AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London

2013
Annual Report

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

Air China is headquartered in Beijing, the capital of China, with two increasingly important hubs in Shanghai and Chengdu. With Star Alliance, our network covered 1,328 destinations in 195 countries as at 31 December 2013. Air China is dedicated to provide passengers with safe, convenient, comfortable and personalised services.

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

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

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Corporate Information

REGISTERED CHINESE NAME
中國國際航空股份有限公司

ENGLISH NAME
Air China Limited

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
5th Floor, CNAC House
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Hong Kong International Airport
Hong Kong

WEBSITE ADDRESS
www.airchina.com.cn

DIRECTORS
Cai Jianjiang
Wang Yinxiang
Cao Jianxiong
Sun Yude
Ian Sai Cheung Shiu
Fan Cheng
Fu Yang
Yang Yuzhong
Pan Xiaojiang
Simon To Chi Keung

SUPERVISORS
Li Qinglin
He Chaofan
Zhou Feng
Xiao Yanjun
Shen Zhen

LEGAL REPRESENTATIVE OF THE COMPANY
Cai Jianjiang

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
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LISTING VENUES
Hong Kong, London and Shanghai

Summary of Financial Information

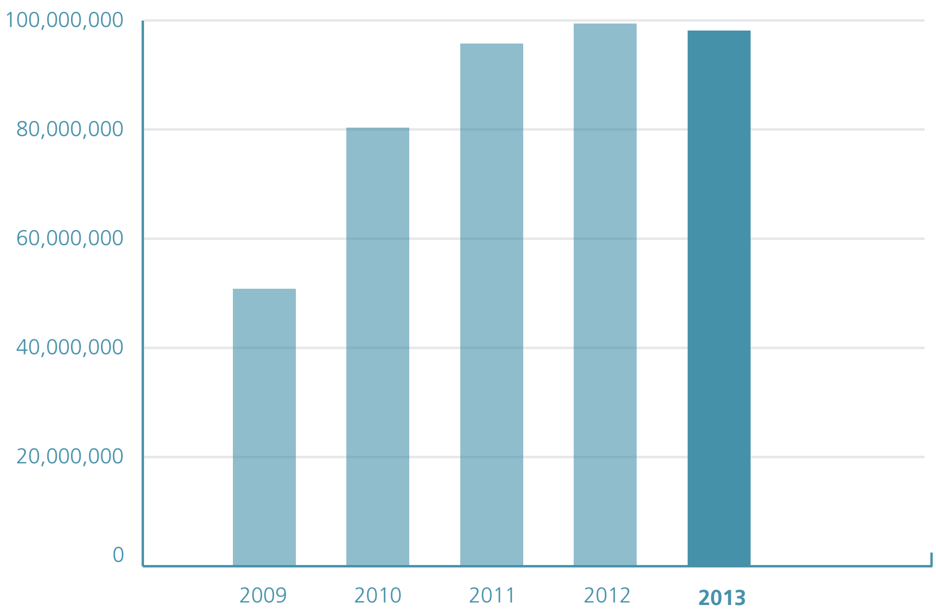
(RMB'000)

	2013	2012 (Restated)	2011 (Restated)	2010 (Restated)	2009 (Restated)
Turnover	**98,180,790**	99,472,780	95,820,643	80,402,846	50,813,455
Profit from operations	**4,118,064**	8,409,000	6,948,560	10,560,951	5,477,063
Profit before taxation	**4,518,093**	6,909,353	10,202,609	14,611,950	5,045,756
Profit after taxation (including profit attributable to non-controlling interests)	**3,614,961**	5,302,151	7,961,576	12,147,259	4,804,343
Profit attributable to non-controlling interests	**351,319**	486,394	420,754	246,709	(51,183)
Profit attributable to equity shareholders of the Company	**3,263,642**	4,815,757	7,540,822	11,900,550	4,855,526
EBITDA[(1)]	**15,141,290**	18,815,128	16,421,288	19,490,106	12,620,891
EBITDAR[(2)]	**20,062,145**	22,977,006	21,021,753	23,573,805	15,680,765
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.27**	0.40	0.62	1.02	0.41
Return on equity attributable to equity shareholders of the Company (%)	**6.07**	9.64	16.32	28.79	20.30

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

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

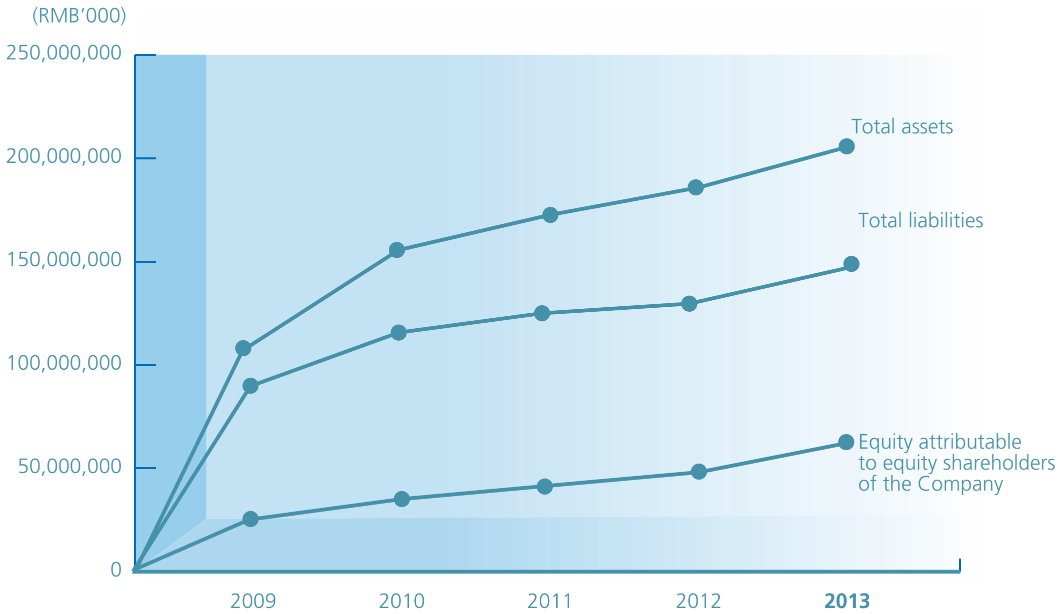
Turnover (RMB'000)



Summary of Financial Information

(RMB'000)

	31 December 2013	31 December 2012 (Restated)	31 December 2011 (Restated)	31 December 2010 (Restated)	31 December 2009 (Restated)
Total assets	**205,083,287**	185,283,484	172,798,298	155,626,350	106,954,386
Total liabilities	**147,537,099**	131,971,243	123,831,701	114,238,430	82,996,844
Non-controlling interests	**3,788,803**	3,367,991	2,763,503	46,695	38,571
Equity attributable to equity shareholders of the Company	**53,757,385**	49,944,250	46,203,094	41,341,225	23,918,971
Equity attributable to equity shareholders of the Company per share (RMB)	**4.11**	3.87	3.58	3.21	1.95



Summary of Operating Data

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

	2013	2012	Change
Traffic			
RPK (in millions)	**141,967.95**	129,773.32	9.40%
International	**41,513.50**	37,536.36	10.60%
Domestic	**94,340.75**	86,588.77	8.95%
Hong Kong, Macau and Taiwan	**6,113.70**	5,648.18	8.24%
RFTK (in millions)	**5,015.33**	5,006.72	0.17%
International	**3,496.03**	3,509.12	(0.37%)
Domestic	**1,423.31**	1,385.93	2.70%
Hong Kong, Macau and Taiwan	**95.99**	111.67	(14.05%)
Passengers carried (in thousands)	**77,676.86**	72,415.84	7.27%
International	**7,822.33**	7,391.22	5.83%
Domestic	**65,955.83**	61,430.80	7.37%
Hong Kong, Macau and Taiwan	**3,898.70**	3,593.81	8.48%
Cargo and mail carried (tonnes)	**1,456,787.68**	1,460,939.24	(0.28%)
Kilometres flown (in millions)	**980.32**	916.03	7.02%
Block hours (in thousands)	**1,568.95**	1,462.41	7.29%
Number of flights	**537,478**	511,735	5.03%
International	**53,409**	51,647	3.41%
Domestic	**451,676**	429,455	5.17%
Hong Kong, Macau and Taiwan	**32,393**	30,633	5.75%
RTK (in millions)	**17,651.07**	16,574.09	6.50%
Capacity			
ASK (in millions)	**175,676.68**	161,382.14	8.86%
International	**51,889.85**	47,263.58	9.79%
Domestic	**115,402.44**	106,397.05	8.46%
Hong Kong, Macau and Taiwan	**8,384.39**	7,721.52	8.58%
AFTK (in millions)	**8,663.97**	8,465.78	2.34%
International	**5,587.89**	5,535.55	0.95%
Domestic	**2,804.84**	2,652.12	5.76%
Hong Kong, Macau and Taiwan	**271.24**	278.11	(2.47%)
ATK (in millions)	**24,509.97**	23,020.94	6.47%

Summary of Operating Data

	2013	2012	Change
Load factor			
Passenger load factor (RPK/ASK)	**80.81%**	80.41%	0.40 ppts
International	**80.00%**	79.42%	0.58 ppts
Domestic	**81.75%**	81.38%	0.37 ppts
Hong Kong, Macau and Taiwan	**72.92%**	73.15%	(0.23 ppts)
Cargo and mail load factor (RFTK/AFTK)	**57.89%**	59.14%	(1.25 ppts)
International	**62.56%**	63.39%	(0.83 ppts)
Domestic	**50.74%**	52.26%	(1.51 ppts)
Hong Kong, Macau and Taiwan	**35.39%**	40.15%	(4.77 ppts)
Overall Load Factor (RTKs expressed as a percentage of ATKs)	**72.02%**	72.00%	0.02 ppts
Daily utilization of aircraft (block hours per day per aircraft)	**9.57**	9.61	(0.04 hour)
Yield			
Yield per RPK (RMB)	**0.61**	0.67	(8.96%)
International	**0.54**	0.57	(5.26%)
Domestic	**0.63**	0.70	(10.00%)
Hong Kong, Macau and Taiwan	**0.85**	0.87	(2.30%)
Yield per RFTK (RMB)	**1.57**	1.68	(6.55%)
International	**1.65**	1.75	(5.71%)
Domestic	**1.26**	1.35	(6.67%)
Hong Kong, Macau and Taiwan	**3.10**	3.74	(17.11%)
Unit cost			
Operating cost per ASK (RMB)	**0.54**	0.56	(3.57%)
Operating cost per ATK (RMB)	**3.84**	3.96	(3.03%)

Chairman's Statement

Cai Jianjiang
Chairman

The global economy struggled to recover and China's economic growth slowed in 2013. The global air passenger market continued to grow while the air cargo market was relatively weak. While proactively reacting to the challenges and pressure arising from the evolving global industry competition, market structure and business models, we adhered to a strategy of steady and prudent operation and sustainable development. We focused on improving our efficiency, strengthening our strategic co-operation, enhancing our business synergies, improving our service quality, strengthening our hub network construction, and continuously building our core competitive edge. Due to factors such as intensified competition and lower yield level, we achieved a profit attributable to equity shareholders of RMB3,264 million during the reporting period, representing a year-on-year decrease of 32.23%.

We maintained our two-pronged strategy of operating in both domestic and international markets and adjusted our capacity deployment flexibly to enhance the efficiency of our resources. By grasping the characteristics of the market, rationally controlling the pace and structure of our deployment, actively optimising our capacity allocation and accelerating our fleet adjustment, we steadily raised our output-input ratio. With regard to our international operations, we enhanced the management of routes in which we had competitive advantages, increased capacity in long-haul routes to the United States and Europe, and gradually replaced the older aircraft with B777-300ER and A330 aircraft; we seized the opportunity brought about by the recovery in the outbound tourism market and actively made use of our sixth freedom right and increased the frequency of flights on Asia-Pacific routes in order to better fulfil the demand for connecting flights to the United States and Europe. As regards our domestic operation, we rationally deployed wide-body aircraft on major routes and routes where we enjoyed competitive advantage, and increased our capacity in central and western routes so as to ensure that our quality resources were fully utilised. At the same time, we further improved our sales and marketing models with new business platform and marketing techniques, launched a brand new customer relationship management system to segmentise customer needs, and continued to optimise our distribution channels, thereby increasing our traffic volume as we increased our capacity considerably.

During the reporting period, our capacity measured in ASK reached 175,677 million and RPK reached 141,968 million, representing an increase of 8.86% and 9.40% respectively over the previous year. We carried 77,676,900 passengers with a passenger load factor of 80.81%, representing an increase of 7.27% and 0.4 ppts over the previous year, respectively. Our passenger yield decreased by 8.96% to RMB0.61.

We have been focused on implementing our hub network strategy. By continuously expanding our route network, optimising our flight banks and improving the quality of transfer services, we have strengthened the strategic competitiveness of our Beijing hub. The commencement of operation of the D zone in Terminal Three has improved our boarding bridge occupancy and on time performance rate. During the year, the number of transfer passengers at the Beijing hub reached 4.79 million, with a significant increase in the number of international transfer passengers. New routes were introduced at the Chengdu regional hub, including, among others, Chengdu – Frankfurt, Chengdu – Daocheng and Chengdu – Aksu, extending its network to 68 cities and further expanding its hub network coverage. We strengthened the construction of our Shanghai international gateway by focusing on optimising our capacity deployment, which was further reinforced by commencing code-share with the other local airlines.

Chairman's Statement

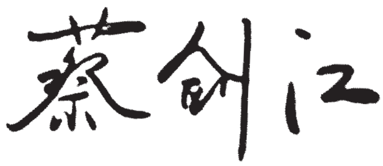
We continued to improve our fleet structure. During the year, we introduced 55 aircraft and retired 19 old aircraft. As at the end of 2013, we had a total of 497 aircraft and reduced the average age of our fleet to 6.33 years. The introduction of new wide-body aircraft effectively reduced our operating costs. The adjusted fleet better matched the demand of our markets and routes, resulting in notable improvement in our operational and economic efficiency. In particular, this improved our competitiveness on international long-haul routes.

We continued to strengthen our strategic co-operation with associated corporations and the business synergies among airlines in the Group. During the year, we continued to build on our strategic partnership relationship with Cathay Pacific, especially on joint service for certain routes, cargo business and ground handling services. We supported Air China Cargo in its co-operation with China Postal Airlines in launching B757 charter freight services, which enabled Air China Cargo to enter the courier business and helped the strategic transformation of its freight business. The joint purchase of narrow-body aircraft with Shenzhen Airlines and the basket replacement of aircraft by Air China Cargo helped build better economic foundation for the future development of the fleet. We vied for synergies in slots and air traffic rights swap with our inter-Group airlines, thus strengthening control over our main base markets.

We continued to focus on customer demand and customer experience. During the period, we strengthened the construction of our services system, built a service standard database, and further optimised our service process. We built and improved our emergency management system, and proactively enhanced our services during lengthy and widespread flight delays. We have created a chain of boutiques within lounges, and launched our self-run lounges at five airports including Shanghai Hongqiao International Airport. We also innovated our in-flight products and became the first domestic carrier to offer Internet access on our flights through global satellite communications.

In 2013, the cargo market remained sluggish. Under severe market conditions, Air China Cargo worked on its strategy of "achieving excellence in the core freight business while laying the foundation for the logistics value chain", and pushed forward in transforming its business model and cargo services. It strengthened the management of its freighters, optimised some cargo routes, and improved its sales capability of bellyhold spaces. Riding on our newly introduced long-haul routes to Europe and the United States, it expanded its international cargo network and launched very competitive high value-added products and transit products. The gradual replacement of B747-400BCF with B777F freighters has improved its asset structure and cost structure, thereby improving its operating efficiency. These measures have effectively eased the difficulties encountered in the cargo market and reduced losses. During the year, the AFTKs of Air China Cargo increased by 2.43% compared to 2012, while its RFTKs and cargo load factor decreased by 0.16% and 1.47 ppts respectively.

The aviation industry is still expected to have potential for continuous growth in 2014. China's economic structure adjustment and the accelerated growth of the service industry will promote further demands in the aviation market. At the same time, the aviation industry will continue to face serious challenges such as intensifying competition, dwindling resources, and rising operating costs. With our goal of "building a large network airline with international competitiveness", we will continue to strive for a steady growth, deepen our reform and innovation, improve our operating efficiency and build our competitiveness so as to achieve better performance from a new starting point.



Cai Jianjiang
Chairman

Beijing, PRC
25 March 2014

Business Overview

In 2013, the Group's ATKs reached 24.510 billion and RTKs reached 17.651 billion, representing an increase of 6.47% and 6.50%, respectively, over the previous year. The Group's overall load factor was 72.02%, representing an increase of 0.02 ppts from 2012.

