger market, market competition intensified and profit margin declined accordingly. The air cargo market remained weak, resulting in a relatively challenging operating environment. The Group has taken a series of proactive measures, including optimising its operating structure and strengthening its marketing, product innovation and service management, which effectively improved our operational efficiency, consolidated our competitive edge in core markets, and maintained an industry-leading performance in business operations. During the reporting period, the Group recorded a profit attributable to equity shareholders of RMB1,145 million, representing an increase of 9.85% from the corresponding period last year.

In the first half of 2013, our capacity measured in available seat kilometer reached 83,719 million and our revenue passenger kilometer reached 67,905 million, representing an increase of 7.49% and 8.93% over the same period of the last year, respectively. We carried a total of 37,450,200 passengers with a passenger load factor of 81.11%, representing an increase of 7.78% and 1.07 percentage points over the same period of the previous year, respectively. The operating cost per available seat kilometer decreased by 7.02% to RMB0.53 compared with the same period of last year while our passenger yield decreased by 9.09% to RMB0.60 due to the intensifying market competition.

In the first half of 2013, with the delivery of 20 new aircraft, the Group promptly adapted to the changes in the market environment by further strengthening the alignment between capacity allocation and market demand. For our domestic operations, we have primarily increased the deployment of narrow-body aircraft in second and third tier cities as well as central and western regions, and rationalised the deployment of wide-body aircraft in major first tier cities. For our international operations, we, in seizing the market trend in a timely manner, have increased our capacity deployment of Boeing 777-300ER aircraft in place of Boeing 747 on our North American routes, replaced Airbus 340 aircraft with more advantageous Airbus 330 aircraft on our European routes and appropriately reduced our capacity on our Japanese routes and re-deployed such capacity to other markets with a higher demand. With these efforts, we achieved a better alignment between the capacity allocation and market demand, a steady increase in the operational efficiency of air passenger business as well as an effective decrease in our unit operating cost.

In the first half of 2013, the Group continued to strengthen its operating advantages in terms of its network, transfer flights and alliance partners and increase the value of its aviation hubs. Flight connections at the Beijing hub have been effectively optimised and the introduction of a 72-hour visa-free transit policy have resulted in a notable increase in the transfer revenue, particularly from international flights. New routes including Jiuzhaigou-Guangzhou and Chengdu-Frankfurt were launched at the Chengdu regional hub, resulting in the number of cities served by the Chengdu regional hub reaching 64. The profitability of air routes at the Shanghai gateway was further improved with Airbus 340 aircraft gradually being replaced by Airbus 330 aircraft for long-haul international routes. In the first half of 2013, the Company successfully became a member of the strategic group of the core executive committee of Star Alliance and strengthened the cooperation with other Star Alliance members. With the Star Alliance platform, our competitive advantage of the hub network was further consolidated.

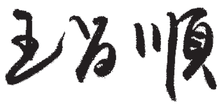
In the first half of 2013, the Group continued to improve its core competitiveness in service by committing to its passenger demand oriented services, providing full-featured integrated services and improving the passenger experience. We introduced innovative service products and conducted a successful trial flight with on-board satellite internet technology. We also enhanced operation at zone D of Terminal 3 of the Beijing Capital International Airport and improved both bridge docking rate and on time performance rate. Efforts have also been made to optimise the through check-in and through baggage for transfer flights on European and American routes to facilitate passengers transfer in the Beijing hub. In response to the declining on time performance rate, we formulated a series of measures such as optimising our flight schedules, enhancing flight monitoring and increasing resource availability. At the same time, we developed specific measures to deal with flight delays in terms of information release, decision-making mechanism and passenger care.

Chairman's Statement

In order to improve its operational efficiency, the Group continued to strengthen the strategic collaboration with its member airlines. We furthered our comprehensive cooperation with Cathay Pacific in cargo business, ground handling at the Shanghai International Airport and code-sharing flights. We also continued to deepen our comprehensive cooperation with Shenzhen Airlines in various business aspects, among which the joint procurement of 100 Airbus aircraft saved our procurement costs. With the official launch of Air China Inner Mongolia limited, we have strengthened our influence in the regional market.

The weak performance of the air cargo market that started in 2012 continued in the first half of the year. In response to the challenging operating environment, Air China Cargo strived to strengthen its marketing and deepen the synergy of passenger and cargo operation. Air China Cargo also placed greater emphasis on optimising the capacity deployment in alignment with the market demand as well as aviation routes with the launch of two new cargo routes (i.e., Shanghai Pudong-Chongqing-Frankfurt and Shanghai Pudong-Zhengzhou-Amsterdam routes) to boost its competitiveness in the western China market. Air China Cargo entered into an agreement in respect of the purchase of eight Boeing 777-F aircraft and the sale of seven 747-400BCF aircraft, with the sale of one aircraft already completed, which has resulted in a decrease in fixed costs in the reporting period and will also significantly improve the efficiency of its fleet in the future. In the first half of 2013, Air China Cargo recorded an increase of 3.96% and 4.60% in available freight tonne kilometers and revenue freight tonne kilometers, respectively, and the cargo and mail load factor also increased by 0.34 percentage points compared with the same period of the last year, resulting in an effective reduction in operating losses.

In the second half of 2013, faced with the intense market competition, the Group will continue to implement measures to maintain its steady business growth and revenue and further stimulate management potential and innovation vitality by accelerating structural adjustment, boosting operational efficiency, enhancing marketing capability and improving services in a bid to seize opportunities in the peak season, achieve a better performance and maintain its strategic leading advantage.



Wang Changshun
Chairman

Beijing, PRC
27 August 2013

Business Overview

In the first half of 2013, the Group's ATKs and RTKs reached 11,684 million and 8,419 million, representing an increase of 6.23% and 7.59%, respectively, over the same period last year. The Group's overall load factor was 72.06%, representing an increase of 0.91 ppts over the same period of the previous year.

DEVELOPMENT OF FLEET

In the first half of 2013, the Group acquired 20 aircraft, including A320, A330, B737-800 and B777-300ER, and phased out 11 old aircraft, such as B737-300, B767-300 and B747-400F. As at 30 June 2013, the Group operated a fleet of 470 aircraft, with an average age of 6.51 years (excluding aircraft under wet leases). Details of the fleet of the Group are set out in the table below:

	30 June 2013					Introduction Plan		
	Subtotal	Self-owned	Finance Leased	Operating Leased	Average Age	2013	2014	2015
Passenger Aircraft	**451**	**221**	**114**	**116**	**6.31**	**56**	**60**	**45**
Among which:								
Airbus series	**220**	**90**	**82**	**48**	**4.94**	**26**	**19**	**5**
A319	40	24	9	7	8.18	0	0	0
A320/A321	137	54	55	28	3.83	19	11	1
A330	37	6	18	13	3.92	7	8	4
A340	6	6	0	0	15.06	0	0	0
Boeing series	**231**	**131**	**32**	**68**	**7.64**	**30**	**41**	**40**
B737	190	99	23	68	6.87	25	34	36
B747	9	9	0	0	16.24	0	3	4
B757	8	8	0	0	18.49	0	0	0
B767	1	1	0	0	13.04	0	0	0
B777	23	14	9	0	6.45	5	4	0
Freighters	**10**	**8**	**0**	**2**	**18.82**	**1**	**4**	**3**
B747F	10	8	0	2	18.82	0	0	0
B777F	0	0	0	0	–	1	4	3
Business jets	**9**	**1**	**0**	**8**	**2.89**	**1**	**0**	**0**
TOTAL	**470**	**230**	**114**	**126**	**6.51**	**58**	**64**	**48**

Among the aircraft set out above, the Company operated a fleet of 304 aircraft, with an average age of 6.55 years (excluding aircraft under wet leases). During the first six months of 2013, the Company acquired 12 aircraft and phased out 9 aircraft.

Business Overview

In the first half of 2013, the Company made new progress in hub construction, sales and marketing, strategic collaboration, product innovation, service enhancement and cost control.

HUB NETWORK AND ALLIANCE COOPERATION

The value of the hub network continued to improve. The Beijing hub expanded its route network by introducing the Beijing-Geneva and Beijing-Lijiang routes and increasing the frequency of long-haul routes from Beijing to New York, Vancouver and Dusseldorf. The number of transfer passengers and the transfer revenue increased by 6.4% and 3.0%, respectively, compared with the same period of the previous year. The number of transfer passengers from the Chengdu regional hub and the Shanghai international gateway reached 254,000 and 110,000, respectively. The Company actively took part in Star Alliance affairs and secured a seat in the strategic groups of Star Alliance's four business committees for business cooperation, frequent flyers, brands and products and services, thereby taking part in the decision-making of Star Alliance as an Asian-Pacific Region representative for the first time and playing a more influential role within Star Alliance.

As at 30 June 2013, the number of air passenger routes operated by the Company reached 308, among which 72 were international routes, 16 were regional routes and 220 were domestic routes, covering 148 cities in 30 countries and regions, including 46 international cities, 4 regional cities and 98 domestic cities.

MARKETING

The Company adjusted its sales and marketing strategy according to market changes with an aim of enhancing its marketing capability. During the reporting period, it simplified the membership enrolment procedure of its frequent flyer program and implemented comprehensive service management practices. It completed the integration with the frequent flyer program of Shandong Airlines. As a result, the number of PhoenixMiles members reached 27.06 million and the revenue contributed from frequent flyers amounted to RMB9.26 billion. The Company enhanced its efforts in cultivating corporate customers and increasing their contribution while focusing on cultivating and maintaining key corporate customers. Consequently, the aggregate number of corporate customers globally reached 138 and the revenue from our key customers reached RMB5.18 billion. The Company also increased sales to domestic and international premium class passengers, which lead to a revenue of RMB4.38 billion from its first and business class, representing an increase of 8% from the same period last year. With the improvement of online customer service experience, revenue from e-commerce grew by 30% to RMB3.78 billion from the same period last year.

STRATEGIC COLLABORATION

During the first half of the year, the Company has advanced the strategic collaboration with member airlines in areas of sales, maintenance, central procurement, finance and information technology, and improved the synergy mechanism and sharing platforms. The joint purchase of 100 Airbus aircraft with Shenzhen Airlines saved aircraft procurement costs and will increase the Company's competitiveness in the southern China region. Its synergy with Shenzhen Airlines was extended to sales operations, and as a result, sales revenues of both parties arising from such synergy further increased. The Company further deepened the code-sharing flights operation with Cathay Pacific and coordinated with Cathay Pacific on our fleet adjustment plans to reach a Boeing aircraft replacement package, resulting in greater optimisation of the fleet structures of the Company and Air China Cargo. The Company also established Air China Inner Mongolia Limited to enhance its presence in that regional market.