DEVELOPMENT OF FLEET

In 2013, the Group introduced 55 aircraft, including A320, A330, B737-800 and B777-300ER, and phased out 19 old aircraft, such as B737-300, B767-300 and B747-400F. As at 31 December 2013, the Group had a total of 497 aircraft, with an average age of 6.33 years (excluding aircraft under wet leases). Details of the fleet of the Group are set out in the table below:

	As at 31 December 2013					Introduction Plan		
	Subtotal	Self-owned	Finance Leased	Operating Leased	Average Age	2014	2015	2016
Passenger aircraft	**477**	**229**	**123**	**125**	**6.23**	**61**	**60**	**29**
Among which:								
Airbus series	**232**	**95**	**84**	**53**	**5.03**	**25**	**17**	**14**
A319	40	24	9	7	8.68	0	0	0
A320/A321	146	58	57	31	3.96	17	13	14
A330	41	8	18	15	4.02	8	4	0
A340	5	5	0	0	15.46	0	0	0
Boeing series	**245**	**134**	**39**	**72**	**7.40**	**36**	**43**	**15**
B737	203	104	27	72	6.70	29	39	8
B747	8	8	0	0	17.05	3	4	0
B757	7	7	0	0	19.55	0	0	0
B767	1	1	0	0	13.54	0	0	0
B777	26	14	12	0	6.19	4	0	0
B787	0	0	0	0	–	0	0	7
Freighters	**9**	**8**	**0**	**1**	**15.56**	**7**	**3**	**0**
B747F	7	6	0	1	17.85	0	0	0
B757F	1	1	0	0	15.10	3	0	0
B777F	1	1	0	0	0.04	4	3	0
Business jets	**11**	**1**	**0**	**10**	**2.80**	**0**	**0**	**0**
Total	**497**	**238**	**123**	**136**	**6.33**	**68**	**63**	**29**

Among the aircraft set out above, the Company operated a fleet of 316 aircraft, with an average age of 6.47 years (excluding aircraft under wet leases). During the year, the Company introduced 31 aircraft and phased out 16 aircraft.

In 2013, the Company made new progress in hub construction, sales and marketing, strategic synergies, product innovation, service improvement and cost control.

Business Overview

HUB NETWORK AND ALLIANCE

The value of our hub network has continued to rise. We expanded our route network through the introduction of seven new international routes, of which three are for Europe and America. For our Beijing hub, we launched new international routes from Beijing to Geneva, Houston, Chingmai and Siem Reap. The number of transfer passengers at the Beijing hub increased by 7% over the previous year, while the transfer revenue increased by 5%. The Chengdu regional hub achieved an important milestone in the construction of its hub platform by launching its first inter-continental flight to Frankfurt. We strengthened the construction of our Shanghai international gateway by focusing on optimising its capacity deployment and commencing code-share with the other local airlines. The number of transfer passengers at the Chengdu regional hub and the Shanghai international gateway reached 620,000 and 240,000, respectively. We actively participated in alliance affairs and deepened bilateral co-operations. By expanding code-share co-operation with United Airlines, Scandinavian Airlines and Virgin Atlantic, among others, we supported new routes introduction and network expansion. During the year, the alliance contributed RMB2,600 million to our revenue, an increase of 2.4% as compared to the previous year.

As of 31 December 2013, the number of passenger routes operated by the Company reached 298, among which 212 were domestic routes, 71 were international routes and 15 were regional routes, covering a total of 154 cities in 31 countries and regions, including 104 domestic cities, 47 international cities and 3 regional cities.

MARKETING STRATEGY

We improved our sales strategy and increased our customer value. With the use of our Customer Relationship Management system, we were allowed to segmentise our target customer groups and conduct targeted sales. We promoted the use of our Origin and Destination system to improve our O&D pricing and management capability, thus further improving our sales management technique. We simplified the process for passengers to join our frequent flyer programme in order to promote an integrated service management, and completed the consolidation with Shandong Airlines' frequent flyer programme. At the end of the year, PhoenixMiles had a total of 28.91 million members and frequent flyers contributed RMB19,620 million to the revenue during the year, an increase of 6% over the previous year. We optimised our key customer base and the quality of the revenue contributed by them. During the year, we developed 816 new key customers and the revenue contributed by our key customers reached RMB12,700 million, representing a year-on-year growth of 12%. We improved our domestic and international "first and business classes" sales capability and generated a total of RMB9,340 million in the revenue, an increase of 7% from the previous year. We also extended the functions of our electronic business platform and improved our network-based services with a total of RMB8,630 million generated in the e-commerce revenue, representing a year-on-year growth of 36%.

Business Overview

SYNERGY AND COOPERATION

We enhanced the co-operation among our Group airlines in areas such as joint purchases and frequent flyer programmes. Our joint aircraft purchase with Shenzhen Airlines laid a solid foundation for our future fleet development and fixed our structural costs. We strengthened the sharing of slots among the Group members, enhanced the coordinated management mechanism for the PhoenixMiles frequent flyer programme and pooled air traffic rights with Shandong Airlines and Shenzhen Airlines. We coordinated our fleet adjustment plan with Cathay Pacific and reached a basket replacement of Boeing aircraft, thus improving the asset and cost structure and the operating efficiency of our Company, as well as those of Air China Cargo. Our strategic co-operation with China Postal Airlines in providing charter services by introducing B757 freighter facilitated the structural improvement of our cargo business. We also expanded our regional influence through Air China Inner Mongolia Limited, a subsidiary of the Company established with Inner Mongolia State-owned Assets Co., Ltd.

PRODUCTS AND SERVICES

We focused on the need of our customers and continued to improve our service quality. We officially launched our customer feedback management system and centralised the processing of feedback and complaints from customers, thereby broadening the channel for communication with our customers. The products put into service during the year included the "Air China Holiday" platform for the online promotion and sale of "air ticket + hotel" package products. We developed and launched our "Global Flight Manager Program" system, and became the first domestic carrier to offer Internet access on our flights through global satellite communications. We commenced the operation of zone D at Terminal Three of Beijing Capital Airport, and improved our boarding bridge occupancy and on-time performance rate at our main base. We continued to extend the coverage of baggage transfer services on our US-Europe transfer flights. We built and renovated our first and business classes passenger lounges at the airports in Beijing, Chengdu, Hangzhou, Chongqing, Shanghai, Wuhan, Guiyang and Dalian, creating a chain of boutiques within these lounges.

COST CONTROL

We continued to optimise our cost structure and enhance our cost control. Further optimisation of our fleet helped improve our operating and economic efficiency, and the cost advantage of wide-body jets such as B777-300ER and A330-300 has begun to emerge. The formation of a centralised purchasing platform for bulk materials, such as aircraft and their parts and jet fuel, helped reduce our procurement costs for materials. In the second half of the year, we implemented the flight management computer (FMC) application, which helped save 1,569 tons of jet fuel. We further strengthened our efforts on the development of efficiency potentials in our operational procedures, and adopted such measures as matching our aircraft types with the airports, altitude control, optimisation of loading standards, and recovery of cabin headphones. These all helped lower our costs and improve our efficiency.

Business Overview

ENVIRONMENTAL PROTECTION

Our Company adhered to the principle of "Sustainable Development through Green Operation" and actively participated in and promoted the development of sustainable alternative jet fuel. Through the introduction and development of state-of-the-art energy conservation technologies and the proactive implementation of various measures, we effectively managed the unfavourable environmental effects from our operations. We focused on continuous energy efficiency improvement, emission reduction and resource conservation. In 2013, the Group continued to bring in new and more environmentally friendly aircraft to replace old aircraft with high fuel consumption, and also developed and adopted new energy conservation technologies to improve the energy efficiency of our fleet. In the various operation stages, we continued to reduce our energy consumption in every detail through our scientific management. Since 2004, our fuel efficiency has improved by 16.7%. In 2013, we were named one of the "Top 10 Green Responsibility Enterprises in China".

SOCIAL WELFARE

Our Group is fully committed to our social responsibilities and took part in a variety of social welfare undertakings together with the government, enterprises and social welfare organisations to make more contributions to the society. In 2013, we raised RMB1.25 million for China Children Insurance Foundation. We ensured the transport of disaster relief materials during the Ya'an earthquake in Sichuan by providing 75 flights to carry 24,514 pieces of disaster relief materials weighing 182,276kg. We took up and completed the task of transporting disaster relief materials for the Chinese government's humanitarian assistance to Pakistan. In addition, we actively participated in welfare donations around the world and carried out various welfare work, such as launching a responsible purchase programme with France's Hospices de Beaune, sponsoring charitable basketball games, and donating to the disaster zones hit by the Philippine typhoon.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS

Air China Cargo

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

As at 31 December 2013, Air China Cargo operated a fleet of 9 aircraft in total with an average age of 15.56 years. During the year, 2 new aircraft were introduced and 4 were phased out.

As at 31 December 2013, Air China Cargo operated 14 routes, including 2 domestic routes, 11 international routes and 1 regional route. Air China Cargo's flights covered 17 cities in 7 countries and regions, including 6 domestic cities, 10 international cities and 1 regional city.

In 2013, the AFTKs of Air China Cargo reached 8,026 million, representing an increase of 2.43% over 2012. It achieved RFTKs of 4,541 million, representing a year-on-year decrease of 0.16%. The volume of cargo and mail carried decreased by 1.06% from 2012 to 1,157,400 tonnes and the cargo and mail load factor decreased by 1.47 ppts from 2012 to 56.58% in 2013.

Business Overview

In 2013, Air China Cargo's turnover was RMB8,102 million, down by 1.44% from 2012. Of this, cargo and mail transportation revenue was RMB7,151 million, representing a year-on-year decrease of 7.08%. During the year, Air China Cargo incurred a net loss of RMB349 million, representing a year-on-year reduction in loss of 68.07%.

As at 31 December 2013, total assets of Air China Cargo amounted to RMB10,246 million and its net assets amounted to RMB639 million.

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.

As at 31 December 2013, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 140 aircraft in total with an average age of 5.31 years. 17 aircraft were introduced during the year.

As at 31 December 2013, Shenzhen Airlines operated 194 routes, including 182 domestic routes, 6 international routes and 6 regional routes, covering destinations across 77 cities in 7 countries and regions, including 70 domestic cities, 4 international cities and 3 regional cities.

In 2013, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 42,545 million, representing a year-on-year increase of 10.42%. It achieved RPKs of 34,724 million, representing a year-on-year increase of 11.36%. Shenzhen Airlines (including Kunming Airlines) carried 23,832,100 passengers, representing a year-on-year increase of 10.98%. Its average passenger load factor was 81.62%, representing an increase of 0.68 ppts from the previous year.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 555 million, representing a year-on-year decrease of 0.88%. It achieved RFTKs of 445 million, representing a year-on-year increase of 2.64%. The volume of cargo and mail carried by Shenzhen Airlines was 278,400 tonnes in 2013, representing a year-on-year increase of 1.88%, while the cargo and mail load factor was 80.15%, representing an increase of 2.75 ppts from the previous year.

In 2013, Shenzhen Airlines recorded a turnover of RMB21,757 million, representing a year-on-year decrease of 1.13%. Of this, air traffic revenue was RMB20,901 million, representing a year-on-year decline of 0.67%. The profit attributable to equity shareholders for the year was RMB901 million, representing a year-on-year decrease of 51.30%.

As at 31 December 2013, total assets of Shenzhen Airlines amounted to RMB38,076 million and net assets attributable to equity shareholders was RMB3,749 million.

Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP 442,042,000. Air China holds 66.9% of its equity interest.

As at 31 December 2013, Air Macau operated a fleet of 14 aircraft with an average age of 11.39 years. During the year, 3 new aircraft were introduced and 2 were phased out.

Business Overview

As at 31 December 2013, Air Macau operated 21 routes, among which, 5 were international routes and 16 were regional routes, covering 20 cities in 5 countries and regions, including 13 domestic cities, 5 international cities and 2 regional cities.

In 2013, the ASKs and RPKs of Air Macau reached 4,430 million and 3,008 million, respectively, representing an increase of 13.53% and 15.19%, respectively, from last year. A total of 1,825,900 passengers were carried, with an average load factor of 67.91%, representing an increase of 13.65% and 0.98 ppts, respectively, as compared with the previous year.

In terms of air cargo, the AFTKs and RFTKs of Air Macau reached 68,696,600 and 20,458,700, respectively, representing an increase of 16.23% and 6.52%, respectively, from last year. In 2013, it carried 13,471.18 tonnes of cargo and mail, representing an increase of 8.31% from last year, and the cargo and mail load factor was 29.78%, representing a decrease of 2.71 ppts as compared with last year.

In 2013, Air Macau recorded a turnover of RMB2,667 million, representing an increase of 4.49% over last year. Of this, air traffic revenue was RMB2,068 million, representing an increase of 9.16% from last year, with a profit after taxation of RMB218 million, representing a decrease of 0.93% over last year.

As at 31 December 2013, total assets of Air Macau amounted to RMB2,483 million and its net assets amounted to RMB1,378 million.

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 31 December 2013, Dalian Airlines operated a fleet of 6 aircraft with an average age of 2.75 years. 2 aircraft were introduced during the year.

As at 31 December 2013, Dalian Airlines operated 15 domestic routes, covering 16 domestic cities.

In 2013, the ASKs and RPKs of Dalian Airlines reached 1,425 million and 1,172 million, representing a year-on-year increase of 49.28% and 55.82%, respectively. A total of 1,004,900 passengers were carried, representing an increase of 53.30%, with an average passenger load factor of 82.29%, up by 3.46 ppts from last year.

In terms of air cargo, the AFTKs and RFTKs of Dalian Airlines reached 13,988,200 and 8,941,100 respectively, representing a year-on-year increase of 27.88% and 56.71%, respectively. In 2013, a total of 7,469.61 tonnes of cargo and mail were carried, representing a 38.95% increase from last year. Cargo and mail load factor was 63.92%, an increase of 11.76 ppts from last year.

In 2013, Dalian Airlines recorded a turnover of RMB793 million. Of this, air traffic revenue was RMB793 million, with a profit after taxation of RMB34 million.

As at 31 December 2013, total assets of Dalian Airlines amounted to RMB1,163 million and the net assets amounted to RMB1,046 million

Business Overview

Beijing Airlines

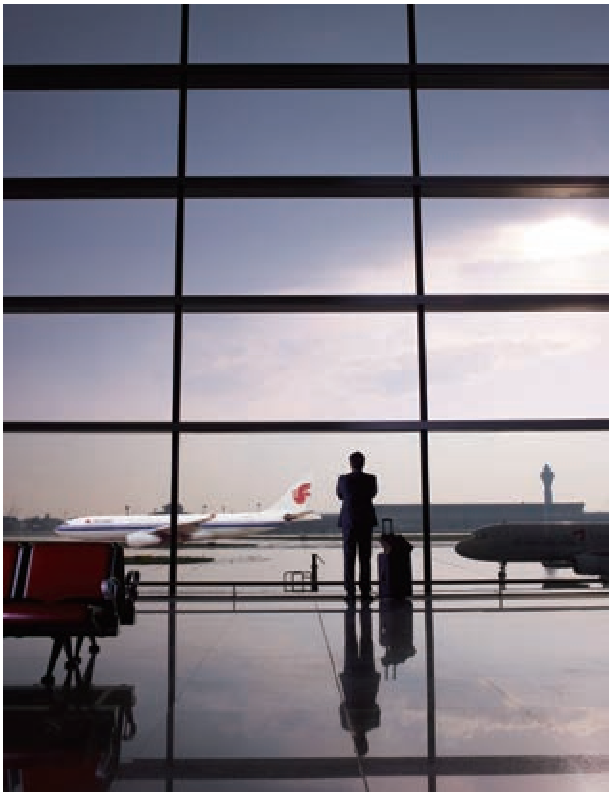
Beijing Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 51% of its equity interest.

As at 31 December 2013, Beijing Airlines operated a fleet of 10 entrusted business jets and 1 self-owned business jet with an average age of 2.8 years. 3 aircraft were introduced and 1 aircraft phased out during the year.

In 2013, Beijing Airlines completed 592 flights with 2,922.31 flying hours, and carried a total of 4,098 passengers.

In 2013, Beijing Airlines recorded a turnover of RMB122 million, among which, charter service revenue was RMB28 million with a profit after taxation of RMB2 million.

As at 31 December 2013, total assets of Beijing Airlines amounted to RMB1,109 million and its net assets amounted to RMB1,045 million.



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 31 December 2013, Shandong Airlines operated a fleet of 66 aircraft (excluding the 6 aircraft on wet lease to Air China) with an average age of 5.3 years. 15 aircraft were introduced and 5 were phased out during the year.

As at 31 December 2013, Shandong Airlines operated 139 routes, of which there were 7 international routes and 5 regional routes. Its destinations covered 60 cities in five countries and regions, including 52 domestic cities, 5 international cities and 3 regional cities.

In 2013, the ASKs and RPKs of Shandong Airlines reached 20,104 million and 15,581 million, representing a year-on-year increase of 15.81% and 14.40%, respectively. A total of 14,035,800 passengers were carried, representing an increase of 12.08%, with an average passenger load factor of 77.76%, down by 1.31 ppts from last year.