Business Overview

PRODUCTS AND SERVICES

We focused on the needs of our passengers and continued to improve our service quality. We officially launched the passenger feedback management system to improve the communication channels with passengers through centralised processing of passengers' suggestions and complaints. We launched innovative products such as on-board satellite internet technology project, becoming the first company in China to do so. We also commenced through baggage services on 19 flights over 15 routes including those from New York, Vancouver and Frankfurt to domestic cities via Beijing, providing a greater convenience to passengers who take transfer flights at the Beijing hub. Other initiatives include operating Zone D in Terminal 3 of the Beijing Capital Airport to improve the bridge docking rate and punctuality rate, introducing the 72-hour visa-free transit policy, optimising the service procedure of self-driven car parking to build a high-end self-driven car parking service product, and reconfiguring the premium class lounges in Beijing, Chengdu, Hangzhou, Chongqing, Shanghai, Wuhan, Guiyang and Dalian airports to build a chain of "boutique lounges."

COST CONTROL

We adhered to the cost-leading strategy, optimised our cost structure and strengthened our cost control. While focusing on the improvement of asset utilisation, we continually optimised our fleet structure, strengthened the alignment between routes and aircraft model, enhanced the dynamic flight adjustment and reduced the unit cost. By implementing the computerised flight planning system, expanding the use of power equipment of passenger bridge, and optimising the routes, we reduced fuel consumption. We focused on details management and updated our weight standards for containers and passengers to improve the payload. We also improved the on-board supplies recycling and inventory management to reduce our cost and expenditure.

MAJOR SUBSIDIARIES AND SHAREHOLDING COMPANIES AND THEIR OPERATING CONDITIONS AND RESULTS

(1) Air China Cargo

Air China Cargo was established in 2003. In 2011, Air China completed the cargo joint venture project with Cathay Pacific based on the platform of the former Air China Cargo. The registered capital of the joint venture is RMB3,235,294,118. Air China holds 51% of its equity interest.

As at 30 June 2013, Air China Cargo operated a fleet of 10 aircraft in total with an average age of 18.82 years. One aircraft has phased out during the period.

In the first half of 2013, the AFTKs and RFTKs of Air China Cargo reached 3,826 million and 2,147 million, respectively, representing an increase of 3.96% and 4.60%, respectively, from the same period last year. The amount of cargo and mail carried increased by 5.10% to 558,700 tonnes and the cargo and mail load factor increased by 0.34 ppts to 56.12%, compared with the corresponding period of the previous year.

In the first half of 2013, Air China Cargo's turnover was RMB3,749 million, representing an increase of 2.66% from the same period of the previous year, among which, cargo and mail transportation revenue was RMB3,572 million, representing an increase of 1.82% compared with the same period last year. During the period, Air China Cargo incurred a net loss of RMB271 million, representing a decrease of 37.56% from the same period last year.

(2) Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB812,500,000. Air China holds 51% of its equity interest.

Business Overview

As at 30 June 2013, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 128 aircraft in total with an average age of 5.28 years. A total of 5 aircraft were acquired in the first half of 2013.

In the first half of 2013, the ASKs and RPKs of Shenzhen Airlines (including Kunming Airlines) reached 20,160 million and 16,588 million, respectively, representing an increase of 9.56% and 11.03%, respectively, from the same period last year. Shenzhen Airlines (including Kunming Airlines) carried 11,312,500 passengers, representing an increase of 9.84% compared with the same period last year. Its average passenger load factor was 82.29%, representing an increase of 1.09 ppts from the same period of the previous year.

In terms of air cargo, the AFTKs and RFTKs of Shenzhen Airlines reached 268 million and 206 million, respectively, representing an increase of 1.79% and 3.56%, respectively, from the same period last year. The amount of cargo and mail carried by Shenzhen Airlines increased by 2.63% to 129,400 tonnes and the cargo and mail load factor increased by 1.31 ppts to 76.84%, compared with the same period of the previous year.

In the first half of 2013, Shenzhen Airlines recorded a turnover of RMB10,093 million, representing a decrease of 2.90% from the same period of the previous year, among which, air traffic revenue was RMB9,752 million, representing a decrease of 1.96% from the same period last year. The profit attributable to shareholders for the period was RMB228 million, representing a decrease of 62.06% compared with the same period last year.

(3) Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP442,042,000. Air China holds 67% of its equity interest.

As at 30 June 2013, Air Macau operated a fleet of 14 aircraft (excluding one under wet lease to Air China) with an average age of 11.40 years. In the first half of 2013, it acquired two aircraft and phased out one aircraft.

In the first half of 2013, the ASKs and RPKs of Air Macau reached 2,088 million and 1,397 million, respectively, representing an increase of 14.66% and 16.23%, respectively, from the same period last year. A total of 854,900 passengers were carried, with an average load factor of 66.89%, representing an increase of 15.19% and 0.90 ppts, respectively, compared with the corresponding period of the previous year.

In terms of air cargo, the AFTKs and RFTKs of Air Macau reached 32,328,300 and 9,432,300, respectively, representing an increase of 18.45% and 20.83%, respectively, from the same period last year. It carried 6,246.00 tonnes of cargo and mail, representing an increase of 22.35% from the same period last year, while the cargo and mail load factor was 29.18%, representing an increase of 0.57 ppts from the corresponding period last year.

In the first half of 2013, Air Macau recorded a turnover of RMB1,312 million, representing an increase of 10.63% over the same period last year, among which, air traffic revenue was RMB1,021 million, representing an increase of 18.07% from the same period last year, with a profit after tax of RMB76 million, representing a decrease of 17.50% over the same period last year.

(4) Dalian Airlines

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

As at 30 June 2013, Dalian Airlines operated a fleet of five aircraft, with an average age of 2.78 years. One aircraft was introduced in the first half of the year.

Business Overview

In the first half of 2013, the ASKs and RPKs of Dalian Airlines reached 644 million and 539 million, respectively, representing an increase of 67.77% and 84.97%, respectively, from the same period last year. A total of 443,600 passengers were carried, representing an increase of 94.27% from the corresponding period of the previous year, with an average passenger load factor of 83.83%, representing an increase of 7.79 ppts from the same period of the previous year.

In terms of air cargo, the AFTKs and RFTKs of Dalian Airlines reached 6,780,600 and 4,055,700, respectively, representing an increase of 47.81% and 107.23%, respectively, from the same period last year. The amount of cargo and mail carried by Dalian Airlines was 3,468.26 tons, representing an increase of 96.59% from the same period last year with a cargo and mail load factor of 59.81%, up 17.15 ppts from the corresponding period of the previous year.

In the first half of 2013, Dalian Airlines recorded a turnover of RMB364 million, among which, air traffic revenue was RMB358 million, with a profit after tax of RMB12 million.

(5) Beijing Airlines

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

As at 30 June 2013, Beijing Airlines operated a fleet of eight entrusted business jets and one self-owned business jet, with an average age of 2.89 years. One aircraft was introduced and one aircraft phased out in the first half of the year.

In the first half of 2013, Beijing Airlines completed 231 flights with 1,121.44 flying hours, carrying a total of 1,542 passengers.

A turnover of RMB51 million was recorded by Beijing Airlines in the first half of 2013, among which, revenue from charter flight service was RMB12 million, with a profit after tax of RMB4 million.

(6) Shandong Airlines

Shandong Airlines was established in 1999 with a registered capital of RMB400 million. Air China holds 22.8% of its equity interest.

As at 30 June 2013, Shandong Airlines operates a fleet of 63 aircraft (excluding 6 aircraft under wet lease to Air China) with an average age of 5.3 years. Eight aircraft was introduced in the first half of the year.

In the first half of 2013, the ASKs and RPKs of Shandong Airlines reached 9,232 million and 7,205 million, respectively. A total of 5,892,100 passengers were carried, with an average passenger load factor of 78.10%.

In terms of air cargo, the AFTKs and RFTKs of Shandong Airlines reached 170 million and 78 million, respectively. The amount of cargo and mail carried by Shandong Airlines was 54,500 tons, with a cargo and mail load factor of 46.21%.

In the first half of 2013, Shandong Airlines recorded a turnover of RMB5,430 million, among which, air traffic revenue was RMB5,258 million, with a profit attributable to shareholders of RMB82 million.

EMPLOYEES

As at 30 June 2013, we had a total of 25,209 employees, and our subsidiaries had a total of 28,894 employees.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

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

PROFIT ANALYSIS

For the six months ended 30 June 2013, the Group proactively responded to market changes by adopting various measures such as optimising operational arrangement, strengthening dynamic adjustment of flights allocation and refining cost control. Notwithstanding weak market demand and intensified competition, we recorded profit before tax of RMB1,547 million, profit attributable to shareholders of the Company of RMB1,145 million and an earnings per share of RMB0.0931, representing an increase of 3.98%, 9.85% and 8.38%, respectively, over the same period of 2012.

TURNOVER

For the six months ended 30 June 2013, the Group's total turnover was RMB46,019 million, representing a decrease of RMB957 million or 2.04% as compared with that of the same period of the previous year. Revenue from our air traffic operations contributed RMB44,465 million to the total turnover, representing a decrease of RMB809 million or 1.79% over the corresponding period of last year. Our other operating revenue was RMB1,554 million, representing a decrease of RMB148 million or 8.70% as compared with that of the same period of the previous year. The decrease in revenue is mainly due to the implementation of the policy to substitute value-added tax for business tax since September 2012. Had such tax policy substitution not taken place, the Group's turnover would actually grow by 2.50%.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2013		2012 (restated)		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
International	**13,106,535**	**28.48%**	12,757,719	27.16%	2.73
Domestic	**30,409,332**	**66.08%**	31,674,268	67.42%	-3.99
Hong Kong, Macau and Taiwan	**2,503,168**	**5.44%**	2,543,839	5.42%	-1.60
Total	**46,019,035**	**100.00%**	46,975,826	100.00%	-2.04

Management's Discussion and Analysis of Financial Conditions and Results of Operations

AIR PASSENGER REVENUE

For the six months ended 30 June 2013, the Group recorded an air passenger revenue of RMB40,736 million, representing a decrease of RMB696 million or 1.68% over the same period of 2012. Among the Group's air passenger revenue, the increase in capacity and passenger load factor contributed to an increase of RMB3,105 million and RMB597 million in revenue, respectively, while the decrease in passenger yield caused a RMB4,398 million decrease in revenue. The Group's capacity, passenger load factor and passenger yield of our passenger operations for the six months ended 30 June 2013 are as follows:

	For the six months ended 30 June		Change
	2013	2012	%
Available seat kilometres (million)	**83,718.58**	77,881.59	7.49
Passenger load factor (%)	**81.11**	80.04	1.07 ppts
Yield per RPK (RMB)	**0.60**	0.66	-9.09

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2013		2012		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
International	**10,327,724**	**25.35%**	9,943,992	24.00%	3.86
Domestic	**28,058,635**	**68.88%**	29,161,090	70.38%	-3.78
Hong Kong, Macau and Taiwan	**2,349,233**	**5.77%**	2,326,509	5.62%	0.98
Total	**40,735,592**	**100.00%**	41,431,591	100.00%	-1.68

Management's Discussion and Analysis of Financial Conditions and Results of Operations

AIR CARGO REVENUE

For the six months ended 30 June 2013, the Group's air cargo and mail revenue was RMB3,729 million, representing a decrease of RMB113 million or 2.93% from the same period in 2012. Among the Group's air cargo and mail revenue, increase in capacity and cargo and mail load factor contributed to an increase in revenue of RMB152 million and RMB27 million, respectively, while the decrease in cargo yield resulted in a decrease in revenue of RMB292 million. The capacity, cargo and mail load factor and yield of our cargo and mail operations for the six months ended 30 June 2013 are as follows:

	For the six months ended 30 June		Change
	2013	2012	%
Available freight tonne kilometres (million)	**4,132.68**	3,974.99	3.97
Cargo and mail load factor (%)	**57.26**	56.88	0.38 ppts
Yield per RFTK (RMB)	**1.58**	1.70	-7.06

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2013		2012		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
International	**2,705,276**	**72.54%**	2,761,698	71.88%	-2.04
Domestic	**870,221**	**23.33%**	887,211	23.09%	-1.91
Hong Kong, Macau and Taiwan	**153,935**	**4.13%**	193,140	5.03%	-20.30
Total	**3,729,432**	**100.00%**	3,842,049	100.00%	-2.93

Management's Discussion and Analysis of Financial Conditions and Results of Operations

OPERATING EXPENSES

For the six months ended 30 June 2013, the Group's operating expenses were RMB44,592 million, representing an increase of 0.93% as compared with RMB44,180 million recorded in the same period of 2012. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2013		2012 (restated)		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Jet fuel costs	**16,372,097**	**36.71%**	17,812,407	40.32%	-8.09
Take-off, landing and depot charges	**4,452,818**	**9.99%**	4,327,889	9.80%	2.89
Depreciation	**5,262,453**	**11.80%**	4,988,824	11.29%	5.48
Aircraft maintenance, repair and overhaul costs	**1,519,473**	**3.41%**	1,412,341	3.20%	7.59
Employee compensation costs	**6,198,255**	**13.90%**	5,966,843	13.51%	3.88
Air catering charges	**1,157,761**	**2.60%**	1,368,840	3.10%	-15.42
Selling and marketing expenses	**2,754,840**	**6.18%**	2,686,687	6.08%	2.54
General and administrative expenses	**560,548**	**1.26%**	388,495	0.88%	44.29
Others	**6,314,175**	**14.15%**	5,227,821	11.82%	20.78
Total	**44,592,420**	**100.00%**	44,180,147	100.00%	0.93

In particular:

- Jet fuel costs decreased by RMB1,440 million or 8.09% from the corresponding period in the previous year, mainly due to the change of policy on levying value-added tax in lieu of business tax. Without taking into account such policy change, jet fuel costs would actually record a slight increase.

- Take-off, landing and depot charges increased by RMB125 million over the same period of 2012 primarily due to an increase in the number of take-offs and landings.

- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft during the reporting period.

- Aircraft maintenance, repair and overhaul costs recorded an increase of RMB107 million or 7.59% over the same period of last year due to the expansion of fleet size.

- Employee compensation costs increased by RMB231 million, mainly due to an increase in number of employees and an increase in the hourly rate of pilots.

- Air catering charges decreased by RMB211 million, mainly due to the levy of value-added tax in lieu of business tax. Air catering charges would be substantially the same as that of the same period of last year without taking into account such policy change.

- Sales and marketing expenses increased by RMB68 million as compared to the same period in the previous year due to an increase in agency handling fees from the corresponding period of last year.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

- General and administrative expenses increased by RMB172 million as compared to the same period of the previous year mainly due to the bad debt provision on receivables of RMB18 million for the reporting period, as opposed to the reversal of bad debt provision on receivables of RMB230 million in the corresponding period of last year. Setting aside the effect of bad debt provision, general and administrative expenses decreased by 12.35% over that of the same period of last year.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items. Other operating expenses increased by 20.78% from the corresponding period of last year, mainly due to the increase in the operating lease expenses of aircraft engines and buildings and contributions to the civil aviation development fund for the reporting period from the corresponding period of last year.

FINANCIAL REVENUE AND FINANCIAL COSTS

For the six months ended 30 June 2013, the Group recorded a net exchange gain of RMB1,119 million as compared to a net exchange loss of RMB341 million for the same period of 2012, which was mainly due to the appreciation of RMB against U.S. dollars for the reporting period. For the current reporting period, the Group recorded interest expenses (including capitalized interest) of RMB1,551 million, representing an increase of RMB258 million from the same period of 2012, which was mainly due to the growth in interest-bearing liabilities and finance costs of the Group.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2013, the Group's share in the profits of its associates was RMB101 million, as compared with a share in the losses of associates of RMB95 million for the same period of 2012, mainly due to the recognition of gains on investment in Cathay Pacific of RMB44 million under the equity method in the current reporting period, as compared with the recognition of losses on investment in Cathay Pacific of RMB197 million (restated) under the equity method for the same period in 2012.

For the six months ended 30 June 2013, the Group's share in the profits of its joint ventures was RMB68 million, as compared with a share in the losses of joint ventures of RMB73 million for the same period of 2012.

ANALYSIS OF ASSETS STRUCTURE

As at 30 June 2013, the total assets of the Group amounted to RMB196,763 million, representing an increase of 6.20% as compared with 31 December 2012, among which current assets accounted for RMB25,435 million or 12.93% of the total assets, while non-current assets accounted for RMB171,328 million or 87.07% of the total assets.

Among the current assets, cash and cash equivalents were RMB13,903 million, representing an increase of 17.94% from 31 December 2012. Accounts receivable amounted to RMB3,622 million, representing an increase of 31.98% as compared with 31 December 2012. Among the non-current assets, the net book value of property, plant and equipment as at 30 June 2013 was RMB126,060 million, representing an increase of 2.09% from 31 December 2012.

ASSETS MORTGAGE

As at 30 June 2013, the Group, pursuant to certain bank loans and finance leasing agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB79,944 million (approximately RMB80,227 million as at 31 December 2012), a number of shares in its associates with a market value of approximately RMB4,312 million (approximately RMB4,604 million as at 31 December 2012) and land use rights with a net book value of approximately RMB38 million (approximately RMB39 million as at 31 December 2012). At the same time, the Group had approximately RMB779 million (approximately RMB803 million as at 31 December 2012) in bank deposits pledged as security for certain bank loans and security deposit for aircrafts under operating lease and the provision for overhauls of aircraft engines under operating lease of the Group.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

CAPITAL EXPENDITURE

For the six months ended 30 June 2013, the Company's capital expenditure amounted to RMB9,411 million, of which the total investment in aircraft and engine was RMB8,692 million.

Other capital expenditure amounted to RMB719 million, which was mainly spent on rotables, aircraft additions and modifications, flight simulators, infrastructure construction, information system building, equipment purchase and cash component of long-term investments.

EQUITY INVESTMENT

As at 30 June 2013, the Group's equity investment in its associates was RMB13,703 million, representing an increase of 0.20% as compared with 31 December 2012, of which the equity investment in Cathay Pacific, Shandong Aviation Group and Shandong Airlines was approximately RMB11,896 million, RMB874 million and RMB529 million, respectively. Cathay Pacific, Shandong Aviation Group and Shandong Airlines recorded a profit of RMB19 million, RMB148 million and RMB82 million, respectively, for the six months ended 30 June 2013.

As at 30 June 2013, the Group's equity investment in its joint ventures was RMB1,177 million, representing an increase of 3.03% from 31 December 2012.

DEBT STRUCTURE ANALYSIS

As at 30 June 2013, the total liabilities of the Group amounted to RMB141,946 million, representing an increase of 7.56% from 31 December 2012, among which current liabilities accounted for RMB73,822 million and non-current liabilities accounted for RMB68,124 million, representing 52.01% and 47.99% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB47,991 million, representing an increase of 51.44% from 31 December 2012. Accounts payable amounted to RMB9,799 million, representing a decrease of 0.52% from 31 December 2012. Other payables and accruals amounted to RMB9,971 million, representing an increase of 0.34% from 31 December 2012.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB59,220 million, representing a decrease of 12.57% from 31 December 2012.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2013, capital commitments of the Group amounted to RMB120,171 million, representing an increase of 62.20% from RMB74,088 million as at 31 December 2012, which was primarily used in purchasing certain aircraft and related equipment to be delivered in the coming years and constructing certain properties. The Group had operating lease commitments of RMB21,594 million, representing an increase of 11.07% as compared with RMB19,443 million (restated) as at 31 December 2012, which was primarily used in leasing aircraft, office premises and related equipment. Investment commitments of the Group was RMB57 million, representing a decrease of RMB96 million from RMB153 million as at 31 December 2012, which was primarily used in respect of pre-existing joint venture agreements.