In terms of air cargo, the AFTKs and RFTKs of Shandong Airlines reached 367 million and 169 million, representing a year-on-year increase of 12.99% and 8.13%, respectively. In 2013, a total of 130,800 tonnes of cargo and mail were carried, representing an increase of 5.72% from last year. The cargo and mail load factor was 46.69%, representing a decline of 1.78 ppts from last year.

In 2013, Shandong Airlines recorded a turnover of RMB11,427 million, an increase of 3.95% from last year. Of this, air traffic revenue was RMB11,232 million, up by 3.56% from last year and profit after taxation was RMB389 million, representing a decline of 34.03% from last year.

As at 31 December 2013, total assets of Shandong Airlines amounted to RMB11,403 million and net assets attributable to equity shareholders was RMB2,708 million.

Management's Discussion and Analysis of Financial Position and Operating Results

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

PROFIT ANALYSIS

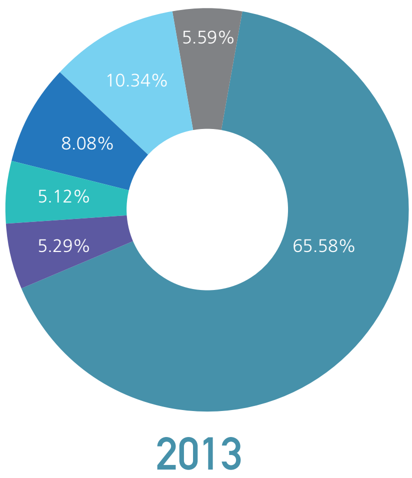
In 2013, we proactively responded to changes in the operating environment by adopting various measures such as optimising operational arrangement, enhancing sales and marketing efforts and refining cost control. We recorded an operating profit of RMB4,118 million. Meanwhile, benefiting from the exchange gains reaching RMB1,938 million and RMB823 million in share of profits of associates and joint ventures, profit attributable to equity shareholders of the Company and earnings per share amounted to RMB3,264 million and RMB0.27 respectively, compared to RMB4,816 million and RMB0.40 respectively in the previous year.

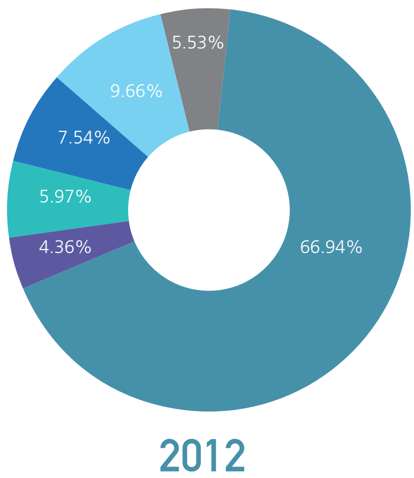
TURNOVER

In 2013, the Group's total turnover was RMB98,181 million, representing a decrease of RMB1,292 million or 1.30% as compared with that of the previous year. Revenue from our air traffic operations contributed RMB94,603 million to the total turnover, representing a decrease of RMB716 million or 0.75% over last year. Our other operating revenue was RMB3,578 million, representing a year-on-year decrease of RMB576 million or 13.86%, mainly due to the implementation of value-added tax to replace business tax since September 2012. Had such tax policy change not been made, the Group's turnover would have actually grown by 2.02%.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	2013		2012		
(RMB'000)	**Amount**	**Percentage**	Amount (restated)	Percentage	Change
Mainland China	**64,386,657**	**65.58%**	66,588,134	66.94%	(3.31%)
Hong Kong, Macau and Taiwan	**5,491,532**	**5.59%**	5,505,452	5.53%	(0.25%)
Europe	**10,152,698**	**10.34%**	9,604,615	9.66%	5.71%
North America	**7,929,394**	**8.08%**	7,499,994	7.54%	5.73%
Japan and Korea	**5,023,165**	**5.12%**	5,941,709	5.97%	(15.46%)
Asia Pacific and others	**5,197,344**	**5.29%**	4,332,876	4.36%	19.95%
Total	**98,180,790**	**100.00%**	99,472,780	100.00%	(1.30%)





Management's Discussion and Analysis of Financial Position and Operating Results

AIR PASSENGER REVENUE

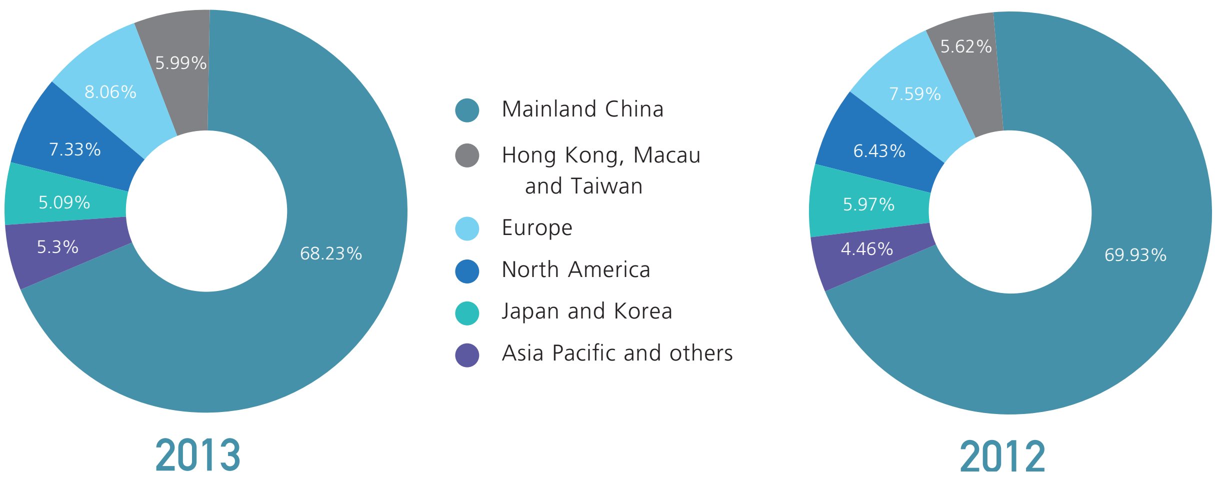
In 2013, the Group recorded an air passenger revenue of RMB86,727 million, representing a decrease of RMB172 million from 2012. Among the air passenger revenue, the increase in capacity deployment and passenger load factor contributed to an increase of RMB7,696 million and RMB471 million in revenue, respectively, while the decrease in passenger yield resulted in a decrease in revenue of RMB8,339 million. The Group's capacity deployment, passenger load factor and passenger yield per unit in 2013 are as follows:

	2013	2012	Change
Available seat kilometres (million)	**175,676.68**	161,382.14	8.86%
Passenger load factor (%)	**80.81%**	80.41%	0.40 ppts
Yield per RPK (RMB)	**0.61**	0.67	(8.96%)

Note: The decrease in yield per RPK was due to the combined effect of the implementation of value-added tax to replace business tax and the decrease in the level of actual air fare.

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2013		2012		
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**59,178,621**	**68.23%**	60,765,243	69.93%	(2.61%)
Hong Kong, Macau and Taiwan	**5,190,785**	**5.99%**	4,887,709	5.62%	6.20%
Europe	**6,986,898**	**8.06%**	6,594,287	7.59%	5.95%
North America	**6,360,792**	**7.33%**	5,584,561	6.43%	13.90%
Japan and Korea	**4,411,101**	**5.09%**	5,187,619	5.97%	(14.97%)
Asia Pacific and others	**4,598,602**	**5.30%**	3,879,176	4.46%	18.55%
Total	**86,726,799**	**100.00%**	86,898,595	100.00%	(0.20%)



Management's Discussion and Analysis of Financial Position and Operating Results

AIR CARGO REVENUE

In 2013, the Group's air cargo and mail revenue was RMB7,876 million, representing a decrease of RMB544 million from the previous year. Among the air cargo and mail revenue, the increase in capacity deployment contributed to an increase of RMB197 million in revenue, while the decreases in cargo and mail load factor and cargo yield resulted in a decrease in revenue of RMB182 million and RMB559 million, respectively. The capacity deployment, cargo and mail load factor and cargo and mail yield per unit in 2013 are as follows:

	2013	2012	Change
Available freight tonne kilometres (million)	**8,663.97**	8,465.78	2.34%
Cargo and mail load factor (%)	**57.89**	59.14	(1.25 ppts)
Yield per RFTK (RMB)	**1.57**	1.68	(6.55%)

Note: The decrease in yield per RFTK was due to the combined effect of the implementation of value-added tax to replace business tax and the decrease in the level of actual freight rate.

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2013		2012		
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,794,941**	**22.79%**	1,869,769	22.19%	(4.00%)
Hong Kong, Macau and Taiwan	**297,469**	**3.78%**	417,534	4.96%	(28.76%)
Europe	**3,113,800**	**39.53%**	3,010,328	35.75%	3.44%
North America	**1,520,426**	**19.30%**	1,915,433	22.75%	(20.62%)
Japan and Korea	**584,105**	**7.42%**	754,090	8.96%	(22.54%)
Asia Pacific and others	**565,628**	**7.18%**	453,700	5.39%	24.67%
Total	**7,876,369**	**100.00%**	8,420,854	100.00%	(6.47%)

Management's Discussion and Analysis of Financial Position and Operating Results

OPERATING EXPENSES

In 2013, the Group's operating expenses were RMB94,063 million, representing an increase of 3.29% from RMB91,064 million in 2012. The breakdown of the operating expenses is set out below:

	2013		2012		
(RMB'000)	**Amount**	**Percentage**	Amount (restated)	Percentage	Change
Jet fuel costs	**33,722,281**	**35.85%**	35,639,967	39.14%	(5.38%)
Take-off, landing and depot charges	**9,585,090**	**10.19%**	9,213,993	10.12%	4.03%
Depreciation	**10,936,619**	**11.63%**	10,325,780	11.34%	5.92%
Aircraft maintenance, repair and overhaul costs	**3,063,647**	**3.26%**	3,128,270	3.44%	(2.07%)
Employee compensation costs	**14,023,639**	**14.91%**	12,852,554	14.11%	9.11%
Air catering charges	**2,571,550**	**2.73%**	2,843,016	3.12%	(9.55%)
Selling expenses	**5,760,403**	**6.12%**	5,669,860	6.23%	1.60%
General and administrative expenses	**1,221,429**	**1.30%**	650,453	0.71%	87.78%
Others	**13,178,068**	**14.01%**	10,739,887	11.79%	22.70%
Total	**94,062,726**	**100.00%**	91,063,780	100.00%	3.29%

In particular:

- Jet fuel costs decreased by RMB1,918 million or 5.38% as compared to 2012, mainly due to the implementation of value-added tax to replace business tax. Without taking into account such policy change, jet fuel costs would have increased by 1.67%.

- Take-off, landing and depot charges increased by RMB371 million as compared to 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 year.

- Aircraft maintenance, repair and overhaul costs recorded a decrease of RMB65 million or 2.07% as compared to 2012.

- Employee compensation costs increased by RMB1,171 million, mainly due to an increase in number of employees and an increase in the flying hours.

- Air catering charges decreased by RMB271 million, mainly due to the implementation of value-added tax to replace business tax. Air catering charges would have increased actually without taking into account such policy change.

- Sales and marketing expenses increased by RMB91 million as compared to 2012 due to an increase in agency handling fees from the previous year.

Management's Discussion and Analysis of Financial Position and Operating Results

- General and administrative expenses increased by RMB571 million as compared to 2012 mainly due to the reversal of bad debt provision on receivables of RMB737 million for the previous 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 22.70% from the previous 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 year.

FINANCIAL REVENUE AND FINANCIAL COSTS

In 2013, the Group recorded a net exchange gain of RMB1,938 million, representing an increase of RMB1,819 million or 1,526.84% as compared to the previous year, which was mainly due to the accelerated appreciation of RMB against US dollars during the year. The Group also incurred an interest expense (excluding the capitalised portion) of RMB2,686 million, representing a year-on-year increase of RMB424 million, primarily due to the growth in interest-bearing liabilities and finance costs of the Group.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES AND JOINT VENTURES

In 2013, the Group's share in the profits of its associates and joint ventures was RMB823 million, representing an increase of RMB432 million from that of 2012, mainly due to a general increase in profits of its invested associates engaging in airline business during the reporting period, among which the Group's recognition of gains on investment in Cathay Pacific amounted to RMB423 million, as compared to RMB50 million (restated) in 2012.

ANALYSIS OF ASSETS STRUCTURE

As at 31 December 2013, the total assets of the Group amounted to RMB205,083 million, representing an increase of 10.69% from the previous year, among which current assets accounted for RMB25,817 million or 12.59% of the total assets, while non-current assets accounted for RMB179,266 million, or 87.41% of the total assets.

Among the current assets, cash and cash equivalents were RMB14,762 million, accounting for 57.18% of the current assets and representing an increase of 25.23% from the beginning of the year, mainly because a provision had been made for the RMB3,000 million corporate bonds that will become mature in the first quarter of 2014 in addition to the capital demand of normal operation.

Among the non-current assets, the net book value of property, plant and equipment was RMB132,806 million, accounting for 74.08% of the non-current assets and representing an increase of 7.55% from the previous year, which was primarily attributable to the increase in the number of self-owned and finance leased aircraft.

ASSETS MORTGAGE

As at 31 December 2013, the Group, pursuant to certain bank loans and finance leasing agreements, has mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB85,307 million (approximately RMB80,227 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 RMB746 million (approximately RMB803 million as at 31 December 2012) in bank deposits pledged as partial security for certain bank loans, operating leases and financial derivatives of the Group.

Management's Discussion and Analysis of Financial Position and Operating Results

CAPITAL EXPENDITURE

In 2013, the Company's capital expenditure amounted to RMB17,959 million, of which the total investment in aircraft and engines was RMB16,222 million, including prepayments of RMB8,960 million for aircraft to be introduced from 2013 onwards.

Other capital expenditure amounted to RMB1,737 million, which was mainly spent on high-cost rotables, aircraft modifications, flight simulators, infrastructure construction, information system building, ground equipment purchase and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2013, the Group's equity investment in its associates totalled RMB14,574 million, representing an increase of 6.57% from the beginning of the year, mainly due to the Group's share of profits of associates in the year. The equity investment balances of the Group in Cathay Pacific, Shandong Aviation Group Co., Ltd. and Shandong Airlines amounted to RMB12,631 million, RMB957 million and RMB579 million, respectively, with such companies recording profits of RMB2,319 million, RMB503 million and RMB389 million in 2013, respectively.

As at 31 December 2013, the Group's share in the profits of its joint ventures was RMB1,284 million, representing an increase of 12.42% from the beginning of the year, mainly due to the increase of profits of its joint ventures and its investment in GA Innovation China.

DEBT STRUCTURE ANALYSIS

As at 31 December 2013, the Group's total liabilities were RMB147,537 million, representing an increase of 11.79% from the previous year, among which current liabilities accounted for RMB70,074 million and non-current liabilities accounted for RMB77,463 million, representing 47.50% and 52.50% 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 RMB43,362 million, representing an increase of 36.83% from the beginning of the year, mainly due to an increase in financing during the reporting period. Other advances and payables increased by 8.72% from the previous year to RMB26,713 million, which was mainly due to the increase in payables for outstanding air traffic tickets and other operating payables compared to the beginning of the year.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB68,239 million, representing an increase of 0.75% from the beginning of the year.

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

	2013		2012		
(RMB'000)	**Amount**	**Percentage**	Amount (restated)	Percentage	Change
US dollars	**78,197,358**	**70.07%**	73,367,010	73.80%	6.58%
Hong Kong dollars	**–**	**–**	340,557	0.34%	(100.00%)
RMB	**33,238,571**	**29.78%**	25,539,964	25.69%	30.14%
Other	**164,725**	**0.15%**	172,925	0.17%	(4.74%)
Total	**111,600,654**	**100.00%**	99,420,456	100.00%	12.25%

Management's Discussion and Analysis of Financial Position and Operating Results

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the amounts payable in the next few years for purchasing certain aircraft and related equipment, increased from RMB74,088 million as at 31 December 2012 to RMB95,085 million as at 31 December 2013. The Group's commitments under operating leases, which mainly consisted of the amounts payable in the next few years for leasing certain aircrafts, offices and related equipment, amounted to RMB26,232 million as at 31 December 2013, representing an increase of 34.92% as compared to the previous year. The Group's investment commitments decreased by RMB97 million from RMB153 million as at 31 December 2012 to RMB56 million as at 31 December 2013, mainly applied towards the joint venture agreement entered into by it.

Details of the Group's contingent liabilities are set out in note 40 to the Group's 2013 financial statements.

GEARING RATIO

As at 31 December 2013, the Group's gearing ratio (total liabilities divided by total assets) was 71.94%, representing an increase of 0.71 ppts from 71.23% as at 31 December 2012, which was mainly attributable to a speedy increase in the scale of debts as a result of the financings incurred for assets purchase. Despite that the Group's gearing ratio increased slightly, high gearing ratio is common among aviation enterprises, the Group continued to maintain a relatively reasonable gearing ratio. Taking into account of the Group's profitability and the market environment where it operates, its long-term insolvency risk is within control.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2013, the Group's net current liabilities (current liabilities minus current assets) were RMB44,257 million, representing an increase of RMB9,437 million as compared to the previous year. The increase in net current liabilities was mainly due to the expansion of asset size and business scale of the Company. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.37, maintaining the same level as that of 0.38 as at 31 December 2012. Accordingly, there was no material fluctuation in the short-term financial risks associated with the Group.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2013, the Group's net cash inflow from operating activities was RMB14,608 million, representing an increase of 50.77% from RMB9,689 million in 2012, mainly due to the increase in cash inflow from operating activities and the significant decrease in tax payments during the year. Net cash outflow from investment activities was RMB20,638 million, representing an increase of 39.69% from RMB14,774 million in 2012, mainly due to the increase in the settlement of balance of purchase prices upon the delivery of aircraft and the cash prepayment for the purchase of aircraft from the previous year. The Group's net cash inflow from financing activities was RMB9,271 million, representing an increase of approximately RMB7,646 million from the net cash inflow of RMB1,624 million in 2012. In 2013, the Group's balance of cash and cash equivalents was RMB14,762 million, representing an increase of RMB2,974 million from the previous year. The Company has obtained bank facilities of up to RMB145,268 million from a number of banks in the PRC, among which approximately RMB43,684 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

Management's Discussion and Analysis of Financial Position and Operating Results

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to fluctuations in jet fuel prices, interest rates and exchange rates in its daily operation. International jet fuel prices are subject to market volatility and fluctuation in supply and demand. The Group's strategy for managing jet fuel price risk aims at managing and controlling the risk arising from the rise in fuel price. The Group has been engaging 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 of 30 November 2011, all fuel derivatives of the Company have been expired and no new position has been established at present. Considering the volatility of international jet fuel prices and cost sensitivity of the Company, the Company will develop its fuel hedging business in compliance with the regulatory requirements so as to cope with changes in the jet fuel market.

The finance lease liabilities and certain bank loans and other loans of the Group are denominated in US dollars and Euros. Certain expenses of the Group are also denominated in currencies other than RMB. The Group timely remits the foreign currency income arising from the sale of tickets at the overseas office branches to China for payment of foreign currency expenses incurred in the ordinary business of the Group and repayment of foreign currency debts repayable within one year. In the event of shortfall, the Group will timely use the RMB settlement for payment. However, the exchange rate of RMB against US dollars and Euros was volatile during the reporting period, mainly resulting in the exchange difference recognised by the Group during the reporting period.

As to interest rate risk management, through the entering into of interest rate derivative contracts, the Company reasonably adjusts the proportion of fixed interest rates and variable interest rates of interest-bearing liabilities so as to avoid the interest rate risks.

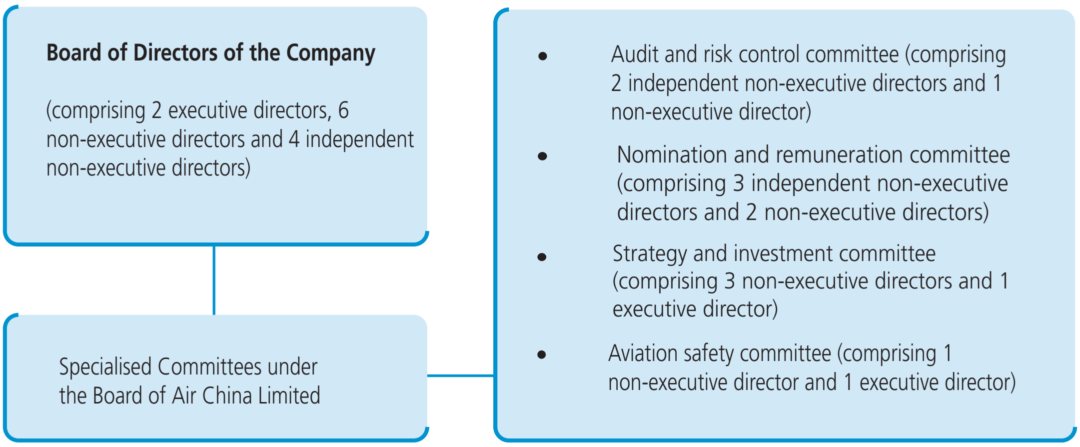
Details of other financial risk management objectives and policies of the Group are set out in note 41 to the Group's 2013 financial statements.

Corporate Governance Report

The Company has been maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency and deliver long-term return to its shareholders. The Company has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Code") during the year ended 31 December 2013. The Company's corporate governance practices in 2013 are summarised and discussed below.

GOVERNANCE STRUCTURE

As at 31 December 2013, the governance structure of the Company is as follows:



Mr. Wang Changshun resigned as the chairman of the Board and a non-executive director of the Company with effect from 27 January 2014. Meanwhile, Mr. Wang also ceased to serve as a member of the Strategy and Investment Committee and the Nomination and Remuneration Committee of the Board, respectively.

Mr. Cai Jianjiang resigned from his position as the president of the Company with effect from 28 January 2014, and was elected as the chairman of the Board on 21 February 2014. Since Mr. Cai Jianjiang no longer serves as the president of the Company, he was re-designated as a non-executive director of the Company from an executive director.

Mr. Christopher Dale Pratt resigned from his position as a non-executive director of the Company with effect from 14 March 2014.

As of the date of this report, the Board comprised 1 executive director, 5 non-executive directors and 4 independent non-executive directors.

Corporate Governance Report

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

Independent non-executive directors shall comprise one third of the Board

- As at 31 December 2013, the Board comprised 12 Directors, out of which 4 were independent non-executive directors. The Directors are elected at the shareholders' general meeting for a 3-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the independent non-executive directors has confirmed his or her independence with the Hong Kong Stock Exchange. As at 31 December 2013, the Company had already received from all independent non-executive directors the annual statements concerning their independence in which each of the independent non-executive directors re-confirmed his or her independence. The Company considers all independent non-executive directors as independent within the meaning of Rule 3.13 of the Listing Rules.

The Directors shall have a balance of skills and experience appropriate for the requirements of the business of the Company

- The Directors have extensive expertise and experience in the fields of aviation, finance and financial management and provide substantial support for the effective performance of the Board.

- The list of the Directors and their biographical details and respective roles on the Board and specialised committees under the Board are set out in this annual report and published on the websites of the Company and Hong Kong Stock Exchange.

- Besides the work relationships in the Company, there was no financial, business, family relationship or other material relationships among the Directors, Supervisors and senior management.

Distinguished roles of the Chairman and President

- The Chairman, concurrently a non-executive director, is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner.

- The Chairman shall be elected and dismissed by a simple majority of the Directors. The term of office of the Chairman shall be 3 years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term.

- The Company has a President who shall be nominated, appointed or dismissed by the Board.

- The President is authorised to oversee the Group's business and implement its strategies to attain overall commercial goals.

Non-executive directors shall be appointed for a specific term, and all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment

- The term of office of the existing non-executive directors is 3 years upon election at the shareholders' general meeting.

Corporate Governance Report

The Board shall assume responsibility for the leadership and control of the Company and be collectively responsible for promoting the success of the Company

- The Board is accountable to the shareholders' general meeting and determines the investment proposals of the Company and disposals of the Company's fixed assets according to the authorisation of the shareholders' general meeting. The Company formulated the "Rules and Procedures for Shareholders' General Meetings", "Rules and Procedures for Board Meetings" and "Rules and Procedures for Senior Management Meetings". Pursuant to the Articles of Association, the main responsibilities of the Board are: to decide on the Company's business policies and investment plans; to formulate the Company's annual budget and final accounts; to formulate the Company's profit distribution proposals and loss recovery proposals; to decide on the establishment of the Company's internal management bodies; to appoint or dismiss the President of the Company, Secretary to the Board, and, according to the nomination by the President, to appoint or dismiss the Vice President, Chief Accountant, Chief Pilot and other senior management of the Company; and to exercise other functions and powers as stipulated in the Articles of Association and granted by the shareholders' general meeting.

- The President shall be authorised by the Board to implement various strategies and oversee the day-to-day operations of the Company.

- The Board shall have independent access to the senior management personnel for enquiries in relation to the Company's management.

- The Board shall have specialised committees to provide support to the Board in its decision-making.

The management shall be responsible for formulating and implementing the Company's business plans and board resolutions and shall be accountable to the Board

The management shall be accountable to the Board and its main responsibilities are: to formulate the strategic development plans and decide the establishment of the Company's internal bodies; to formulate and implement annual business plans, investment proposals, annual financial budgets and final accounts; to set up general management systems regarding employment, remuneration and other basic internal rules and regulations; to make decision on major issues such as safety operation and business management; to make decision on transactions relating to the Company's main business and the value of which shall not exceed a certain amount or a certain proportion of the Company's latest audited net asset value; to organise the implementation of board resolutions and exercise such other authorities as granted by the Board.

The Board shall meet regularly to carry out its duties. The Board and its committees shall be provided with adequate information in a timely manner

- Board meetings are held regularly throughout the year and generally include annual meetings, interim meetings and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and address to convene the Board meeting as well as financial reports to be considered at such regular meetings, and shall inform all Directors of such plans in the beginning of the year. Board meetings shall be convened by the Chairman and a 14-day notice shall be served to all Directors before each meeting. The Directors may attend the meetings through personal participation or other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the secretary to the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of such proposal, and the relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least 3 days in advance.

- The Secretary to the Board shall be responsible for the communications and liaison with all Directors from the time the notice is served to the commencement of the meeting, and shall provide in a timely manner necessary information to the Directors to facilitate their decision-making on matters set out in the agenda.

Corporate Governance Report

- For the purpose of considering resolutions or matters during Board meetings, the Directors may require the presence of the persons-in-charge of the relevant departments at the Board meetings to answer queries, so that the Directors can have a thorough understanding of the key issues and the general situation.

- All Directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to acquaint him/herself with the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation.

- Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any Director at any time.

- All Directors have actively participated in the business operations of the Company. Attendance of all Directors at Board meetings in 2013 was as follows:

No. of meetings	**10**
Non-executive directors	
Wang Changshun *(Chairman)*	10/10
Wang Yinxiang	5/10
Cao Jianxiong	10/10
Sun Yude	9/10
Christopher Dale Pratt	3/10
Ian Sai Cheung Shiu	10/10
Executive directors	
Cai Jianjiang *(President)*	9/10
Fan Cheng	10/10
Independent non-executive directors	
Fu Yang	10/10
Li Shuang *(resignation effective from 29 October 2013)*	8/8
Han Fangming *(resignation effective from 29 October 2013)*	6/8
Yang Yuzhong	9/10
Pan Xiaojiang *(appointment effective from 29 October 2013)*	2/2
Simon To Chi Keung *(appointment effective from 29 October 2013)*	2/2

Note: At the extraordinary general meeting of the Company held on 29 October 2013, Mr. Pan Xiaojiang and Mr. Simon To Chi Keung were appointed as independent non-executive Directors of the fourth session of the Board. Mr. Li Shuang and Mr. Han Fangming ceased to act as the independent non-executive Directors due to expiration of the term. During the reporting period, Mr. Li Shuang and Mr. Han Fangming should have attended 8 Board meetings, whereas Mr. Pan Xiaojiang and Mr. Simon To Chi Keung should have attended 2 Board meetings.

Corporate Governance Report

For the year ended 31 December 2013, the number of Board meetings held, the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

- All Directors have actively participated in the general meetings of the Company. Attendance of all Directors at general meetings in 2013 was as follows:

No. of meetings	**2**
Non-executive directors	
Wang Changshun *(Chairman)*	2/2
Wang Yinxiang	0/2
Cao Jianxiong	2/2
Sun Yude	1/2
Christopher Dale Pratt	0/2
Ian Sai Cheung Shiu	1/2
Executive directors	
Cai Jianjiang *(President)*	2/2
Fan Cheng	1/2
Independent non-executive directors	
Fu Yang	2/2
Li Shuang *(resignation effective from 29 October 2013)*	2/2
Han Fangming *(resignation effective from 29 October 2013)*	1/2
Yang Yuzhong	2/2
Pan Xiaojiang *(appointment effective from 29 October 2013)*	–
Simon To Chi Keung *(appointment effective from 29 October 2013)*	–

Note: At the extraordinary general meeting of the Company held on 29 October 2013, Mr. Pan Xiaojiang and Mr. Simon To Chi Keung were appointed as independent non-executive Directors of the fourth session of the Board.

Each Director is required to keep abreast of his/her responsibilities as a Director and of the operating manner, business activities and developments of the Company

- The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate their discharge of duties.

- Newly appointed Directors shall be given introduction in relation to the Company to ensure that they have a sufficient understanding of the management, business and governance practices of the Company.

- The Company also encourages its Directors to participate in seminars and courses conducted by recognised institutions so as to ensure that they continually upgrade their skills and are aware of the latest changes or developments in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

Corporate Governance Report

- The Directors confirmed that they have complied with code provision A.6.5 of the Code in relation to training of directors. All Directors have participated in continuous professional development by attending trainings and programmes or reading relevant materials to upgrade and refresh their knowledge and skills, and have provided their training records to the Company.

The Company shall arrange appropriate insurance in respect of potential legal actions against its Directors

- The Company has purchased liability insurance for the Directors, Supervisors and senior management.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

- After making specific enquiries, the Company confirmed that each Director and each Supervisor has complied with the required standards under the Model Code as set out in Appendix 10 to the Listing Rules throughout 2013.

- The Model Code contained in Appendix 10 to the Listing Rules requires the Board to adopt written guidelines regarding securities transactions of the issuer by its employees on terms no less exacting than the required standards under the Model Code. On 5 September 2005, the Company adopted and formulated a code of conduct which was revised on 19 March 2007 and 4 December 2009, regarding securities transactions by Directors on terms no less exacting than the required standards of the Model Code. The code of conduct of the Company also applies to the Supervisors and the relevant employees.

Corporate Governance Functions

- The Board shall be responsible for performing the following corporate governance duties: to develop and review the Company's policies and practices on corporate governance, and provide recommendations in this regard; to review and monitor the training and continuous professional development of the Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and to review the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report. During the year, the Board has duly performed the above corporate governance duties. Please refer to the disclosure in this Corporate Governance Report for details of the implementation in this regard.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company shall establish a remuneration committee with certain authorities and obligations under specific written terms. A majority of the members of the remuneration committee shall be independent non-executive directors

- The Company has established a nomination and remuneration committee to recommend to the Board on the compensation of the Directors as well as candidates to fill vacancies on the Board of the Company. In addition, the nomination and remuneration committee reviews the performance of and determines the compensation structure of the senior management of the Company.

- The majority of the members of the nomination and remuneration committee are independent non-executive directors. As at 31 December 2013, the members of the nomination and remuneration committee were Mr. Fu Yang, Mr. Pan Xiaojiang, Mr. Simon To Chi Keung, Mr. Wang Changshun and Ms. Wang Yinxiang, with Mr. Fu Yang acting as the chairman. Due to expiry of the term of office of Mr. Li Shuang and Mr. Han Fangming (both being former independent non-executive Directors) on 29 October 2013, Mr. Pan Xiaojiang and Mr. Simon To Chi Keung (both being independent non-executive Directors) have filled the vacancy on the nomination and remuneration committee.

Corporate Governance Report

- Attendance at the meetings of the nomination and remuneration committee in 2013 was as follows:

No. of meetings	**4**
Fu Yang *(Chairman)*	4/4
Li Shuang *(resignation effective from 29 October 2013)*	3/3
Han Fangming *(resignation effective from 29 October 2013)*	3/3
Wang Changshun	4/4
Wang Yinxiang	4/4
Pan Xiaojiang *(appointment effective from 29 October 2013)*	1/1
Simon To Chi Keung *(appointment effective from 29 October 2013)*	1/1

Note: At the meeting of the nomination and remuneration committee of the third session of the Board of the Company held on 6 June 2013, Mr. Wang Changshun and Ms. Wang Yinxiang, being the incentive recipients under the second grant of the stock appreciation rights of the Company, abstained from voting at the meeting.

- The "Board Diversity Policy" was adopted by the Board in September 2013, which sets out the approach towards achieving diversity of the Board of the Company.

  – The Company takes into consideration a number of factors, including, but not limited to, professional experience and qualifications, cultural and educational background, skills, industry knowledge and reputation, knowledge of the laws and regulations applicable to the Company, gender, age, language skills and length of service, with a view to achieving diversity of the Board. These factors shall be taken in to account by the nomination and remuneration committee in reviewing the structure and composition of the Board and making recommendations to the Board on the appointment, re-appointment and re-designation of Directors.

  – The above factors should be balanced as appropriate in determining the optimal composition of the Board. For appointment of Directors, the above factors shall be considered on a case-by-case basis in light of the actual circumstances of the Company and its business operations, development and strategies. Board appointments should be made based on merits and the contributions that the individual is expected to bring to the Board with due regard for the benefits of diversity in the Board.

  – The nomination and remuneration committee shall monitor the implementation of the Board Diversity Policy on an ongoing basis, and review this policy as appropriate.