GEARING RATIO

As at 30 June 2013, the Group's gearing ratio (total liabilities divided by total assets) was 72.14%, representing an increase of 0.91 percentage points from 71.23% as at 31 December 2012, which was mainly attributable to the increase in liabilities as a result of aircraft and assets purchase by way of debt financing. Given that high gearing ratios are common among aviation enterprises and considering the profitability of the Group and the future prospects of the industry, the long-term insolvency risks of the Group are within control.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2013, net current liabilities of the Group (current liabilities minus current assets) amounted to RMB48,387 million, representing an increase of RMB13,567 million from 31 December 2012. The Group's current ratio (current assets divided by current liabilities) was 0.34, representing a decrease of 0.04 percentage points from 0.38 as at 31 December 2012. The increase in net current liabilities was primarily due to the significant increase in the Group's interest-bearing current liabilities.

The Group meets its working capital needs mainly through proceeds from its operating activities and external financing activities. During the first half of 2013, the Group's net cash inflow from operating activities was RMB5,399 million, representing an increase of 38.04% from RMB3,911 million for the same period of 2012, primarily due to the decrease in tax expenses payment due to the change of levying value-added tax in lieu of business tax and the decrease in enterprise income tax payment for the period as compared with that in the corresponding period of last year. Net cash outflow from investment activities was RMB12,217 million, representing an increase of 78.16% from RMB6,857 million for the same period of 2012, primarily due to an increase in the payment of balance of aircraft purchase consideration and prepayment for aircraft acquisition during the reporting period as compared to the same period last year. The Group recorded a net cash inflow from financing activities of RMB9,054 million, representing an increase of RMB9,951 million from a net cash outflow of RMB897 million during the same period of 2012, primarily due to the issuance of the first batch of corporate bonds for 2012 and the issuance of new A shares during the period.

The Group's cash and cash equivalent increased by RMB2,236 million in the first half of 2013 (as opposed to a decrease of RMB3,844 million in the same period of 2012). The Company obtained bank facilities with an aggregate maximum amount of RMB142,700 million from a number of banks in the PRC, of which approximately RMB44,100 million has been utilised, sufficient to meet our working capital demand and future capital commitments.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to fluctuations in jet fuel prices in our daily operation. International jet fuel prices are subject to market volatility and fluctuation in supply and demand. The Group's strategy in managing jet fuel price risk aims at controlling the risk arising from the rise in fuel price. The Group has engaged in fuel hedging transactions since March 2001. The hedging instruments used were mainly derivatives of Singapore kerosene together with Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. As at 30 November 2011, the fuel derivative contracts of the Company all expired, and no new position has been established so far. Considering the volatility of international prices and cost sensitivity, the Company will continue to develop its fuel hedging business in compliance with the regulatory requirements so as to cope with changes in the jet fuel market.

As at 30 June 2013, the interest-bearing debts of the Group totalled RMB107,212 million, accounting for 75.53% of the Group's total liabilities, most of which were foreign debts and mainly denominated in U.S. dollars, Hong Kong dollars and Euros. In addition, the Group also had sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimize any risks relating to the fluctuations in foreign exchange rates and interest rates by adjusting the structure of the interest rates and currency denomination of its debts and by making use of the financial derivatives.

Significant Events

ANTITRUST INVESTIGATION

On 26 February 2007, the Eastern District Court of New York of the US Federal Courts issued summons to the Company and Air China Cargo in connection with the antitrust civil case relating to the air cargo services. Pursuant to such summons, various airlines, including the Company and Air China Cargo, were sued for breaching the US Antitrust Law on the ground that these airlines were acting in concert in imposing excessive surcharges so as to impede the offering of discount that would be made available for the prices charged for air cargo services and that these airlines had reached an agreement on the allocation of revenues and consumers so as to achieve such purposes as setting, increasing, maintaining or stabilizing the air cargo prices. As the litigation is in the process of collecting evidence, our Directors believe that they are unable to make a reasonable and reliable estimate of the outcome of the case at this stage, and therefore, no provision has been made for such litigation for the time being.

Shareholdings of Directors, Supervisors and Chief Executives and Substantial Shareholders of the Company

(I) DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2013, the Company's Directors, Supervisors or chief executives had following interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which shall be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which shall be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

	Number of Shares				
Name of corporation and relevant shareholder	**Personal Interest**	**Interest of children under the age of 18 or spouse**	**Corporate Interest**	**Total**	**Shareholding percentage as at 30 June 2013**
Cathay Pacific Airways Limited Sai Cheung Shiu, Ian	1,000	–	–	1,000	0.00%
Air China Limited Zhou Feng	10,000 (A Shares)	–	–	10,000	0.00%

Save as disclosed above, as at 30 June 2013, none of the Directors, Supervisors or chief executives of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Sai Cheung Shiu, Ian is a non-executive Director of the Company and is concurrently the non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,616,953,455 H shares in the Company as at 30 June 2013, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Hong Kong Dragonair Airlines Limited ("Dragonair"). Mr. Wang Changshun, the chairman and a non-executive Director of the Company, and Mr. Cai Jianjiang and Mr. Fan Cheng, both executive Directors of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

Shareholdings of Directors, Supervisors and Chief Executives and Substantial Shareholders of the Company

(II) SUBSTANTIAL SHAREHOLDERS' SIGNIFICANT INTERESTS IN THE COMPANY

As at 30 June 2013, to the best knowledge of the Directors, Supervisors and chief executives of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest and short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO were as follows:

Name	Type of interests	Type and number of shares of the Company concerned	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short position
CNAHC	Beneficial owner	5,426,536,093 A Shares	41.47%	63.68%	–	–
CNAHC (1)	Attributable interests	1,332,482,920 A Shares	10.18%	15.64%	–	–
CNAHC (1)	Attributable interests	223,852,000 H Shares	1.71%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A Shares	10.18%	15.64%	–	–
CNACG	Beneficial owner	223,852,000 H Shares	1.71%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,616,953,455 H Shares	20.00%	–	57.36%	–
Swire Pacific Limited (2)	Attributable interests	2,616,953,455 H Shares	20.00%	–	57.36%	–
John Swire & Sons (H.K.) Limited (2)	Attributable interests	2,616,953,455 H Shares	20.00%	–	57.36%	–
John Swire & Sons Limited (2)	Attributable interests	2,616,953,455 H Shares	20.00%	–	57.36%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executives of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executives are aware, as at 30 June 2013:

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

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their 45.80% equity interest and 59.74% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% equity interest in Cathay Pacific as at 30 June 2013, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,616,953,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 30 June 2013, to the knowledge of the Directors, the Supervisors and chief executives of the Company, no other person (other than a Director, Supervisor or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO.

Corporate Governance

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2013, the Company complied with all Code Provisions as set out in the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

2. 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 as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each Director and each Supervisor of the Company have complied with the required standards of the Model Code and the Company's code of conduct throughout the six months ended 30 June 2013.

Miscellaneous

1. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of 2013 (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules).

2. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2013.

3. REVIEW BY AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the interim report for the six months ended 30 June 2013 and the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

4. CHANGE OF AUDITORS

CNAHC, being the controlling shareholder of the Company, is a central state-owned enterprise regulated by the State-owned Assets Supervision and Administration Commission of the State Council. According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Council, there are restrictions on the number of years an accounting firm can continuously provide audit services to a central state-owned enterprise and its subsidiaries. Since the number of years the Company has engaged Ernst & Young and Ernst & Young Hua Ming CPAs Limited Company (Special General Partnership) (collectively, "E&Y") has exceeded the prescribed time limit, E&Y has retired as the auditors of the Company upon conclusion of the 2012 annual general meeting of the Company ("AGM") held on 23 May 2013. As approved at the AGM, the Company has appointed KPMG as its international auditor for the year ending 31 December 2013, and KPMG Huazhen (Special General Partnership) as its domestic auditor for the year ending 31 December 2013.

5. OTHER INFORMATION

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed herein, the Company confirms that the current information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2012 Annual Report.

Independent Auditors' Report

Review report to the Board of Directors of Air China Limited
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial report of Air China Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 26 to 54, which comprises the consolidated statement of financial position as of 30 June 2013 and the related consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2013

Consolidated Income Statement

For the six months ended 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		For the six months ended	
		30 June 2013	30 June 2012
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Turnover			
Air traffic revenue	*5*	**44,465,024**	45,273,640
Other operating revenue	*6*	**1,554,011**	1,702,186
		46,019,035	46,975,826
Operating expenses			
Jet fuel costs		**(16,372,097)**	(17,812,407)
Take-off, landing and depot charges		**(4,452,818)**	(4,327,889)
Depreciation		**(5,262,453)**	(4,988,824)
Aircraft maintenance, repair and overhaul costs		**(1,519,473)**	(1,412,341)
Employee compensation costs		**(6,198,255)**	(5,966,843)
Air catering charges		**(1,157,761)**	(1,368,840)
Aircraft and engine operating lease expenses		**(1,949,509)**	(1,708,032)
Other operating lease expenses		**(403,824)**	(358,941)
Other flight operation expenses		**(3,960,842)**	(3,160,848)
Selling and marketing expenses		**(2,754,840)**	(2,686,687)
General and administrative expenses		**(560,548)**	(388,495)
		(44,592,420)	(44,180,147)
Profit from operations	*7*	**1,426,615**	2,795,679
Finance revenue	*8*	**1,245,233**	141,297
Finance costs	*8*	**(1,293,834)**	(1,282,124)
Share of profits less losses of associates		**100,660**	(94,715)
Share of profits less losses of joint ventures		**67,951**	(72,705)
Profit before tax		**1,546,625**	1,487,432
Taxation	*9*	**(395,219)**	(308,665)
Profit for the period		**1,151,406**	1,178,767
Attributable to:			
Equity shareholders of the Company		**1,144,799**	1,042,127
Non-controlling interests		**6,607**	136,640
		1,151,406	1,178,767
Earnings per share	*11*		
Basic and diluted (RMB)		**9.31 cents**	8.59 cents

The notes on pages 32 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Profit for the period	**1,151,406**	1,178,767
Other comprehensive income/(losses) for the period (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income/(losses) of associates and joint ventures	**490,957**	(49,951)
Exchange realignment	**(350,754)**	105,707
Other comprehensive income for the period	**140,203**	55,756
Total comprehensive income for the period	**1,291,609**	1,234,523
Attributable to:		
Equity shareholders of the Company	**1,292,389**	1,095,268
Non-controlling interests	**(780)**	139,255
Total comprehensive income for the period	**1,291,609**	1,234,523