- A shareholder holding 3% or more of the total shares of the Company is entitled to nominate a Director through the nomination and remuneration committee, which will review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the Board Diversity Policy and submit a report to the Board.

- During the reporting period, the nomination and remuneration committee was mainly responsible for performing the following duties:

  – to review the "Measures on Management of the Stock Appreciation Rights of Air China Limited (Revised)" and the Proposal of Second Grant of the Stock Appreciation Rights of the Company; to approve that the Company will grant a total of 26.20 million shares appreciation rights to 160 incentive recipients, and the date of grant shall be 6 June 2013. The exercise price (grant price) shall be HK$6.46, and the second grant of the stock appreciation rights shall be valid for five years commencing from the date of grant;

  – to review the nomination of candidates for non-executive Directors, candidates for independent non-executive Directors and candidates for executive Directors of the fourth session of the Board; to review and approve the emolument of the independent non-executive Directors of the fourth session of the Board as RMB100,000 per person per year and the non-independent Directors of the fourth session of the Board will not receive any remuneration from the Company;

  – to review and approve the "Board Diversity Policy of Air China Limited"; and

  – to elect Mr. Fu Yang as the chairman of the nomination and remuneration committee of the fourth session of the Board to take charge of the work of the nomination and remuneration committee.

- The nomination and remuneration committee under the Board made recommendations to the Board on the remuneration packages of individual executive Directors and senior management. Remuneration payable to the Directors and senior management shall be determined according to the terms of their respective service contracts, if any, and the recommendation of the nomination and remuneration committee. Details of the remuneration of the Directors and senior management are disclosed in notes 11 and 43 to the financial statements of this annual report.

C. Accountability and Audit

The Board shall present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects

- The Company has established an audit and risk control committee to review the financial information of the Company and the relevant disclosure, as well as to review the internal control systems of the Company.

- The Company has published its annual and interim results in accordance with the requirements of the Listing Rules and other relevant laws and regulations in a timely manner, i.e. within 3 months and 2 months, respectively, after the end of the relevant periods.

- The Company has set up an investor relations webpage, on which figures of operating results are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

- The Company has a sound environment for implementing internal controls. The Company has set up an effective electronic information system to support business development which comprises various operation systems, settlement system and a core accounting and audit platform, i.e. the Oracle financial information system. For treasury management, the Company has implemented a global online banking management system. An effective accounting information system was also established.

Corporate Governance Report

The Board shall ensure that the Company maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets

- The Board takes ultimate responsibility for the internal controls of the Company. Every year, the Company conducts self-assessment on the comprehensiveness of the internal control system and the effectiveness of its implementation. The Board will publicly announce the self-assessment report on the internal control for the year after the audit and risk control committee reports to the Board.

The Board shall establish formal and transparent arrangements in relation to the application of financial reporting and internal control principles and the maintenance of an appropriate relationship with the Company's auditors

- Through the audit and risk control committee, the Board reviews and supervises the Company's financial reporting process, communicates with the auditors and reviews periodic financial reports so as to make sure the financial reporting and internal control principles are formal and transparent.

- As at 31 December 2013, the audit and risk control committee comprised 2 independent non-executive directors, Mr. Pan Xiaojiang and Mr. Fu Yang, and a non-executive director, Mr. Cao Jianxiong, with Mr. Pan Xiaojiang acting as the chairman. Due to expiry of the term of office of Mr. Li Shuang (being a former independent non-executive Director) on 29 October 2013, Mr. Pan Xiaojiang (being an independent non-executive Director) has filled the vacancy on the audit and risk control committee.

- Attendance at the meetings of the audit and risk control committee in 2013 was as follows:

No. of meetings	**8**
Pan Xiaojiang *(Chairman, appointment effective from 29 October 2013)*	1/1
Li Shuang *(former Chairman, resignation effective from 29 October 2013)*	7/7
Fu Yang	8/8
Cao Jianxiong	8/8

- During the reporting period, the audit and risk control committee was mainly responsible for performing the following duties:

  – to review the annual report and financial statements as well as profit distribution plan for the year 2012, the first and third quarterly reports as well as interim report for the year 2013, and recommend the same to the Board for approval;

  – to review the financial plan, capital expenditure plan, fund raising and financing plans and fuel hedging strategies and supplementary proposals for the year 2013;

  – to receive the summary report on audit work from the external auditors, Ernst & Young and Ernst & Young Hua Ming, for the year 2012; to agree to cease the re-appointment of Ernst & Young and Ernst & Young Hua Ming as the international and domestic auditors of the Company;

  – to discuss the appointment of KPMG and KPMG Huazhen (Special General Partnership) as the international and domestic auditors of the Company for the year 2013; and to consider the appointment of KPMG Huazhen (Special General Partnership) as the internal control auditor of the Company, and recommend the same to the Board for approval;

Corporate Governance Report

- to receive and consider the self-assessment report on internal control of the Company for the year 2013 introduced by the audit department and the audit plan on internal control of the Company for the year 2013 submitted by the internal control auditor;

- to review the Company's provision of guarantee for aircraft financing of eight B777-200F aircraft introduced by Air China Cargo, the special report on the proceeds from the issue of A shares and its actual use during the first half of 2013, the renewal of the framework agreements on connected transactions entered into between the Company, CNACG, Cathay Pacific and Air China Cargo, respectively, and the relevant annual caps from 2014 to 2016, and recommend the same to the Board for approval;

- to review the policy on use and management of proceeds of the Company and the amendments to the requirements on internal audit of the Company, and recommend the same to the Board for approval; and

- to elect Mr. Pan Xiaojiang as the chairman of the audit and risk control committee of the fourth session of the Board to take charge of the work of the audit and risk control committee.

• The annual report of the Company for the year ended 31 December 2013 had been reviewed by the audit and risk control committee.

The responsibility of the Directors in relation to the financial statements

The Company prepares and publishes annual reports, interim reports and quarterly reports each year. The responsibilities of the Directors in relation to the financial statements are set out below and shall be read together with the "Independent Auditors' Report" set out in this annual report.

• *Annual reports and accounts*

The Directors acknowledge that they are responsible for preparing the financial statements for each financial year so as to present a true and fair view of the financial position of the Company and the Group, and of the financial performance and cash flow of the Group.

• *Accounting policy*

When preparing the financial statements of the Company and the Group, the Directors have consistently applied appropriate accounting policies under the relevant accounting standards.

• *Accounting records*

The Directors are responsible for ensuring that the Company shall keep the accounting records, which will reflect the financial position of the Company with reasonable accuracy, enabling the Group to prepare the financial statements in accordance with the requirements of the Listing Rules, Hong Kong "Companies Ordinance" and the relevant accounting standards.

Corporate Governance Report

- *Ongoing operation*

  After making appropriate enquiries, the Directors believe that the Group has sufficient resources for operation in the foreseeable future. Accordingly, the Group's financial statements should be prepared on a going concern basis.

The statement of reporting responsibility of the auditors is set out in the "Independent Auditors' Report" set out in this annual report.

Auditors' remuneration

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (Special General Partnership), respectively. Breakdown of the remuneration to the Company's external auditors for providing audit services for the year ended 31 December 2013 is as follows:

RMB10,560,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2013 and for the audit of the Group's financial statements for the year ended 31 December 2013; an aggregate amount of approximately RMB5,986,609 (including value-added tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2013; and RMB880,000 (including value-added tax) was charged for the internal control audit service.

D. Delegation by the Board

The Company shall formalise the functions reserved to the Board and those delegated to the management. There shall be division of responsibility between the Board committees, and each committee shall be formed with certain authorities under specific terms

- The Articles of Association has provided for the authorities and authorisations of the Board and the President, details of which are set out in the "Rules and Procedure for Board Meetings" and "Rules and Procedures for Senior Management Meetings".

- The primary duties of the audit and risk control committee are: to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as give opinion in writing to the Board, in connection with the appointment of new accounting firms or re-appointment of the existing accounting firms for carrying out annual audits; to review and supervise our internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and receive and consider the work report prepared by the responsible person of the audit department; to be responsible for the communications between the internal auditors and external auditors; to review and verify the Company's financial information and its disclosure; to review the Company's internal control system and risk control system, evaluate the effectiveness of the detailed management and control rules and the operational standards relating to risk investments (including but not limited to financial derivatives instruments), and consider the strategies and proposals of the Company's risk investment; to review the Company's relevant significant connected transactions; to review the work report prepared by the responsible audit personnel of the Company, any report relating to the fraudulent acts of the Company and the report on the related discovery and complaints; and to fulfill other duties authorised by the Board.

Corporate Governance Report

- The primary duties of the nomination and remuneration committee are: to study and make proposals to the Board on the criteria and procedures for selecting candidates for the Company's directors and senior management personnel and make recommendations to the Board; to make recommendations to the Board on the candidates to fill casual vacancies on the Board, and make recommendations to the Board on directors' remuneration; to evaluate the performance of the senior management personnel of the Company and determine their remuneration structure; to make recommendations to the Board on the remuneration policy and structure for the directors and senior management personnel and on the establishment of a set of formal and transparent procedures for formulating remuneration policy, and supervise the implementation of the remuneration policy of the Company; to assess the independence of the independent non-executive directors of the Company; to formulate the proposal of the Company's share incentive plan, verify the compliance of relevant regulations on granting entitlements and fulfillment of exercise conditions, and make recommendations to the Board for consideration; and to fulfill other duties authorised by the Board.

- The primary duties of the strategy and investment committee are: to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; to make decisions on the establishment, merger and dissolution of branches of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2013, the strategy and investment committee was formed by Mr. Wang Changshun, Mr. Cao Jianxiong, Mr. Sun Yude and Mr. Cai Jianjiang, with Mr. Cai Jianjiang acting as the chairman.

- The primary duties of the aviation safety committee are: to receive the safety report of the Company on a regular basis and report to the Board; to study and deal with significant problems in relation to aviation safety work of the Company; to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, facilities and materials to fulfill the needs of safety operation of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2013, the aviation safety committee was formed by Mr. Sun Yude and Mr. Cai Jianjiang, with Mr. Sun Yude acting as the chairman.

- The supervisory committee is responsible for: monitoring the Company's financial matters and supervising the conduct of the Board and our management. The functions and authority of the supervisory committee include: reviewing the financial reports and other financial information prepared by the Board and proposed to be tabled before the shareholders' general meeting; supervising the work of the Directors, President, Vice President and other senior management and preventing the abuse of power or conducts detrimental to the Company's interests. The current members of the supervisory committee are Mr. Li Qinglin, Mr. He Chaofan, Mr. Zhou Feng, Ms. Xiao Yanjun and Mr. Shen Zhen, with Mr. Li Qinglin acting as the chairman. Due to expiry of the term of office of Mr. Zhang Xueren and Mr. Su Zhiyong (both being former Supervisors of the Company), they ceased to be Supervisors of the Company effective from 29 October 2013. In the event that any Director has a conflict of interests with the Company, a Supervisor may negotiate with the Director concerned or bring the case to court on behalf of the Company. Resolution of meetings of the supervisory committee shall be passed by at least two-thirds of all Supervisors.

E. Communication with shareholders

The Board shall endeavour to maintain an on-going dialogue with shareholders and in particular, make use of general meetings to communicate with shareholders

- The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the Company's website.

- The Company has implemented the "Measures of Investors Relation Management" to regulate and strengthen its communication with the shareholders and investors, so as to optimise its corporate governance and enhance its corporate image.

- The annual general meetings represent an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective chairmen of the audit and risk control committee, nomination and remuneration committee, strategy and investment committee and aviation safety committee will answer queries raised by shareholders at general meetings.

- At the annual general meeting, the Board shall report to the shareholders and announce the implementation progress of the matters set out in the resolutions which were passed since the previous annual general meeting and which were implemented by the Board.

Corporate Governance Report

- Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions before the annual general meeting.

- Other than the annual general meeting, the Company would also hold extraordinary general meeting ("EGM") as required. In accordance with articles 65 and 91 of the Articles of Association, shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company may request the Board to convene an EGM by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an EGM, it shall within 5 days of the board resolution resolving to hold an EGM issue a notice of EGM convening an EGM within 2 months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within 10 days of the receipt of such written request(s), such shareholder(s) shall request the supervisory committee to convene an EGM by written request(s). If the supervisory committee fails to issue a notice for convening a meeting within 5 days of the receipt of such written request(s), shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

- For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in article 67 of the Articles of Association which provides that shareholder(s), individually or in the aggregate, holding more than 3% of the shares of the Company may put forward proposal(s) by providing a written request to the convener of the meeting not less than ten days before the meeting. The convener of the meeting shall, within 2 days of the receipt of such written request, give supplemental meeting notice to each shareholder which specifies information on such proposal(s).

- The Board values the views and input of shareholders. Shareholders, may at any time, send their enquiries and concerns to the Board by addressing them to the Company Secretary, whose contact details are as follows:

Address:	Air China Headquarter, 30 Tian Zhu Road, Tianzhu Airport Economic Development Zone, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61461959
Fax number:	86-10-61462805

The Company shall ensure that shareholders are familiar with the detailed procedures for conducting a poll

- The chairman of a meeting shall, at the commencement of the meeting, ensure that an explanation of the detailed procedures for conducting a poll is provided and subsequently, any questions from shareholders in relation to voting by way of a poll are answered.

F. Joint Company Secretaries

Joint company secretaries shall attend relevant professional training for no less than 15 hours

- Joint company secretaries (Ms. Rao Xinyu and Ms. Tam Shuit Mui) are responsible for facilitating the rules of procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the joint company secretaries are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. In 2013, each joint company secretary attended over 15 hours of professional training to update her skill and knowledge.

G. Amendments to the Articles of Association

In 2013, the Board made certain amendments to the Articles of Association in connection with the relevant terms of share capital structure and registered capital to reflect the completion of non-public issue of A shares. These amendments were approved by the Board as authorised by the shareholders at the extraordinary general meeting of the Company held on 26 June 2012. For details of the amendments to the Articles of Association, please refer to the announcement of the Company dated 22 May 2013.

Report of the Directors

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing security management, continue to advance the implementation of its strategies, optimise the allocation of its core resources to improve the efficiency of resource utilization; accelerate the transformation of marketing model to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience, with an aim to seize market opportunities to ensure sound operation and bring better returns to its shareholders and investors.

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2013 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 63 to 162 of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The summary of the Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2013 are set out on pages 3 and 4 of this annual report.

SHARE CAPITAL

As at 31 December 2013, the total share capital of the Company was RMB13,084,751,004, divided into 13,084,751,004 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2013:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	8,522,067,640	65.13%
H Shares	4,562,683,364	34.87%
Total	13,084,751,004	100.00%

Report of the Directors

SIGNIFICANT INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2013, to the knowledge of the Directors, Supervisors and chief executive 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 are 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
CNAHC	Beneficial owner	5,427,546,093 A share	41.48%	63.69%	–	–
CNAHC[1]	Attributable interests	1,332,482,920 A share	10.18%	15.64%	–	–
CNAHC[1]	Attributable interests	223,852,000 H share	1.71%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A share	10.18%	15.64%	–	–
CNACG	Beneficial owner	223,852,000 H share	1.71%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,633,725,455 H share	20.13%	–	57.72%	–
Swire Pacific Limited [2]	Attributable interests	2,633,725,455 H share	20.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited [2]	Attributable interests	2,633,725,455 H share	20.13%	–	57.72%	–
John Swire & Sons Limited [2]	Attributable interests	2,633,725,455 H share	20.13%	–	57.72%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executive 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 executive are aware, as at 31 December 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 approximately 47.08% equity interest and 60.23% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2013, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H shares of the Company directly held by Cathay Pacific.

Report of the Directors

Save as disclosed above, as at 31 December 2013, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person (other than a Director, Supervisor or chief executive 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.

PUBLIC FLOAT

Pursuant to public information available to the Company and to the knowledge of the Directors of the Company, the Company has maintained a public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange throughout the current reporting period.

DIVIDEND

Based on the 2013 profit distribution proposal of the Company, the Board recommends the appropriation of 10% of the discretionary surplus reserve and to distribute a cash dividend of approximately RMB593 million, or RMB0.4531 for every ten shares (including tax) based on the current total number of 13,084,751,004 shares of the Company, for the year 2013.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares shall be paid in RMB while dividends payable to the holders of H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle rate of RMB to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the annual general meeting.

TAXATION ON DIVIDEND

In accordance with the "Enterprise Income Tax Law of the People's Republic of China" and the "Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China", both implemented on 1 January 2008 and the "Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Enterprises to Offshore Non-resident Enterprise Holders of H Shares" (Guo Shui Han [2008] No. 897) promulgated on 6 November 2008, the Company is obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% from 2008 onwards when the Company distributes any dividends to non-resident enterprise shareholders whose names appear on the register of members of H shares of the Company. As such, any H shares of the Company which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from any dividends payable thereon. Non-resident enterprise shareholders may wish to apply for a tax refund (if any) in accordance with the relevant requirements, such as tax agreements (arrangements), upon receipt of any dividends.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994] No.020) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, as an interim measure, exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the final dividends for the year 2013 to individual shareholders whose names appear on the register of members of H shares of the Company.

Shareholders are recommended to consult their tax advisors regarding the ownership and disposal of H shares of the Company in the PRC and in Hong Kong and other tax effects.

Report of the Directors

PURCHASES, SALES OR REDEMPTION OF SHARES

Save as disclosed otherwise, for the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules), without taking into account any issuance of new securities.

PRE-EMPTIVE RIGHTS

The Articles of Association does not provide for any pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their existing shareholdings.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Director
Cai Jianjiang	50	Chairman and non-executive director	Appointed as Chairman on 21 February 2014 Re-designated as non-executive Director due to resignation from the position of President on 28 January 2014
Wang Changshun	56	Former Chairman and non-executive director	Resigned on 27 January 2014
Wang Yinxiang	58	Vice chairman and non-executive director	Appointed on 29 October 2013
Cao Jianxiong	54	Non-executive director	Appointed on 29 October 2013
Sun Yude	59	Non-executive director	Appointed on 29 October 2013
Christopher Dale Pratt	57	Former non-executive director	Resigned on 14 March 2014
Ian Sai Cheung Shiu	59	Non-executive director	Appointed on 29 October 2013
Fan Cheng	58	Executive director, vice president and chief accountant	Appointed on 29 October 2013
Fu Yang	64	Independent non-executive director	Appointed on 29 October 2013
Li Shuang	69	Former independent non-executive director	Resigned on 29 October 2013
Han Fangming	47	Former independent non-executive director	Resigned on 29 October 2013
Yang Yuzhong	69	Independent non-executive director	Appointed on 29 October 2013
Pan Xiaojiang	61	Independent non-executive director	Appointed on 29 October 2013
Simon To Chi Keung	62	Independent non-executive director	Appointed on 29 October 2013

Supervisors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Supervisor
Li Qinglin	59	Chairman of the Supervisory Committee	Appointed on 29 October 2013
Zhang Xueren	61	Former supervisor	Resigned on 29 October 2013
He Chaofan	51	Supervisor	Appointed on 29 October 2013
Zhou Feng	52	Supervisor	Appointed on 29 October 2013
Xiao Yanjun	49	Supervisor	Appointed on 29 October 2013
Su Zhiyong	51	Former supervisor	Resigned on 29 October 2013
Shen Zhen	47	Supervisor	Appointed on 29 October 2013

Report of the Directors

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

At no time during the year ended 31 December 2013 had the Company granted its Directors, Supervisors or their respective spouses or children under the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its other associated corporations, and no such rights for the subscription of shares or debentures were exercised by them.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2013, the Company's Directors, Supervisors or chief executive 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 the Hong Kong Stock Exchange pursuant to the Model Code:

Interest in associated corporation

	Number of Shares				
Name of associated corporation and relevant shareholder	**Personal interest**	**Interest of children under the age of 18 or spouse**	**Corporate interest**	**Total**	**Shareholding Percentage as at 31 December 2013**
Cathay Pacific Airways Limited					
Ian Sai Cheung Shiu	1,000	–	–	1,000	0.00%
Air China Limited					
Zhou Feng	10,000 (A Shares)	–	–	10,000 (A Shares)	0.00%
Shen Zhen	33,200 (A Shares)	–	–	33,200 (A Shares)	0.00%

Save as disclosed above, as at 31 December 2013, none of the Directors, Supervisors or chief executive 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.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. All Directors of the Company shall serve a term of 3 years.

None of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within 1 year without payment of compensation (other than statutory compensation).

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting as at 31 December 2013 and which is significant in relation to the business of the Group.

Report of the Directors

Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and concurrently the director of Cathay Pacific and Dragonair. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at 31 December 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 Dragonair. Mr. Cai Jianjiang, who is the chairman and a non-executive Director of the Company and Mr. Fan Cheng, who is the executive Director 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 disclosed above, none of the Directors or Supervisors of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

EMPLOYEES

As at 31 December 2013, the Company had 25,830 employees and its subsidiaries had 39,024 employees. The categories of employees of the Company are as follows:

Professional Categories	As at 31 December 2013	As at 31 December 2012	Change
Management	6,501	6,276	225
Marketing and Sales	1,911	1,875	36
Operation	1,462	1,421	41
Ground Handling	4,000	4,062	(62)
Cabin Service	2,309	2,235	74
Logistics and Support	1,397	1,464	(67)
Flight Crew	4,071	3,702	369
Engineering and Maintenance	2,896	2,800	96
Information Technology	361	331	30
Others	922	1,103	(181)
Total	25,830	25,269	561

REMUNERATION POLICY

In order to meet the needs of the Company's talent development strategy, establish an effective incentive and control mechanism and promote the sustainable development of the Company, the Company adheres to the principles of combining incentives with control and aligning the improvement in performance with the increase in wages, and upholds a remuneration concept of "pay salary with reference to the value of job, personal ability as well as performance appraisal" in developing and implementing the remuneration policies primarily based on the value of job.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

340 employees of the Company retired in 2013. These retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments. Details of the staff pension scheme and other welfare are set out in note 7 to the audited financial statements.

Report of the Directors

STOCK APPRECIATION RIGHTS

On 5 December 2012, the SASAC issued the Reply to Air China Limited in Relation to Implementation of Proposal of Second Grant of the Stock Appreciation Rights (Guo Zi Fen Pei [2012] No. 1100), approving the proposal of second grant of the stock appreciation rights of the Company.

On 6 February 2013, resolutions regarding the Measures on Management of the Stock Appreciation Rights of Air China Limited (Revised) and the Proposal of Second Grant of the Stock Appreciation Rights of Air China Limited were considered at the 33rd meeting of the 3rd session of the Board of the Company, and were passed at the 2012 annual general meeting of the Company.

On 6 June 2013, the resolution regarding the Proposal of Second Grant of the Stock Appreciation Rights was passed by the Nomination and Remuneration Committee of the 3rd session of the Board of the Company to grant a total of 26.20 million shares under the second grant of stock appreciation rights to 160 incentive recipients and to confirm the grant date with respect to the second grant of stock appreciation rights (i.e. 6 June 2013) and the exercise price (i.e. grant price) with respect to the second grant of stock appreciation rights of HK$6.46. The grant of stock appreciation rights shall be valid for five years from the date of grant. As at 31 December 2013, the carrying amount of the liabilities related to the stock appreciation rights was RMB7.427 million.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Company as at 31 December 2013 are set out respectively in notes 20, 21 and 22 to the audited financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in note 34 to the audited financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2013 are set out in note 15 to the audited financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2013 are set out in note 9 to the audited financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 38 to the audited financial statements of this annual report.

DONATIONS

For the year ended 31 December 2013, the Company made donations for charitable and other purposes amounting to RMB5,938,600.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the purchases from the largest supplier accounted for 21.64% of the total purchases of the Group, while the purchases from the 5 largest suppliers accounted for 49.12%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the 5 largest suppliers of the Company.

For the year ended 31 December 2013, the sales of the Group to the 5 largest customers accounted for not more than 30% of the total sales of the Group.

Report of the Directors

PROPERTY TITLE CERTIFICATE

The Company effected changes to the titles of assets, e.g. land use rights, buildings and vehicles, in accordance with its undertakings as disclosed in the Company's prospectus issued at the time of its offering of shares. The title transfer procedures for the motor vehicles of the Company's headquarters and branches have been completed. Except for certain regions, the title transfer procedures for the land use rights and buildings of the Company's headquarters and branches have been substantially completed. The Company is in the process of completing the outstanding formalities in this respect, which should not have any material adverse effect on the operation of the Company.

MATERIAL LEGAL PROCEEDINGS

Save as disclosed in note 40 to the audited financial statements of this annual report, the Company was not involved in any significant litigation or arbitration as at 31 December 2013. To the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into a number of connected transaction agreements with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this Report of the Directors, hereinafter referred to as "CNAHC Group") and other connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

I. Continuing Connected Transactions Between the Group and CNAHC Group

As CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between CNAHC and the Company described in paragraphs (a) to (d) below constitute continuing connection transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

(a) Property Leasing

The Company (for itself and on behalf of its subsidiaries) entered into a properties leasing agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Properties Leasing Agreement").

Pursuant to the Properties Leasing Agreement, the Company leased from CNAHC Group a number of properties for various uses including business premises, offices and storage facilities.

The Company also leased to CNAHC Group a number of properties for various uses including business premises and offices.

The term of the Properties Leasing Agreement is from 1 January 2013 to 31 December 2015.

(b) Sales Agency Services of Airline Tickets and Cargo Space

The Company (for itself and on behalf of its subsidiaries) entered into a sales agency services framework agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Sales Agency Services Framework Agreement").

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents ("Sales Agency Companies"):

- procured purchasers for the Company's air tickets and cargo spaces on a commission basis; or
- purchased air tickets (other than domestic air tickets) and cargo spaces from the Company and resold such air tickets and cargo spaces to end customers.

Regarding the air passenger agency services, the Company would consult with the Sales Agency Companies on a fair and voluntary basis and determine the agency service fee standards. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding incentive plans for achieving such targets to the extent permitted by law and in accordance with the industry practice.

Regarding the air cargo agency services, the Company and the Sales Agency Companies discussed and determined the applicable transportation prices based on the prevailing market prices, and the Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to its customers) based on the aforesaid transportation prices, with the differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

The term of the Sales Agency Services Framework Agreement is from 1 January 2013 to 31 December 2015.

(c) Comprehensive Services

The Company (for itself and on behalf of its subsidiaries) entered into a comprehensive services agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Comprehensive Services Agreement").

Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned or controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business ("Ancillary Business Companies"), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, primarily provided (including but not limited to) the following services to the Company as suppliers to the Company in respect of the Company's ancillary production and supply services:

  (i) supply of various items for in-flight services;

  (ii) manufacturing and repair of aviation-related ground equipment and vehicles;

  (iii) cabin decoration and equipment;

  (iv) properties management services;

  (v) frequent-flyer cooperation programme;

  (vi) hotel accommodation and staff recuperation;

  (vii) aviation tourist services with special features;

  (viii) warehousing services;

  (ix) airline catering services; and

  (x) printing of air tickets and other publications.

- The Company accepted the commission of CNAHC and provided welfare-logistics services for CNAHC's retired employees.

The charges of the services provided by the Ancillary Business Companies to the Company were based on the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate was available, a fair and reasonable price was adopted through arm's length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services were settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

The term of the Comprehensive Services Agreement is from 1 January 2013 to 31 December 2015.

(d) Subcontracting of Charter Flight Services

The Company entered into a government charter flight service framework agreement with CNAHC on 20 November 2012 (the "Charter Flight Service Framework Agreement").

Pursuant to the Charter Flight Service Framework Agreement, CNAHC resorted to the Company's charter flight services so as to fulfill the government charter flight assignment. The Company's hourly rate of the charter flight service fee was calculated on the basis of the following formula:

Hourly rate = Total cost per flight hour x (1 + 6.5%)

Total cost per flight hour includes direct costs and indirect costs.

The term of the Charter Flight Service Framework Agreement is from 1 January 2013 to 31 December 2015.

Media and Advertising Services

The Company entered into an advertising services framework agreement with CNAMC on 20 November 2012 (the "Advertising Services Framework Agreement").

As CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAMC and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Advertising Services Framework Agreement, CNAMC had the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;
- an exclusive operation right of the specific media of the Company, including the boarding passes, in-flight entertainment system and flight schedules;
- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;
- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (1) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the international e-commerce network check-in system and ticket envelops (including air ticket envelops and boarding pass envelops)) and (2) advertisements designed, produced and published by CNAMC, as commissioned by the Company directly or through public tender; and
- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

Report of the Directors

As a consideration, CNAMC agreed to:

- pay the Company RMB26.25 million, RMB27.5625 million and RMB28.9406 million, respectively, for the year ended 31 December 2013 and each of the two years ending 31 December 2014 and 2015 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company at nil charge with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes and flight schedules that meet the Company's requirements; and

- pay the Company 20% of any revenue from any new advertising media of the Company which was not mentioned in the Advertising Services Framework Agreement but proposed to be developed by CNMAC on a case-to-base basis.

The Company agreed to pay immediately and directly to the independent entertainment programmes providers the purchasing price for those in-flight entertainment programmes provided or purchased by CNAMC for the Company. In the event that the relevant entertainment programmes were produced by CNAMC at the request of the Company, the Company would pay the corresponding production costs and expenses to CNAMC.

The term of the Advertising Services Framework Agreement expired is from 1 January 2013 to 31 December 2015.

Financial Services

The Company (for itself and on behalf of its subsidiaries) entered into a financial services agreement with CNAF on 20 November 2012 (the "Financial Services Agreement").

As CNAF is a 75.54% held subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAF and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Financial Services Agreement, CNAF agreed to provide the Company with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for bond issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;

- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

In particular, CNAF was paid to provide the Company and its subsidiaries with bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services and ticket collection and financial consultancy services and charges fees incurred thereon. Such fees were charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China ("PBOC") or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company and its subsidiaries for financial services of similar type were not higher than those generally charged by state-owned commercial banks from the Company and its subsidiaries and those charged by CNAF to other group members.

With respect to the deposit and loan services, both parties agreed:

- the interest rate applicable to the Company and its subsidiaries for its deposits with CNAF would not be lower than the minimum interest rate specified by the PBOC for deposits of similar type. In addition, the interest rate for the Company and its subsidiaries' deposits with CNAF would not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and would not be lower than the interest rate for similar type of deposit services provided by state-owned commercial banks to the Company and its subsidiaries generally; and
- the interest rate for loans (including other credit business) granted to the Company and its subsidiaries by CNAF would not be higher than the maximum interest rate specified by the PBOC for loans of similar type. In addition, the interest rate for loans granted to the Company and its subsidiaries by CNAF would not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by state-owned commercial banks to the Company and its subsidiaries generally.

The Company agreed that it would under the same conditions accord priority to and use the financial services provided by CNAF. CNAF had treated the Company and its subsidiaries as its major client and undertook to provide the Company and its subsidiaries with financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company and its subsidiaries at the same time.

CNAF shall not carry out any business that is not permitted by the CBRC or any illegal activities. CNAF is not allowed, during the term of the Financial Services Agreement, to make use of the deposits of the Company for investments with high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangement for such inspection within 10 days after receiving the notice of the Company.

The Company and CNAF agree that the maximum daily balance of deposits placed by the Company and its subsidiaries with CNAF shall be less than the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries, and the average daily balance of deposits placed by the Company and its subsidiaries with CNAF in each accounting year shall be less than the average daily balance of loans and other credit services actually granted by CNAF to the Company and its subsidiaries in the relevant year.

Report of the Directors

The unpaid services provided by CNAF to the Company and its subsidiaries include settlement services and financial information services ("Unpaid Services").

In addition to the specific services set out in the Financial Services Agreement, CNAF also explored and developed other licensed financial services and provided new financial services to other members of CNAHC Group ("New Financial Services").

The fees and charges payable by the Group to CNAF for the Unpaid Services and New Financial Services were determined with reference to the standards stipulated by the PBOC or the CBRC for services of similar type and were not higher than those charged by state-owned commercial banks to the Company and its subsidiaries for similar type of financial services and those charged by CNAF to other members of CNAHC Group.

The term of the Financial Services Agreement is from 1 January 2013 to 31 December 2015.

II. Continuing Connected Transactions between the Group and CNACG

The Company entered into a framework agreement with CNACG on 26 August 2008 which was renewed on 10 September 2010 (the "CNACG Framework Agreement") for a term from 1 January 2011 to 31 December 2013.

As CNACG is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between CNACG and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

The CNACG Framework Agreement provides a framework for relevant agreements between the Group and CNACG Group covering transactions relating to ground handling and engineering services, management services and other services and transactions as may be agreed by parties to be undertaken under the CNACG Framework Agreement excluding those transactions which have been contemplated by the Properties Leasing Agreement, Sales Agency Services Framework Agreement, Comprehensive Services Agreement, Charter Flight Service Framework Agreement, Tourism Cooperation Agreement and the Financial Services Agreement.

Pursuant to the CNACG Framework Agreement, upon the expiry of such term, the agreement shall automatically renew for successive terms of three years unless either party gives to the other party a notice of termination of not less than three months expiring on any 31 December. As the Company expected the transactions contemplated under the CNACG Framework Agreement will continue to be conducted after 31 December 2013, the Company has renewed the CNACG Framework Agreement on 26 September 2013 for a further term of three years commencing on 1 January 2014 and ending on 31 December 2016. For further details, please refer to the Company's announcement dated 26 September 2013.

III. Continuing Connected Transactions between the Group and Cathay Pacific

The Company entered into a framework agreement with Cathay Pacific on 26 June 2008 which was renewed on 1 October 2010 (the "Cathay Pacific Framework Agreement") for a term from 1 January 2011 to 31 December 2013.

As Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between the Company and Cathay Pacific Group (Cathay Pacific and its subsidiaries, including Dragonair) constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Report of the Directors

The Cathay Pacific Framework Agreement provides the framework under which relevant agreements (the "Cathay Pacific Relevant Agreements") between members of the Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. The transactions under the Cathay Pacific Relevant Agreements are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement.

Pursuant to the Cathay Pacific Framework Agreement, upon the expiry of such term, the agreement shall automatically renew for successive terms of three years unless either party gives to the other party a notice of termination of not less than three months expiring on any 31 December. As the Company expected the transactions contemplated under the Cathay Pacific Framework Agreement will continue to be conducted after 31 December 2013, the Company has renewed the Cathay Pacific Framework Agreement on 26 September 2013 for a further term of three years commencing on 1 January 2014 and ending on 31 December 2016. For further details, please refer to the Company's announcement dated 26 September 2013.

IV. Continuing Connected Transactions between the Group and Air China Cargo

The Company entered into a framework agreement with Air China Cargo on 27 October 2011 (the "Cargo Framework Agreement") for a term of three years ended 31 December 2013.

Air China Cargo is a connected person of the Company by virtue of being a non-wholly owned subsidiary of the Company in which Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the voting rights through Cathay Pacific China Cargo Holdings Limited, a wholly-owned subsidiary of Cathay Pacific. As such, transactions between Air China Cargo and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Cargo Framework Agreement, the Group has agreed to provide the following services to Air China Cargo:

- the provision of bellyhold space of the passenger aircraft operated by the Company;
- ground support and aircraft maintenance engineering including, among others, the repair and maintenance of aircraft and engines; and
- other services to Air China Cargo including, among others, labour management and import and export agency services.

Pursuant to the Cargo Framework Agreement, Air China Cargo has agreed to provide the following services to the Group:

- ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and
- other services provided to the Group.

The consideration of specific continuing connected transactions under the Cargo Framework Agreement shall be agreed between the Company and Air China Cargo on a case-by-case basis.

Report of the Directors

Pursuant to the Cargo Framework Agreement, upon the expiry of such term, the agreement shall automatically renew for successive terms of three years unless either party gives to the other party a notice of termination of not less than three months expiring on any 31 December. As the Company expected the transactions contemplated under the Cargo Framework Agreement will continue to be conducted after 31 December 2013, the Company has renewed the Cargo Framework Agreement on 26 September 2013 for a further term of three years commencing on 1 January 2014 and ending on 31 December 2016. At the extraordinary general meeting of the Company held on 29 October 2013, the independent shareholders approved the renewal of the Cargo Framework Agreement for a further term of three years and the annual caps for the three years ending 31 December 2016. For further details, please refer to the Company's announcement dated 26 September 2013 and the circular dated 15 October 2013.

V. Transaction Caps and Actual Transaction Amounts in 2013

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2013 are as follows:

		Aggregate amount of transactions for the year ended 31 December 2013	
	Currency	**Cap** *(in millions)*	**Actual Amount** *(in millions)*
Transactions with the CNAHC Group:			
Properties leasing	RMB	120	84
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	270	84
Comprehensive services	RMB	950	805
Subcontracting of charter flight services	RMB	900	380
Media and advertising services	RMB	138	66
Financial services			
Maximum daily outstanding deposits with CNAF	RMB	4,500	3,695
Maximum daily outstanding loans from CNAF	RMB	4,500	3,105
Transactions with the CNACG Group:			
Ground handling, engineering, management and other services	RMB	350	261
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Company to Cathay Pacific Group	HK$	900	222
Aggregate amount payable/paid by Cathay Pacific Group to the Company	HK$	900	345
Transactions with Air China Cargo:			
Aggregate amount payable/paid by the Company to Air China Cargo	RMB	46	7
Aggregate amount payable/paid by Air China Cargo to the Company *(note)*	RMB	7,700	3,617

Note: The aggregate amount paid by Air China Cargo to the Group (excluding Air China Cargo) included an amount derived from the provision of bellyhold services ("Bellyhold Revenue") of approximately RMB3,455 million. Pursuant to the changes in the relevant tax rules and regulations in Mainland China, Bellyhold Revenue has become subject to value-added tax with effect from 1 September 2012. Under the new tax rules and regulations, the gross amount of Bellyhold Revenue of RMB4,056 million was recognised as an amount paid by Air China Cargo to the Group while commission of RMB601 million was recognised as an amount paid by the Group to Air China Cargo in 2013. For the purpose of disclosed continuing connected transactions calculation, the Group used the net balance of the amount paid by the Group to Air China Cargo and amount paid by Air China Cargo to the Group under bellyhold services as the disclosed amount of continuing connected transactions for the year 2013, which is coincided and comparable with the disclosed amount for the year of 2012.

Report of the Directors

VI. Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have confirmed that all connected transactions in the year ended 31 December 2013 to which the Company was a party have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either:

   (i) on normal commercial terms; or

   (ii) where there was no comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties, where applicable; and

3. in accordance with terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

VII. Confirmation from the Auditors

For the purpose of Rule 14A.38 of the Listing Rules, the Company's auditor, KPMG has performed the procedural work on the connected transactions for the year ended 31 December 2013 in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported on the above connected transactions as follows:

1. Nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Board of the Company;

2. For transactions involving the provision of goods or services by the Group, nothing has come to our attention that cause us to believe that these transactions were not, in all material aspects, in accordance with the pricing policies of the Group;

3. Nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

4. With respect to the aggregate amount of the continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 10 September 2010, 27 October 2011 and 20 November 2012, made by the Company in respect of the disclosed continuing connected transactions.

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2013 are set out in note 43 to the audited financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

Save as disclosed in "Connected Transactions" of this Report of the Directors, none of the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, and there is no contract of significance in relation to provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries. None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

AUDITORS

CNAHC, being the controlling shareholder of the Company, is a central state-owned enterprise regulated by the SASAC. According to the relevant regulations issued by the Ministry of Finance of the PRC and the SASAC, 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. At the same time, the Company also ceased to re-appoint Deloitte Touche Tohmatsu CPA Ltd. (Special General Partnership) as the internal control auditor of the Company. The resolution regarding the appointment of KPMG as the international auditor of the Company for 2013 and KPMG Huazhen (Special General Partnership) as the domestic auditor and internal control auditor of the Company for 2013 was approved at the 2012 annual general meeting of the Company.

Profile of Directors, Supervisors and Senior Management

As at the date of this annual report,

1. DIRECTORS

Mr. Cai Jianjiang, aged 50, is the Chairman and a non-executive Director of the Company. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC from February 2007 to January 2014. He has been serving as the non-executive director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of Communist Party Committee of CNAHC since January 2014. Mr. Cai has been serving as a Director of the Company since September 2004.

Ms. Wang Yinxiang, aged 58, is the Vice Chairman and a non-executive Director of the Company. She graduated from the Party School of the Central Committee of the Communist Party of China ("C.P.C.") majoring in economics and management. Ms. Wang holds the titles of senior professional of political work and senior flight attendant. Ms. Wang served several positions at Air China International Corporation, including Vice Captain of the in-flight service team of the Chief Flight Team, Deputy Manager of the in-flight service division, Deputy Manager of the passenger cabin service division and Deputy Secretary of the Communist Party Committee. In October 2002, Ms. Wang served several positions in CNAHC, including Deputy General Manager, Head of the Disciplinary and Supervisory Committee of the Communist Party Group and Secretary of the Communist Party Committee of CNAHC. Since March 2008, Ms. Wang has been serving as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee of CNAHC, and was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009. Ms. Wang has been serving as the Vice Chairman of the Company since October 2008.

Mr. Cao Jianxiong, aged 54, is a non-executive Director of the Company. Mr. Cao holds a master degree in economics from the Eastern China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the President and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC. Mr. Cao has been serving as a non-executive Director of the Company since June 2009.

Profile of Directors, Supervisors and Senior Management

Mr. Sun Yude, aged 59, is a non-executive Director of the Company. Mr. Sun graduated from China Civil Aviation Institute majoring in economic management. He started his career in China's civil aviation industry in 1972 and served various positions such as Deputy Head of Civil Aviation Administration of China ("CAAC") Taiyuan Terminal and Head of its Ningbo Terminal, as well as General Manager of CNAC Zhejiang Airlines. In October 2002, Mr. Sun was appointed Vice President of Air China International Corporation, and concurrently took up the position of General Manager of its Zhejiang branch, and was appointed as Vice President of the Company in September 2004. Mr. Sun was appointed as Chairman in November 2004, and President and Deputy Secretary of the Communist Party Committee in December 2005, of Shandong Aviation, and has also served as Director and President of CNACG from March 2007 to September 2011. Mr. Sun served as Secretary of the Communist Party Committee of CNACG from April 2007 to December 2009. Since May 2009, he has been serving as Deputy General Manager and a member of the Communist Party Group of CNAHC. Mr. Sun has been serving as a non-executive Director of the Company since October 2010.

Mr. Ian Sai Cheung Shiu, aged 59, is a non-executive Director of the Company. He holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from the University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He has been a director of Cathay Pacific and Hong Kong Dragon Airlines Limited since October 2008. He has also been a director of John Swire & Sons (H.K.) Limited since July 2010. He has been serving as a director of Swire Pacific Limited since August 2010. Mr. Shiu has been serving as a non-executive Director of the Company since October 2010.

Mr. Fan Cheng, aged 58, is the Vice President and an executive Director of the Company. Mr. Fan graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company in September 2004. Since October 2006, he has been serving as Vice President and Chief Financial Officer of the Company. From December 2009 to May 2010, he served as Secretary of the Communist Party Committee of Shenzhen Airlines. From March 2010 to April 2010, he served as President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. Since January 2011, he has been serving as Director and Chairman of Beijing Airlines Company Limited. Since February 2011, he has been serving as Secretary of the Communist Party Committee of the Company. Since April 2011, he has been serving as Chairman of Air China Cargo Co., Ltd. Mr. Fan has been serving as an executive Director of the Company since October 2004.

Mr. Fu Yang, aged 64, is an independent non-executive Director of the Company. Mr. Fu previously served as Deputy Director of the Economic Law Office of the National People's Congress Law Committee, Vice President of the third, fourth and fifth sessions of the All China Lawyers Association, a visiting professor of Center for Environment Law at the Law School of Renmin University of China. He is a partner and the director of Kang Da Law Firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission. Mr. Fu has been serving as an independent non-executive Director of the Company since June 2009.

Mr. Yang Yuzhong, aged 69, is an independent non-executive Director of the Company. He graduated from Beijing Aeronautical Institute majoring in aircraft design and manufacturing. From July 1999 to July 2006, Mr. Yang served as the Deputy General Manager of China Aviation Industry Corporation I, during which period he was also the head of Chinese Aeronautical Establishment and the chairman of AVIC1 Commercial Aircraft Co., Ltd. Mr. Yang has been a consultant of Aviation Industry Corporation of China since August 2006. He served as an independent non-executive director of China National Materials Company Limited from June 2007 to December 2009. Mr. Yang has been an independent non-executive director of China South Locomotive & Rolling Stock Corporation Limited since December 2007 and an external director of China National Materials Group Corporation Ltd. since December 2009. Mr. Yang has been serving as an independent non-executive Director of the Company since May 2011.

Profile of Directors, Supervisors and Senior Management

Mr. Pan Xiaojiang, aged 61, is an independent non-executive Director of the Company. He holds a Ph.D. degree in Management from Tsinghua University and is a senior economist and China Certified Public Accountant. He served as Deputy Director of the Accounting Management Department of the Ministry of Finance ("MOF"); Deputy Director of Chinese Institute of Certified Public Accountants; Deputy Director, Director and Deputy Director-general of the World Bank Department of the MOF; and Deputy Director-general of the International Department of the MOF. Mr. Pan was appointed as full-time supervisor and deputy office director of the board of supervisors of Bank of China Limited in July 2000; full-time supervisor and office director of the board of supervisors of Bank of China Limited in November 2001; full-time supervisor and office director of the board of supervisors of Agricultural Bank of China Limited in July 2003; supervisor representing shareholders and office director of the board of supervisors of Agricultural Bank of China Limited from January 2009 to January 2012; leader of the fifth patrol team of the Communist Party Committee of Agricultural Bank of China Limited from March 2012 to January 2013. Since May 2013, Mr. Pan has been serving as an independent director of Tsinghua Tongfang Limited. Mr. Pan has been serving as an independent non-executive Director of the Company since October 2013.

Mr. Simon To Chi Keung, aged 62, is an independent non-executive Director of the Company. He holds a First Class Bachelor's Honours Degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of the Industrial Project Division and was appointed managing director in 1981. From 1999 to 2005, he served as an independent non-executive director of China Southern Airlines Company Limited. From 2000 to 2011, he served as a non-executive director of Shenzhen International Holdings Limited. He is currently the managing director of Hutchison Whampoa (China) Limited and chairman of Hutchison China MediTech Limited. He is concurrently the vice chairman of Guangzhou Aircraft Maintenance & Engineering Co. Ltd, director of China Aircraft Services Limited, chairman of Beijing Greatwall Hotel, chairman of Hutchison Whampoa (China) Commerce Limited, chairman of Guangzhou Hutchison Logistics Services Company Limited, chairman of Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited, vice chairman of Shanghai Hutchison Pharmaceuticals Limited, chairman of Hutchison Optel Telecom Technology Co., Ltd. and chairman of Shanghai Hutchison Whitecat Co., Ltd. Mr. To has been serving as an independent non-executive Director of the Company since October 2013.

2. SUPERVISORS

Mr. Li Qinglin, aged 59, is the chairman of the supervisory committee of the Company. Mr. Li graduated from Beijing Television University majoring in Chinese and Zhongnanhai Amateur University majoring in administrative management, and is a senior professional of political work. Mr. Li served various positions, including a Section Chief, Deputy director, director, Vice Director-General and Director-General, as well as the Chairman of the Labour Union, of the Government Office Administration of the State Council. From 1998 to 2000, he served as a Deputy director of the Hebei Leading Group Office of Poverty Alleviation and Development. Since 2000, he had served different positions, including a Deputy director of the Work Department under the Supervisory Committee of Central Enterprises Working Commission, Deputy director of the Office of Central Enterprises Working Commission, Deputy director and Inspector of the General Office of the SASAC and a director of the Office of the Stability Preservation Leading Team of the SASAC. In September 2008, he was appointed as the Head of the Disciplinary and Supervisory Committee and a member of the Communist Party Group of CNAHC. Mr. Li has been serving as a Supervisor of the Company since October 2010.

Mr. He Chaofan, aged 51, is a Supervisor of the Company. Mr. He graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of CAAC, and served various positions in Air China International Corporation, including the section chief, deputy head and head of the finance department and general manager of the revenue accounting center of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager of China National Aviation Finance Co., Ltd. He served as the General Manager of the finance department of CNAHC and a supervisor of the Company concurrently from October 2008 to April 2011. He was appointed as a director and vice president of CNACG in May 2011, and has been concurrently served as the general manager, party committee member and deputy secretary to the party committee of Zhongyi Aviation Investment Co., Ltd. since July 2013. Mr. He has been serving as a Supervisor of the Company since October 2013.

Profile of Directors, Supervisors and Senior Management

Mr. Zhou Feng, aged 52, is a Supervisor of the Company. He obtained a master's degree in economics from Shanghai University of Finance and Economics. He held various positions, including the Accountant, the Deputy Division Head, the Division Head of the finance division and the director of the finance and audit department of Zhejiang Administration of CAAC; the director, the Chief Accountant of finance department of CNAC Zhejiang Airlines; the Assistant General Manager of China National Aviation Corporation (Macau) Company Limited; the Deputy General Manager, the Chief Accountant and a member of the party committee of CNAF, the director, the Executive Vice President of Samsung Air China Life Insurance Co., Ltd.. Mr. Zhou has been Secretary of the Communist Party Committee and the Deputy General Manager of CNAF since August 2010. He has also been the General Manager of the finance department of CNAHC since April 2011. Mr. Zhou has been serving as a Supervisor of the Company since November 2011.

Ms. Xiao Yanjun, aged 49, is a Supervisor of the Company. She obtained a Juris Master from Renmin University of China and an EMBA degree from Tsinghua University and is a professional of political work. From July 1988 to April 2002, Ms. Xiao held various positions in Air China International Corporation, including an Instructor at the Training Department, the Secretary of the Communist Party Committee, an Organisor at division level, Secretary of the Party branch and Head of Officer Training. She served as the Training Manager of the Human Resource Department of the Company from April 2002 to March 2008 and Deputy director of the Labour Union of the Company from March 2008 to November 2012. She has been Director of the Labour Union of the Company since November 2012. Ms. Xiao has been serving as a Supervisor of the Company since June 2011.

Mr. Shen Zhen, aged 47, is a Supervisor of the Company. He graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. He started his career in China's civil aviation industry since October 1985 and held various positions in Vehicle Administrative Office and Chief Flight Team at Beijing Administration of CAAC. From August 2003 to November 2012, Mr. Shen served as the Deputy Captain of the Fourth Group (1st team) of Chief Flight Team of the Company. He has been serving as the Party branch secretary of the First Group (5th team) of Chief Flight Team of the Company since November 2012. Mr. Shen has been serving as a Supervisor of the Company since October 2013.