The notes on pages 32 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Notes	30 June 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	*12*	**126,060,145**	123,479,738	110,315,265
Lease prepayments	*13*	**2,095,031**	2,120,495	2,140,366
Investment properties		**224,296**	229,824	240,879
Intangible assets		**59,234**	59,216	37,221
Goodwill		**1,099,975**	1,099,975	1,099,975
Interests in associates		**13,703,171**	13,676,018	13,227,747
Interests in joint ventures		**1,176,876**	1,142,319	1,178,541
Advance payments for aircraft and flight equipment		**23,562,067**	18,696,984	19,443,291
Deposits for aircraft under operating leases		**421,723**	443,539	420,854
Available-for-sale investments		**46,925**	45,925	27,182
Deferred tax assets		**2,878,544**	2,849,703	3,071,522
		171,327,987	163,843,736	151,202,843
CURRENT ASSETS				
Aircraft and flight equipment held for sale		**658,384**	592,697	92,487
Inventories		**1,132,481**	1,105,048	1,128,164
Accounts receivable	*14*	**3,621,643**	2,744,103	2,060,852
Bills receivable		**191**	1,253	1,601
Prepayments, deposits and other receivables	*15*	**4,667,960**	4,025,493	2,661,025
Financial assets	*16*	**11,701**	12,671	12,144
Due from the ultimate holding company		**191,357**	223,047	218,940
Pledged deposits	*17*	**779,097**	802,941	113,833
Cash and cash equivalents	*17*	**13,903,245**	11,787,943	15,306,409
Other current assets		**469,144**	144,552	–
		25,435,203	21,439,748	21,595,455
TOTAL ASSETS		**196,763,190**	185,283,484	172,798,298

The notes on pages 32 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Notes	30 June 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
CURRENT LIABILITIES				
Air traffic liabilities		(4,363,341)	(3,876,787)	(4,562,773)
Accounts payable	18	(9,798,517)	(9,849,718)	(10,639,811)
Bills payable		(89,188)	(1,503)	–
Other payables and accruals	19	(9,970,666)	(9,936,750)	(11,781,242)
Financial liabilities	16	(68,869)	(120,413)	(223,137)
Dividends payable		(776,580)	–	–
Due to the ultimate holding company		(37,732)	(28,970)	(12,957)
Due to the immediate holding company		–	–	(565)
Tax payable		(41,975)	(57,364)	(1,695,566)
Obligations under finance leases		(3,534,569)	(3,476,572)	(2,687,925)
Interest-bearing bank loans and other borrowings		(44,367,728)	(28,211,613)	(25,701,186)
Provision for major overhauls		(772,739)	(699,849)	(589,123)
		(73,821,904)	(56,259,539)	(57,894,285)
NET CURRENT LIABILITIES		(48,386,701)	(34,819,791)	(36,298,830)
TOTAL ASSETS LESS CURRENT LIABILITIES		122,941,286	129,023,945	114,904,013
NON-CURRENT LIABILITIES				
Obligations under finance leases		(23,877,832)	(25,476,607)	(19,191,860)
Interest-bearing bank loans and other borrowings		(35,342,459)	(42,254,161)	(39,398,481)
Provision for major overhauls		(3,046,335)	(2,745,327)	(2,496,294)
Provision for early retirement benefit obligations		(39,070)	(46,970)	(56,820)
Long-term payables		(203,000)	(147,268)	(147,177)
Deferred income		(3,782,674)	(3,479,947)	(3,452,491)
Deferred tax liabilities		(1,832,943)	(1,561,424)	(1,194,293)
		(68,124,313)	(75,711,704)	(65,937,416)
NET ASSETS		54,816,973	53,312,241	48,966,597
CAPITAL AND RESERVES				
Issued capital	20	13,084,751	12,891,955	12,891,955
Treasury shares	21	(3,026,250)	(2,896,092)	(2,889,399)
Reserves		41,306,259	39,948,387	36,200,538
Total equity attributable to equity shareholders of the Company		51,364,760	49,944,250	46,203,094
Non-controlling interests		3,452,213	3,367,991	2,763,503
TOTAL EQUITY		54,816,973	53,312,241	48,966,597

The notes on pages 32 to 54 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Notes	Issued capital *RMB'000*	Treasury shares *RMB'000*	Capital reserve *RMB'000*	Reserve funds *RMB'000*	Foreign exchange translation reserve *RMB'000*	Retained earnings *RMB'000*	Proposed dividend *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2013		12,891,955	(2,896,092)	18,992,746	4,624,667	(3,028,095)	18,296,742	776,580	49,658,503	2,619,123	52,277,626
Impact of changes in accounting policies	3	–	–	(215,698)	(51,786)	(17,344)	570,575	–	285,747	748,868	1,034,615
Restated balance at 1 January 2013		12,891,955	(2,896,092)	18,777,048	4,572,881	(3,045,439)	18,867,317	776,580	49,944,250	3,367,991	53,312,241
Profit for the period		–	–	–	–	–	1,144,799	–	1,144,799	6,607	1,151,406
Other comprehensive income/(losses)		–	–	490,957	–	(343,367)	–	–	147,590	(7,387)	140,203
Total comprehensive income/(losses)		–	–	490,957	–	(343,367)	1,144,799	–	1,292,389	(780)	1,291,609
Issue of new shares		192,796	–	851,653	–	–	–	–	1,044,449	–	1,044,449
Elimination of reciprocal shareholding		–	(130,158)	–	–	–	–	–	(130,158)	–	(130,158)
Capital contribution by the non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	200,000	200,000
Transfer to reserve funds and others		–	–	–	412,353	–	(421,943)	–	(9,590)	–	(9,590)
Dividends approved in respect of the previous year	10	–	–	–	–	–	–	(776,580)	(776,580)	(114,998)	(891,578)
At 30 June 2013		13,084,751	(3,026,250)	20,119,658	4,985,234	(3,388,806)	19,590,173	–	51,364,760	3,452,213	54,816,973
At 1 January 2012		12,891,955	(2,889,399)	18,575,313	3,523,598	(3,048,743)	15,541,824	1,521,251	46,115,799	2,209,636	48,325,435
Impact of changes in accounting policies	3	–	–	(248,948)	(51,786)	(511)	388,540	–	87,295	553,867	641,162
Restated balance at 1 January 2012		12,891,955	(2,889,399)	18,326,365	3,471,812	(3,049,254)	15,930,364	1,521,251	46,203,094	2,763,503	48,966,597
Profit for the period (restated)		–	–	–	–	–	1,042,127	–	1,042,127	136,640	1,178,767
Other comprehensive income/(losses) (restated)		–	–	(49,951)	–	103,092	–	–	53,141	2,615	55,756
Total comprehensive income/(losses) (restated)		–	–	(49,951)	–	103,092	1,042,127	–	1,095,268	139,255	1,234,523
Capital contribution by the non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	120,000	120,000
Transfer to reserve funds and others		–	–	–	679,126	–	(679,126)	–	–	–	–
Dividends approved in respect of the previous year	10	–	–	–	–	–	–	(1,521,251)	(1,521,251)	–	(1,521,251)
At 30 June 2012		12,891,955	(2,889,399)	18,276,414	4,150,938	(2,946,162)	16,293,365	–	45,777,111	3,022,758	48,799,869

The notes on pages 32 to 54 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		For the six months ended	
		30 June 2013	30 June 2012
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Net cash generated from operating activities		**5,398,911**	3,911,181
Net cash used in investing activities		**(12,217,082)**	(6,857,399)
Net cash generated from/(used in) financing activities		**9,053,984**	(897,481)
Net increase/(decrease) in cash and cash equivalents		**2,235,813**	(3,843,699)
Cash and cash equivalents at 1 January	*17*	**11,787,943**	15,306,409
Effect of foreign exchanges rates changes		**(120,511)**	(42,991)
Cash and cash equivalents at 30 June	*17*	**13,903,245**	11,419,719

The notes on pages 32 to 54 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

1. CORPORATE INFORMATION

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

Pursuant to the approval of China Securities Regulatory Commission [2013]37 on 16 January 2013, Air China issued 192,796,331 new non-public A shares with RMB1,050,740,004 at the price of RMB5.45 per share to CNAHC. By deducting of the RMB6,290,821 issue fee, the net cash inflow was RMB1,044,449,183. After the issuance of A shares as at 30 January 2013, the registered capital and paid in capital of the Company have increased to RMB13,084,751,004.

The principal activities of the Company and its subsidiaries (collectively the "Group") consist of the provision of airline, airline-related services, including aircraft engineering services, air catering services and airport ground handling services, mainly in Mainland China, Hong Kong and Macau.

The registered office of the Company is located at 9th Floor, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

2. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("IAS 34") "*Interim Financial Reporting*", issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 27 August 2013.

As at 30 June 2013, the Group's current liabilities exceeded its current assets by approximately RMB48.39 billion. 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 Group's sources of liquidity and the unutilised bank facilities of RMB98.6 billion as at 30 June 2013, the Directors of the Company believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the interim financial report for the six months ended 30 June 2013. Accordingly, the interim financial report has been prepared on a basis that the Group will be able to continue as a going concern.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 25.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The processor auditors, Ernst & Young, have expressed an unqualified opinion on those financial statements in their report dated 26 March 2013.

Notes to the Unaudited Interim Financial Report

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 1, *Presentation of financial statements – presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- Revised IAS 19, *Employee benefits*
- Annual Improvements to IFRSs 2009-2011 Cycle
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 1, *Presentation of financial statements – presentation of items of other comprehensive income*

The amendments to IFRS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, *Joint arrangements*

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investments from jointly controlled entities to joint ventures. The Group has changed its accounting policy with respect to account its joint ventures, for which the proportionate consolidation method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31 December 2012 and the result for the six months ended 30 June 2012. The impact of the changes in accounting policies are summarised in note 3(i).

3. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 24. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Revised IAS 19, *Employee benefits*

Revised IAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised IAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised IAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised IAS 19, an associate of the Company has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31 December 2012 and the result for the six months ended 30 June 2012 of the associate's financial statements and has significantly affected the Group's share of profits of associates and other comprehensive income. Accordingly, the Group has also applied retrospectively to restate the balances at 31 December 2012 and the result for the six months ended 30 June 2012. The impact of the changes in accounting policies are summarised in note 3(i).

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets in note 4.

Notes to the Unaudited Interim Financial Report
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3. CHANGES IN ACCOUNTING POLICIES (Continued)

Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation*, and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

(i) Summaries of retrospective impact with respect to changes in accounting policies

The retrospective impact of the adoption of IFRS 11 and revised IAS 19, by restating the balances at 31 December 2012 and the result for the six months ended 30 June 2012, are summarised as follows:

	As previously reported *RMB'000*	Effect of adopting of IFRS 11 *RMB'000*	Effect of adopting of revised IAS 19 *RMB'000*	As restated *RMB'000*
Consolidated income statement for the six months ended 30 June 2012:				
Share of profits less losses of associates	75,488	–	19,227	94,715
Share of profits less losses of joint ventures	–	72,705	–	72,705
Profit attributable to equity shareholders of the Company	(944,515)	(116,839)	19,227	(1,042,127)
Basic and diluted earnings per share	7.79 cents			8.59 cents
Consolidated statement of comprehensive income for the six months ended 30 June 2012:				
Total comprehensive income attributable to equity shareholders of the Company	(997,304)	(118,529)	20,565	(1,095,268)
Consolidated statement of financial position as at 31 December 2012:				
Net assets/Total equity attributable to equity shareholders of the Company	(49,658,503)	(578,201)	292,454	(49,944,250)
Retained earnings attributable to equity shareholders of the Company	(18,296,742)	(655,751)	85,176	(18,867,317)

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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 comprises the provision of air passenger and air cargo services; and

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

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

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 tax regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the six months ended 30 June 2013 and 2012 and the reconciliations of reportable segment revenue and profit before tax to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2013 (Unaudited)

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	45,752,024	106,289	–	45,858,313
Intersegment sales	–	865,930	(865,930)	–
Total revenue for reportable segments under CASs	45,752,024	972,219	(865,930)	45,858,313
Business tax set off against segment revenue				(176,571)
Other income not included in segment revenue				378,670
Effects of differences between IFRSs and CASs				(41,377)
Revenue for the period under IFRSs				46,019,035
SEGMENT PROFIT BEFORE TAX				
Profit before tax for reportable segments under CASs	1,329,426	182,656	–	1,512,082
Effects of differences between IFRSs and CASs				34,543
Profit before tax for the period under IFRSs				1,546,625

Notes to the Unaudited Interim Financial Report

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

4. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2012 (Unaudited/Restated)

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	47,519,450	40,903	–	47,560,353
Intersegment sales	–	969,187	(969,187)	–
Total revenue for reportable segments under CASs	47,519,450	1,010,090	(969,187)	47,560,353
Business tax set off against segment revenue				(1,092,045)
Other income not included in segment revenue				612,655
Effects of differences between IFRSs and CASs				(105,137)
Revenue for the period under IFRSs				46,975,826
SEGMENT PROFIT BEFORE TAX				
Profit before tax for reportable segments under CASs	1,496,265	(12,207)	–	1,484,058
Effects of differences between IFRSs and CASs				3,374
Profit before tax for the period under IFRSs				1,487,432

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(Expressed in Renminbi unless otherwise indicated)

4. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

The following tables present the segment assets of the Group's operating segments under CASs as at 30 June 2013 and 31 December 2012 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
SEGMENT ASSETS				
As at 30 June 2013 under CASs (Unaudited)	**195,484,456**	**3,804,683**	**(2,372,559)**	**196,916,580**
Effects of differences between IFRSs and CASs				**(153,390)**
As at 30 June 2013 under IFRSs (Unaudited)				**196,763,190**
As at 31 December 2012 under CASs (Restated)	184,487,735	3,950,738	(3,020,021)	185,418,452
Effects of differences between IFRSs and CASs (Restated)				(134,968)
As at 31 December 2012 under IFRSs (Restated)				185,283,484

Geographical information

The following tables present the geographical information of the Group's consolidated revenue under IFRSs for the six months ended 30 June 2013 and 2012:

For the six months ended 30 June 2013 (Unaudited)

	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	**30,409,332**	**2,503,168**	**4,555,937**	**3,617,152**	**2,429,830**	**2,503,616**	**46,019,035**

For the six months ended 30 June 2012 (Unaudited/Restated)

	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	31,674,268	2,543,839	4,246,128	3,347,430	3,063,115	2,101,046	46,975,826

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5. AIR TRAFFIC REVENUE

Air traffic revenue represents revenue from the Group's airline operation business. An analysis of the Group's air traffic revenue during the period is as follows:

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
Passenger	**40,735,592**	41,431,591
Cargo and mail	**3,729,432**	3,842,049
	44,465,024	45,273,640

6. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Aircraft engineering income	**80,598**	23,192
Ground service income	**310,106**	351,582
Government grants and subsidies:		
– Recognition of deferred income	**44,328**	112,816
– Others	**235,620**	354,966
Service charges on return of unused flight tickets	**351,216**	299,363
Training service income	**24,855**	20,843
Sale of materials	**6,193**	5,166
Import and export service income	**15,435**	15,495
Others	**485,660**	518,763
	1,554,011	1,702,186

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7. PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Gain on disposal of property, plant and equipment, net	**(38,368)**	(76,977)
Minimum lease payments under operating leases:		
– Aircraft and related equipment	**1,949,509**	1,708,032
– Land and buildings	**363,657**	315,001
Amortisation of lease prepayments	**24,985**	25,322
Depreciation	**5,262,453**	4,988,824
Accrual/(reversal) of bad debt provision, net	**18,144**	(230,368)

8. FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Exchange gains, net	**1,119,362**	–
Gain on interest rate derivative contracts	**–**	2,025
Interest income	**123,981**	139,272
Others	**1,890**	–
	1,245,233	141,297

Finance costs

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Interest on interest-bearing bank loans and other borrowings	**1,362,434**	1,157,558
Interest on finance leases	**188,674**	135,118
Loss on interest rate derivative contracts	**1,876**	–
Exchange loss, net	**–**	340,691
	1,552,984	1,633,367
Less: Interest capitalised	**(259,150)**	(351,243)
	1,293,834	1,282,124

The interest capitalisation rates during the period ranges from 1.21% to 7.86% (six months ended 30 June 2012: 1.19% to 7.92%) per annum relating to the costs of related borrowings during the period.

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9. TAXATION

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Current taxation:		
– Mainland China	**141,168**	239,966
– Hong Kong and Macau	**11,373**	378
Deferred taxation	**242,678**	68,321
	395,219	308,665

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches which are taxed at a preferential rate of 15% (six months ended 30 June 2012: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2012: 25%) during the period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2012: 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 governments, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for overseas airlines activities in the current and prior periods.

10. DIVIDEND

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

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

The Board of Directors decided not to declare an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

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

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the interim period, of RMB0.05935 per share (including tax) (six months ended 30 June 2012: RMB0.1180 per share (including tax))	**776,580**	1,521,251

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11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2013 was based on the profit attributable to ordinary equity shareholders of the Company of RMB1.14 billion (six months ended 30 June 2012: RMB1.04 billion (Restated)) and the weighted average of 12,293,118,783 ordinary shares (six months ended 30 June 2012: 12,136,990,775 shares) in issue during the period, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited ("Cathay Pacific") through reciprocal shareholding (note 21).

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

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired aircraft and flight equipment with an aggregate cost of RMB6,906 million (six months ended 30 June 2012: RMB11,243 million). Total property, plant and equipment with net book value of RMB201 million were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB481 million), resulting in a gain on disposal of RMB38 million (six months ended 30 June 2012: gain on disposal of RMB77 million).

As at 30 June 2013, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB34,429 million (31 December 2012: RMB34,449 million) were pledged to secure certain bank loans of the Group.

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB45,515 million (31 December 2012: RMB45,778 million). These aircraft were pledged under certain lease agreements of the Group.

As at 30 June 2013, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,058 million (31 December 2012: RMB2,178 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2013.

13. LEASE PREPAYMENTS

The Group's lease prepayments in respect of land are held under long term leases and located in Mainland China.

As at 30 June 2013, the Group's land use rights with an aggregate net book value of approximately RMB38 million (31 December 2012: RMB39 million) were pledged to secure certain bank loans of the Group.

As at 30 June 2013, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB567 million (31 December 2012: RMB574 million). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2013.

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14. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of 7 to 90 days to its sales agents and other customers while some major customers are granted a credit period up to six months or above. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An ageing analysis of the accounts receivable as at the end of the reporting period, net of provision for impairment, is set out below:

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
Within 30 days	**2,952,132**	2,457,125
31 to 60 days	**302,624**	139,032
61 to 90 days	**79,527**	46,086
Over 90 days	**287,360**	101,860
	3,621,643	2,744,103

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
Prepayments		
Advances and others	**426,026**	285,549
Manufacturers' credits	**1,529,036**	1,292,880
Prepaid aircraft operating lease rentals	**350,945**	338,205
	2,306,007	1,916,634
Deposits and other receivables	**2,361,953**	2,108,859
	4,667,960	4,025,493

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15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

At the end of each reporting period, the Group would assess the collectability of the receivables and provision will be made if necessary. For those receivables which are individually significant and the possibility of recoverable is remote, full impairment will be provided. Should further information obtained in subsequent periods indicate the receivables could be collected partially or entirely, the provision would be partially or entirely reversed accordingly.

As at 30 June 2013, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property"), an associate of Shenzhen Airlines Company Limited ("Shenzhen Airlines", a subsidiary of the Group), and its subsidiaries was RMB995,819,000 (31 December 2012: RMB995,819,000). Full provisions for the above receivables were made in 2010. After assessing the collectability of the receivables as at 31 December 2012, the provision for receivables due from one of its subsidiary of RMB300,000,000 was reversed. As at 30 June 2013, the provision for receivables from Shenzhen Property and its subsidiaries was RMB695,819,000 (31 December 2012: RMB695,819,000). Should the bank accounts be released and Shenzhen Property and its subsidiaries be able to repay the receivables partially or entirely, the provision for the receivables from Shenzhen Property and its subsidiaries might be partially or wholly reversed in future accounting periods, which would have impact on the financial statements of the Group.

As at 30 June 2013, the gross amount due from by Shenzhen Huirun Investment Co., Ltd ("Huirun", a non-controlling shareholder of Shenzhen Airlines) was RMB1,520,700,000 (31 December 2012: RMB1,520,700,000). Shenzhen Airlines made full provision for the receivables in 2010. In December 2012, after receiving "the notice of declaration of the right of offset" issued by the Trustee in Bankruptcy of Huirun, Shenzhen Airlines exercised its right of offset the amounts due to Huirun amounting RMB500,000,000 and then reversed the provision for receivables amounting RMB500,000,000. There is no change on the assessment about the collectability of the receivables as at 30 June 2013.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	30 June 2013		31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Interest rate swaps	**3,049**	**68,869**	3,817	120,413
Listed equity securities	**8,652**	**–**	8,854	–
	11,701	**68,869**	12,671	120,413

The above financial assets and liabilities are accounted for as held-for-trading financial instruments and any fair value change is recognised in the income statement.

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17. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	30 June 2013 **RMB'000**	31 December 2012 *RMB'000* (Restated)
Time deposits with banks and other financial institution	**7,424,794**	8,137,560
Less: Pledged deposits	**(779,097)**	(802,941)
Non-pledged deposits	**6,645,697**	7,334,619
Cash and bank	**7,257,548**	4,453,324
Cash and cash equivalents	**13,903,245**	11,787,943

18. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period is as follows:

	30 June 2013 **RMB'000**	31 December 2012 *RMB'000* (Restated)
Within 30 days	**7,108,495**	7,276,666
31 to 60 days	**583,185**	660,691
61 to 90 days	**704,142**	551,187
Over 90 days	**1,402,695**	1,361,174
	9,798,517	9,849,718

19. OTHER PAYABLES AND ACCRUALS

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

	30 June 2013 RMB'000	31 December 2012 RMB'000 (Restated)
Accrued salaries, wages and benefits	2,326,281	2,491,414
Receipts in advance for employee residence	1,885,080	1,889,506
Accrued operating expenses	1,257,112	1,498,711
Business tax, customs duties and levies tax payable	532,905	559,086
Deposits received from sales agents	630,438	804,523
Due to a non-controlling shareholder of a subsidiary	207,787	207,787
Interest payable	681,184	352,515
Land lease payable	207,734	256,538
Current portion of deferred income related to frequent-flyer programme	180,106	308,014
Current portion of deferred income related to government grants	122,218	122,218
Current portion of long term payables	62,756	60,919
Provision for staff housing benefits	35,443	32,487
Others	1,841,622	1,353,032
	9,970,666	9,936,750

20. ISSUED CAPITAL

The numbers of shares of the Company and their nominal values as at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013 Number of shares	30 June 2013 Nominal value RMB'000	31 December 2012 Number of shares	31 December 2012 Nominal value RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
Tradable	4,562,683,364	4,562,683	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
Tradable	8,199,737,630	8,199,738	8,199,737,630	8,199,738
Trade-restricted	322,330,010	322,330	129,533,679	129,534
	13,084,751,004	13,084,751	12,891,954,673	12,891,955

The H shares and A shares rank pari passu, in all material respects, with the state legal person shares and non-H foreign shares of the Company.

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21. TREASURY SHARES

As at 30 June 2013, the Group owned a 29.99% (31 December 2012: 29.99%) equity interest in Cathay Pacific, which in turn owned a 20.00% (31 December 2012: 19.57%) equity interest in the Company. Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

22. SHARE APPRECIATION RIGHTS SCHEME

On 23 May 2013, the Company's Annual General Meeting approved the "H Share Appreciation Rights ("SARs") Scheme of Air China Limited" and "Initial Grant under the H Share Appreciation Rights Scheme of Air China Limited" ("the Scheme").

Pursuant to the resolution of the board meeting dated 6 June 2013, 26,200,000 units of SARs were granted to 160 employees of the Group at the exercise price of HK$6.46 per unit at 6 June 2013. No shares will be issued under the Scheme and each SAR is notionally linked to one existing H Share of the Company. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price.

The SARs will have an exercise period of five years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants.

The fair value of the liability for SARs is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. The fair value of the liability for SARs as at 30 June 2013 was RMB1,334,892 and a corresponding staff costs of RMB1,334,892 was recognised during 2013.

23. CONTINGENT LIABILITIES

As at 30 June 2013, the Group had the following contingent liabilities:

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

(b) On 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo Co., Ltd. ("Air China Cargo"), claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to increase, maintain and stabilise air cargo prices. The status of the proceedings is still in the preliminary stage and therefore the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The Directors of the Company are also of the view that the ultimate outcome of this claim cannot be reliably estimated and consider that no provision for this claim is needed accordingly.

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23. CONTINGENT LIABILITIES (Continued)

(c) On 17 November 2009, Airport City Development Co., Ltd. ("Airport City Development") commenced proceedings involving approximately RMB224 million against the Company, Air China Cargo, Air China International Corporation, for the unlawful use of land owned by Airport City Development. In 2013, Airport City Development and the Company are in the stage of reconciliation and the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The Directors of the Company are also of the view that the ultimate outcome of this claim cannot be reliably estimated and consider that no provision for this claim is needed accordingly.

(d) In May 2011, Shenzhen Airlines received a summon issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favor of the third party for the loans borrowed by Huirun. The proceeding is still in the preliminary stage and therefore the Directors consider that the provision of RMB130,000,000 which was provided in October 2011 in respect of this legal claim is adequate, and has been included in this interim report.

(e) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 30 June 2013, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB514,936,223 (31 December 2012: RMB547,015,640) and for pilot trainees' tuition loans amounting to RMB296,797,914 (31 December 2012: RMB346,954,579).

(f) Shenzhen Airlines is a co-lessee under certain aircraft operating lease contracts (the "Lease Contracts") entered into by a company in which Shenzhen Airlines has interests. Under the Lease Contracts, Shenzhen Airlines is obligated to bear the lease payments if the other co-obligor fails to fulfil its obligations. According to the Lease Contracts, the monthly operating lease payment is US$823,147 (approximately RMB5,131,663). The Lease Contracts will expire before June 2021.

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

		Fair value measurements as at 30 June 2013 using		
	Fair value at 30 June 2013 *RMB'000*	**Quoted prices in active market for identical assets Level 1** *RMB'000*	**Significant other observable inputs Level 2** *RMB'000*	**Significant unobservable inputs Level 3** *RMB'000*
Financial assets:				
– Interest rate swaps	**3,049**	**–**	**3,049**	**–**
– Listed equity securities	**8,652**	**8,652**	**–**	**–**
Financial liabilities:				
– Interest rate swaps	**68,869**	**–**	**68,869**	**–**

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24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

(i) *Fair value hierarchy* (Continued)

		Fair value measurements as at 31 December 2012 using		
	Fair value at 31 December 2012 *RMB'000*	Quoted prices in active market for identical assets Level 1 *RMB'000*	Significant other observable inputs Level 2 *RMB'000*	Significant unobservable inputs Level 3 *RMB'000*
Financial assets:				
– Interest rate swaps	3,817	–	3,817	–
– Listed equity securities	8,854	8,854	–	–
Financial liabilities:				
– Interest rate swaps	120,413	–	120,413	–

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendleman-Bartter model, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include volatility of short term interest rate and the LIBOR curve, which can be obtained from observable markets.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 30 June 2013.

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25. COMMITMENTS

(a) Capital commitments

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

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
Contracted, but not provided for:		
Aircraft and flight equipment	**117,649,727**	71,559,127
Buildings	**1,373,166**	984,384
Others	**74,900**	139,156
	119,097,793	72,682,667
Authorised, but not contracted for:		
Buildings	**718,452**	1,252,531
Others	**354,974**	152,500
	1,073,426	1,405,031
Total capital commitments	**120,171,219**	74,087,698

(b) Investment commitments

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

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000*
Contracted, but not provided for:		
Associate	**35,000**	35,000
Others	**21,625**	117,828
	56,625	152,828

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25. COMMITMENTS (Continued)

(c) Operating lease commitments

The Group leases certain office premises, aircraft and flight equipment under operating lease arrangements. Leases for these assets are negotiated for terms ranging from 1 to 20 years.

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

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
Within one year	**4,605,106**	3,827,974
After one year but within five years	**9,574,829**	8,758,228
Over five years	**7,414,503**	6,856,521
	21,594,438	19,442,723

26. RELATED PARTY TRANSACTIONS

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

	For the six months ended	
	30 June 2013 *RMB'000*	30 June 2012 *RMB'000* (Restated)
(i) Service provided to the CNAHC Group		
Sales commission income	**2,790**	2,537
Sale of cargo space	**45,243**	53,764
Government charter flights	**132,431**	376,081
Air catering income	**6,849**	3,312
Ground services income	**926**	1,465
Income from advertising media business	**13,470**	15,132
Interest income	**31,156**	38,402
(ii) Service provided by the CNAHC Group		
Sales commission expenses	**1,447**	1,552
Air catering charges	**329,159**	359,479
Airport ground services, take-off, landing and depot expenses	**293,624**	311,109
Repair and maintenance costs	**680**	283
Management fees	**17,331**	14,004
Lease charges for land and buildings	**60,863**	55,570
Interest expenses	**62,267**	32,669
Other procurement and maintenance	**17,382**	15,374
Media advertisement expenses	**22,246**	53,318
Construction management expenses	**8,150**	2,922

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(Expressed in Renminbi unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June 2013 RMB'000	30 June 2012 RMB'000 (Restated)
(iii) Service provided to joint ventures and associates		
Sales commission income	**4,932**	3,391
Sale of cargo space	**29,743**	33,165
Ground services income	**35,130**	33,718
Aircraft engineering income	**36,000**	6,720
Air catering income	**833**	840
(iv) Service provided by joint ventures and associates		
Sales commission expenses	**20,851**	21,755
Air catering charges	**9,566**	14,127
Airport ground services, take-off, landing and depot expenses	**72,694**	63,404
Repair and maintenance costs	**1,166,174**	1,205,083
Aircraft and flight equipment leasing fees	**323,839**	329,864
Lease charges for land and buildings	**1,203**	1,412
Other procurement and maintenance	**6,916**	11,300
Media advertisement expenses	**380**	714

	30 June 2013 RMB'000	31 December 2012 RMB'000 (Restated)
(v) Deposits and loans		
Deposits placed with an associate	**2,446,634**	1,922,528
Loans from an associate	**2,526,000**	2,050,000
(vi) Outstanding balances with related parties		
Due from the ultimate holding company	**191,357**	223,047
Due from associates	**566,277**	371,646
Due from joint ventures	**38,079**	26,642
Due from other related companies	**30,588**	19,386
Due to the ultimate holding company	**37,732**	28,970
Due to associates	**297,722**	331,540
Due to joint ventures	**212,043**	464,314
Due to other related companies	**332,334**	361,319

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

Notes to the Unaudited Interim Financial Report

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
		(Restated)
Compensation of key management personnel of the Group:		
Short term employee benefits	**4,111**	3,757
Cash-settled share option expense	**178**	(237)
Post-employment benefits	**489**	410
	4,778	3,930

(c) Transactions with other state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organizations. Other than those transactions with the CNAHC Group, associates, jointly ventures and other related parties of the Group as disclosed in Notes 26(a) above, the Group conducts transactions collectively, but not individually, significant transactions with other state-controlled entities which include but are not limited to the following:

- Purchase of jet fuel
- Leasing arrangements
- Purchase of equipment
- Purchase of ancillary materials and spare parts
- Ancillary and social services; and
- Financial services arrangement

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether or not the counterparties are state-controlled entities.

Notes to the Unaudited Interim Financial Report

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with other state-controlled entities (Continued)

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) The Group's main transactions with other state-controlled entities

	For the six months ended	
	30 June 2013	30 June 2012
	RMB'000	*RMB'000*
Jet fuel costs	**13,560,632**	14,269,435

(ii) The Group's balances with other state-controlled entities

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
Accounts payable – jet fuel costs	**1,837,327**	1,778,230

27. EVENTS AFTER THE REPORTING PERIOD

The Company has issued the 2012's second tranche of corporate bond ("the Bond") with a total offering size of RMB5 billion during 16 August 2013 to 20 August 2013. The bond has been split in two portions by a five-year corporate bond ("the five-year bond") and a ten-year corporate bond ("the ten-year bond") with the principal of RMB3.5 billion and RMB1.5 billion, respectively. The two portions of the Bond bear fixed interest rates of 5.15% for the five-year bond and 5.30% for the ten-year bond per annum. The proceeds of the Bond were received by the Company on 20 August 2013.

28. COMPARATIVE FIGURES

As a result of the application of new accounting policies (see note 3), certain comparative figures have been adjusted or reclassified to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2013.

Consolidated Income Statement

For the six months ended 30 June 2013 – unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	For the six months ended 30 June 2013 RMB'000	30 June 2012 RMB'000 (Restated)
Revenue from operations	**45,858,313**	47,560,353
Less: Cost of operations	**39,530,704**	39,385,193
Business taxes and surcharges	**176,571**	1,092,045
Selling expenses	**3,397,742**	3,280,207
General and administrative expenses	**1,450,566**	1,414,931
Finance cost	**218,321**	1,307,906
Impairment losses/(reversals) in assets	**18,144**	(230,199)
Add: (Losses)/gains from movements in fair value	**(954)**	3,544
Investment income/(loss)	**170,501**	(211,404)
Including: Share of profits less losses of associates and joint ventures	**168,611**	(167,420)
Profit from operations	**1,235,812**	1,102,410
Add: Non-operating income	**316,943**	471,123
Less: Non-operating expenses	**40,673**	89,475
Including: Loss on disposal of non-current assets	**21,027**	11,382
Profit before tax	**1,512,082**	1,484,058
Less: Taxation	**386,583**	304,760
Profit for the period	**1,125,499**	1,179,298
Net profit attributable to equity shareholders of the Company	**1,118,892**	1,042,658
Non-controlling interests	**6,607**	136,640
Earnings per share (RMB)		
Basic and diluted	**0.09**	0.09
Other comprehensive income	**140,203**	55,756
Total comprehensive income	**1,265,702**	1,235,054
Attributable to:		
Equity shareholders of the Company	**1,266,482**	1,095,799
Non-controlling interests	**(780)**	139,255

Consolidated Balance Sheet

At 30 June 2013 – unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	30 June 2013 RMB'000	31 December 2012 *RMB'000* (Restated)
ASSETS		
Current assets		
Cash and bank balances	**14,682,342**	12,590,884
Financial assets held for trading	**11,701**	12,671
Bills receivable	**191**	1,253
Accounts receivable	**3,813,000**	2,967,150
Other receivables	**3,577,917**	3,103,008
Prepayments	**776,971**	623,754
Inventories	**1,132,481**	1,105,048
Other current assets	**469,144**	144,552
Total current assets	**24,463,747**	20,548,320
Non-current assets		
Long-term receivables	**423,803**	445,657
Long-term equity investments	**15,010,433**	14,947,723
Investment properties	**224,296**	229,824
Fixed assets	**118,034,484**	116,303,025
Construction in progress	**31,769,569**	25,977,975
Intangible assets	**2,783,278**	2,810,814
Goodwill	**1,102,185**	1,102,185
Long-term deferred expenses	**310,992**	296,613
Deferred tax assets	**2,793,793**	2,756,316
Total non-current assets	**172,452,833**	164,870,132
Total assets	**196,916,580**	185,418,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short term loans	**26,625,868**	16,787,697
Short-term bonds payable	**2,200,000**	1,500,000
Financial liabilities held for trading	**68,869**	120,413
Bills payable	**89,188**	1,503
Accounts payable	**11,414,519**	11,246,311
Domestic air traffic liabilities	**1,449,751**	1,566,686
International air traffic liabilities	**2,913,590**	2,310,101
Receipts in advance	**127,204**	162,884
Employee compensations payable	**2,058,993**	2,192,434
Taxes payable	**441,305**	444,972
Interest payable	**681,184**	352,515
Dividend payable	**776,580**	–
Other payables	**5,173,844**	5,322,884
Non-current liabilities repayable within one year	**19,352,853**	13,802,983
Total current liabilities	**73,373,748**	55,811,383

Consolidated Balance Sheet

At 30 June 2013 – unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY (Continued)		
Non-current liabilities		
Long-term loans	**21,342,459**	30,254,161
Corporate bonds	**14,000,000**	12,000,000
Long-term payables	**3,249,335**	2,892,595
Obligations under finance leases	**23,877,832**	25,476,607
Accrued liabilities	**398,570**	406,470
Deferred income	**3,708,793**	3,361,737
Deferred tax liabilities	**1,832,943**	1,561,424
Total non-current liabilities	**68,409,932**	75,952,994
Total liabilities	**141,783,680**	131,764,377
Shareholders' equity		
Issued capital	**13,084,751**	12,891,955
Capital reserve	**17,704,764**	16,492,312
Reserve funds	**4,985,234**	4,572,881
Retained earnings	**19,294,744**	19,374,375
Foreign exchange translation reserve	**(3,388,806)**	(3,045,439)
Equity attributable to shareholders of the Company	**51,680,687**	50,286,084
Non-controlling interests	**3,452,213**	3,367,991
Total shareholders' equity	**55,132,900**	53,654,075
Total liabilities and shareholders' equity	**196,916,580**	185,418,452

Supplementary Information

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRSs AND CASs

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

	Notes	For the six months ended 30 June 2013 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Unaudited/ Restated)
Net profit attributable to shareholders of the Company under CASs		**1,118,892**	1,042,658
Deferred taxation	*(i)*	**(8,636)**	(3,905)
Differences in value of fixed assets and other non-current assets	*(ii)*	**(9,786)**	(66,848)
Government grants	*(iii)*	**44,329**	79,895
Others		**–**	(9,673)
Net profit attributable to shareholders of the Company under IFRSs		**1,144,799**	1,042,127

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Restated)
Equity attributable to shareholders of the Company under CASs		**51,680,687**	50,286,084
Deferred taxation	*(i)*	**84,751**	93,387
Differences in value of fixed assets and other non-current assets	*(ii)*	**(378,060)**	(368,274)
Government grants	*(iii)*	**(162,537)**	(206,866)
Unrecognition profit of the disposal of Hong Kong Dragon Airlines	*(iv)*	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**51,364,760**	49,944,250

Notes:

(i) The differences in deferred tax were mainly caused by the other differences under CASs and IFRSs as explained below.

(ii) The differences in the value of fixed assets mainly consist of the following three types: (1) fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government-prescribed rates) under CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under CASs and IFRSs. Such differences are expected to be eliminated gradually through depreciation or disposal of the related fixed assets in future; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs. Such differences are expected to be eliminated gradually through depreciation or disposal of the related fixed assets in future; (3) the differences were caused by the adoption of component accounting in different years under CASs and IFRSs. Component accounting was adopted by the Group on a prospective basis under IFRSs in 2005 and under CASs in 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) Under both CASs and IFRSs, government grants or government subsidies should be debited as government grants/subsidies receivable or the relevant assets and credited as deferred income, which will then be charged to the income statement on a straight-line basis over the useful lives of the relevant assets. As the accounting for government grants or government subsidies have had no significant impact on the Group's financial statements, no adjustment has been made to unify the accounting treatments of government grants or government subsidies under CASs and IFRSs. Therefore, in the Group's financial statements prepared in accordance with CASs, government grants received were debited as the relevant assets and credited as capital reserve; government subsidies were debited as cash and bank balances and credited as subsidy income in the income statement. Such differences are expected to be eliminated gradually through amortisation of deferred income to the income statement in future.

(iv) The difference was mainly caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

"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
"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
"tonne"	a metric ton, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

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

YIELD MEASUREMENTS

"passenger yield"	revenues from passenger operations divided by RPKs
"cargo yield"	revenues from cargo operations divided by RFTKs

LOAD FACTORS

"passenger load factor"	RPKs expressed as a percentage of ASKs
"cargo and mail load factor"	RFTKs expressed as a percentage of AFTKs
"overall load factor"	RTKs expressed as a percentage of ATKs

UTILISATION

"block hour(s)"	each whole 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

Definitions

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

"Air China Cargo"	Air China Cargo Co., Ltd
"Air Macau"	Air Macau Company Limited
"Beijing Airlines"	Beijing Airlines Company Limited
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAHC"	China National Aviation Holding Company
"Company" or "Air China"	中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, 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, and whose principal business is the operation of scheduled airline services
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited
"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
"MOP"	Macau Pataca, the lawful currency of Macau
"ppts"	percentage points
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shandong Aviation Group"	Shandong Aviation Group Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisor(s)"	the supervisor(s) of the Company