3. OTHER SENIOR MANAGEMENT

Mr. Song Zhiyong, aged 48, graduated from China Air Force Second Flight Academy majoring in aviation with a university degree. He started his career in China's civil aviation industry in 1987 and served various positions in Air China including Pilot, Deputy Captain, Flight Director and Deputy Commander of the Third Group of Chief Flight Team, Captain of Chief Flight Team and Head of Training Department. He served as Captain of Chief Flight Team and Deputy Secretary of the Communist Party Committee of the Company from November 2002 to June 2008; Assistant to the President of the Company from September 2004 to October 2006; and Vice President as well as Member and Executive Member of the Communist Party Committee of the Company from October 2006 to December 2010. He has been serving as General Manager and Communist Party Member of China National Aviation Corporation since December 2010 as well as President and Deputy Secretary of the Communist Party Committee of the Company since January 2014.

Mr. Feng Gang, aged 50, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984 and worked at the political department and scheduling office of Chengdu Administration of CAAC. He held various positions in China Southwest Airlines, including Manager of Guangzhou Sales Department, Deputy Manager of Operating Department, Manager of Development and Service Department, Deputy Manager of Marketing Department, Manager of the Cargo Logistics Company and Deputy General Manager of China Southwest Airlines, and served as Assistant to President of Air China International Corporation, General Manager and Party Secretary of China National Aviation Holding Assets Management Company. He also served as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group from May 2007 to April 2010. Mr. Feng has been serving as Vice President of the Company since April 2010. He has also served as a director, President and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines since May 2010.

Profile of Directors, Supervisors and Senior Management

Mr. Ma Chongxian, aged 48, graduated from Inner Mongolia University majoring in planning and statistics. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China, including Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia branch, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President of the Company as well as Chairman, President of Shandong Aviation and Vice Chairman of Shandong Airlines since April 2010.

Mr. Xu Chuanyu, aged 49, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a second-class Pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team and an Inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as General Manager, a Member and Deputy Secretary of the Communist Party Committee of Operation Control Centre of the Company from January 2009 to March 2011. He served as the Chief Pilot from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as Chief Safety Officer of the Company since December 2012 till now.

Mr. Wang Mingyuan, aged 48, graduated from Xiamen University majoring in planning and statistics. He started his career in July 1988 and served various positions in Southwest Airlines, including Assistant of the planning department, Manager of the Production Plan Office of the Sales & Marketing Department, Deputy Manager of the Sales & Marketing Department Deputy Manager and Manager of the Market Department, and served various positions in the Company, including Deputy General Manager of the Marketing Department, Member of the Commerce Commission, Member of the Communist Party Committee and General Manager of Network Revenue Department. Mr. Wang was appointed as a director of the Commerce Commission and Deputy Secretary of the Communist Party Committee of the Company from July 2008 to March 2012. He has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since February 2011.

Mr. Zhao Xiaohang, aged 52, graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration of CAAC, Assistant, Section Chief and Deputy Division Chief of the Planning Department of Air China, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China. He served as director and Vice President of CNACG from September 2003 to May 2004, director, Vice President and Secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as director and General Manager of China National Aviation Company Limited in July 2005 and director and General Manager of China National Aviation Corporation (Macau) Company Limited in April 2007. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President of the Company since February 2011, a director of Shandong Aviation since April 2011 and Chairman of Dalian Airlines since August 2011.

Ms. Feng Rune, aged 51, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an Instructor of Science & Education Division of Inner Mongolia Administration of CAAC, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Air China Inner Mongolia branch; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Air China Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Air China Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. From January 2009 to March 2011, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company since February 2011 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011. She served as president of the Labour Union of the Company from June 2011 to October 2013.

Profile of Directors, Supervisors and Senior Management

Mr. Chai Weixi, aged 51, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. He is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including Engineer and Manager of airframe team of Engineering Department of Aircraft Maintenance and Engineering Corporation, Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China, Manager of Aircraft Maintenance Subdivision and Manager of Aircraft Overhaul Division of Aircraft Maintenance and Engineering Corporation, General Manager of Aircraft Engineering Department of Air China and Deputy General Manager of the Engineering Technology Branch of Air China. He served as General Manager, director, member of the Communist Party Committee of Aircraft Maintenance and Engineering Corporation and a member of the Communist Party Committee of the Engineering Technology Branch of Air China in October 2005. In April 2009, he served as General Manager and Deputy Secretary of the Communist Party Committee of the Engineering Technology Branch of Air China and director of Aircraft Maintenance and Engineering Corporation. Mr. Chai has been serving as Vice President of the Company since March 2012.

Mr. Chen Zhiyong, aged 50, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen started his career in October 1982 and served various positions, including pilot and squadron leader of the Third Squadron of the Seventh Flight Team of CAAC, squadron leader and head of Chengdu Flight Department of China Southwest Airlines and manager of Flight Technology Management Department of China Southwest Airlines, head of Chengdu Flight Department of Southwest Branch of Air China, and Deputy General Manager and Chief Pilot of Southwest Branch of Air China. He served as General Manager and Deputy Secretary of the Communist Party Committee of Southwest Branch of the Company from December 2009 to December 2012. Mr. Chen has been serving as Vice President of the Company since December 2012 till now.

Mr. Liu Tiexiang, aged 47, graduated from State Organ Branch of Party School of the Central Committee of C.P.C. majoring economics and management. He is a second-class Pilot. He started his career in June 1983 and became a member of the Communist Party Committee in April 1986. Mr. Liu previously served various positions in Air China, including pilot, squadron leader of the Third Team of the General Flight Group, deputy director and deputy manager of Flight Training Centre, deputy general manager of Aviation Security Technology Department, deputy general manager and general manager of Flight Technical Management Department and vice captain of the Chief Flight Team of Air China. He served as captain of the Chief Flight Team of Air China and Deputy Secretary of the Communist Party Committee from June 2008 to April 2011. He has been serving as Chief Pilot of the Company since April 2011.

Ms. Long Qiang, aged 53, graduated from Sichuan Normal University. Ms. Long started her career in August 1983 and served various positions including teacher of the Technical School of Chengdu Administration of CAAC, Deputy Secretary of the Communist Youth Party Committee of Chengdu Administration Bureau, Deputy Secretary of the Communist Party General Branch of the Customer Service Company of Chengdu Administration Bureau, Section Chief of the Student Department for the Training Centre of China Southwest Airlines, Secretary of the Communist Youth Party Committee, Secretary of the Communist Party Committee of the Marketing and Sales Department, manager and Secretary of the Communist Party Committee of the Transportation and Service Company of China Southwest Airlines, Deputy General Manager of Chongqing Company of China Southwest Airlines, and Deputy General Manager, Secretary of the Communist Party Committee and General Manager of Chongqing Branch of Air China. She served as Secretary of the Communist Party Committee and Deputy Director of the Commerce Commission of the Company from July 2009 to December 2012. She has been serving as Chief Service Officer of the Company since December 2012 till now.

Mr. Wang Yantang, aged 57, graduated from Open College of Party School of the Central Committee of C.P.C. majoring in economic management. He started his career in October 1973 and served as squad leader, technician and Deputy Company Commander of Artillery Brigade 601 of the Beijing Military Region. He started his career in China's civil aviation industry from September 1986 and served various positions in Air China including Head of Integrated Business Section of the Passenger Department, Manager of Customer Service Office and Manager of International Passenger Office of the Ground Services Department as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee, Secretary of the Communist Party Committee and Deputy General Manager of the Ground Services Department. He served as Party General Branch Secretary and Deputy General Manager of the Aircraft Engineering Department of Air China from July 2003 to February 2004 as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee and Chairman of the trade union of the Company's engineering branch from February 2004 to August 2007. He has been serving as Member, Executive Member, Secretary and Deputy Commander of Chief Flight Team of the Company since August 2007 until now. Mr. Wang is appointed as Chairman of the Company's trade union in October 2013.

Profile of Directors, Supervisors and Senior Management

Ms. Rao Xinyu, aged 47, graduated from Beijing Foreign Studies University with a postgraduate diploma. Ms. Rao started her career in July 1990 and served as an officer at vice-director level and an officer at director level of the International Department of the CAAC, Deputy Manager of the General Office, Deputy Director of the Administration Office and Deputy General Manager of the Planning and Investment Department of China National Aviation Corporation, respectively. From December 2002, Ms. Rao was appointed as Deputy General Manager of the Planning and Investment Department of CNAHC. From October 2003, she served as Deputy General Manager of the Planning and Development Department of CNAHC. Ms. Rao has been Deputy Director of the Secretariat of the Board and General Manager of Investor Relation Department of the Company since April 2005. She has been serving as the Secretary to the Board and one of the Joint Company Secretaries since December 2011.

4. JOINT COMPANY SECRETARIES

Ms. Rao Xinyu, Ms. Rao's biography is set out in the section headed "Other Senior Management" above.

Ms. Tam Shuit Mui, aged 42, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of The American Institute of Certified Public Accountants, USA. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of Chaoyue Group Limited (formerly known as Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as one of the Joint Company Secretaries of the Company since October 2008.

Independent Auditors' Report

KPMG

To the shareholders of Air China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 63 to 162, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

25 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Turnover			
Air traffic revenue	5	94,603,168	95,319,449
Other operating revenue	6	3,577,622	4,153,331
		98,180,790	99,472,780
Operating expenses			
Jet fuel costs		(33,722,281)	(35,639,967)
Take-off, landing and depot charges		(9,585,090)	(9,213,993)
Depreciation		(10,936,619)	(10,325,780)
Aircraft maintenance, repair and overhaul costs		(3,063,647)	(3,128,270)
Employee compensation costs	7	(14,023,639)	(12,852,554)
Air catering charges		(2,571,550)	(2,843,016)
Aircraft and engine operating lease expenses		(4,006,096)	(3,437,537)
Other operating lease expenses		(914,759)	(724,341)
Other flight operation expenses		(8,257,213)	(6,578,009)
Selling and marketing expenses		(5,760,403)	(5,669,860)
General and administrative expenses		(1,221,429)	(650,453)
		(94,062,726)	(91,063,780)
Profit from operations	8	4,118,064	8,409,000
Finance revenue	9	2,265,331	371,685
Finance costs	9	(2,688,089)	(2,262,026)
Share of profits less losses of associates		646,815	364,776
Share of profits less losses of joint ventures		175,972	25,918
Profit before taxation		4,518,093	6,909,353
Taxation	10	(903,132)	(1,607,202)
Profit for the year		3,614,961	5,302,151
Attributable to:			
Equity shareholders of the Company		3,263,642	4,815,757
Non-controlling interests		351,319	486,394
		3,614,961	5,302,151
Earnings per share	14		
Basic and diluted		RMB26.55 cents	RMB39.68 cents

The notes on pages 71 to 162 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 38(d).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**3,614,961**	5,302,151
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures	**1,126,075**	450,683
– Exchange realignment	**(698,195)**	4,510
Other comprehensive income for the year, net of tax	**427,880**	455,193
Total comprehensive income for the year	**4,042,841**	5,757,344
Attributable to:		
Equity shareholders of the Company	**3,707,418**	5,270,255
Non-controlling interests	**335,423**	487,089
Total comprehensive income for the year	**4,042,841**	5,757,344

The notes on pages 71 to 162 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (Restated)	2011 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	15	132,805,844	123,479,738	110,315,265
Lease prepayments	16	2,203,377	2,120,495	2,140,366
Investment properties	17	246,291	229,824	240,879
Intangible asset	18	54,524	59,216	37,221
Goodwill	19	1,099,975	1,099,975	1,099,975
Interests in associates	21	14,574,190	13,676,018	13,227,747
Interests in joint ventures	22	1,284,232	1,142,319	1,178,541
Advance payments for aircraft and flight equipment		23,261,879	18,696,984	19,443,291
Deposits for aircraft under operating leases		426,375	443,539	420,854
Available-for-sale investments	23	45,925	45,925	27,182
Deferred tax assets	24	3,263,246	2,849,703	3,071,522
		179,265,858	163,843,736	151,202,843
Current assets				
Aircraft and flight equipment held for sale	25	997,666	592,697	92,487
Inventories	26	1,044,617	1,105,048	1,128,164
Accounts receivable	27	2,861,167	2,744,103	2,060,852
Bills receivable		131	1,253	1,601
Prepayments, deposits and other receivables	28	3,918,465	4,025,493	2,661,025
Financial assets	29	11,350	12,671	12,144
Due from the ultimate holding company		239,417	223,047	218,940
Pledged deposits	30	745,847	802,941	113,833
Cash and cash equivalents	30	14,761,830	11,787,943	15,306,409
Other current assets		1,236,939	144,552	–
		25,817,429	21,439,748	21,595,455
Total assets		205,083,287	185,283,484	172,798,298
Current liabilities				
Air traffic liabilities		(4,461,448)	(3,876,787)	(4,562,773)
Accounts payable	31	(10,349,535)	(9,849,718)	(10,639,811)
Bills payable		–	(1,503)	–
Other payables and accruals	32	(10,785,877)	(9,936,750)	(11,781,242)
Financial liabilities	29	(24,070)	(120,413)	(223,137)
Due to the ultimate holding company		(36,729)	(28,970)	(12,957)
Due to the immediate holding company		–	–	(565)
Tax payable		(355,617)	(57,364)	(1,695,566)
Obligations under finance leases	33	(3,859,317)	(3,476,572)	(2,687,925)
Interest-bearing bank loans and other borrowings	34	(39,502,216)	(28,211,613)	(25,701,186)
Provision for major overhauls	35	(699,378)	(699,849)	(589,123)
		(70,074,187)	(56,259,539)	(57,894,285)
Net current liabilities		(44,256,758)	(34,819,791)	(36,298,830)
Total assets less current liabilities		135,009,100	129,023,945	114,904,013

The notes on pages 71 to 162 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2013 RMB'000**	2012 RMB'000 (Restated)	2011 RMB'000 (Restated)
Non-current liabilities				
Obligations under finance leases	33	**(25,972,715)**	(25,476,607)	(19,191,860)
Interest-bearing bank loans and other borrowings	34	**(42,266,406)**	(42,254,161)	(39,398,481)
Provision for major overhauls	35	**(3,283,480)**	(2,745,327)	(2,496,294)
Provision for early retirement benefit obligations		**(35,331)**	(46,970)	(56,820)
Long-term payables	36	**(93,072)**	(147,268)	(147,177)
Deferred income	37	**(3,797,501)**	(3,479,947)	(3,452,491)
Deferred tax liabilities	24	**(2,014,407)**	(1,561,424)	(1,194,293)
		(77,462,912)	(75,711,704)	(65,937,416)
NET ASSETS		**57,546,188**	53,312,241	48,966,597
CAPITAL AND RESERVES				
Issued capital	38	**13,084,751**	12,891,955	12,891,955
Treasury shares	38	**(3,047,564)**	(2,896,092)	(2,889,399)
Reserves		**43,720,198**	39,948,387	36,200,538
Total equity attributable to equity shareholders of the Company		**53,757,385**	49,944,250	46,203,094
Non-controlling interests		**3,788,803**	3,367,991	2,763,503
TOTAL EQUITY		**57,546,188**	53,312,241	48,966,597

Approved and authorised for issue by the board of directors on 25 March 2014.

Cai Jianjiang
Director

Fan Cheng
Director

The notes on pages 71 to 162 form part of these financial statements.

Statement of Financial Position

At 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current assets			
Property, plant and equipment	15	**97,020,607**	91,089,650
Lease prepayments	16	**1,554,115**	1,537,647
Intangible assets	18	**30,507**	35,217
Interests in subsidiaries	20	**17,971,735**	17,823,911
Interests in associates	21	**766,148**	766,148
Interests in joint ventures	22	**865,479**	856,076
Advance payments for aircraft and flight equipment		**15,560,292**	14,409,193
Deposits for aircraft under operating leases		**260,921**	268,036
Available-for-sale investments	23	**22,110**	22,110
Deferred tax assets	24	**2,206,620**	2,024,156
		136,258,534	128,832,144
Current assets			
Aircraft and flight equipment held for sale	25	**580,881**	31,402
Inventories	26	**619,845**	712,204
Accounts receivable	27	**3,192,939**	2,813,000
Prepayments, deposits and other receivables	28	**3,363,109**	3,460,219
Due from the ultimate holding company		**239,348**	194,009
Pledged deposits	30	**663,317**	663,317
Cash and cash equivalents	30	**5,924,189**	3,900,178
Other current assets		**1,022,022**	96,956
		15,605,650	11,871,285
Total assets		**151,864,184**	140,703,429
Current liabilities			
Air traffic liabilities		**(3,700,228)**	(3,194,141)
Accounts payable	31	**(7,631,767)**	(6,627,299)
Other payables and accruals	32	**(5,114,462)**	(4,082,421)
Financial liabilities	29	**(3,819)**	(86,375)
Due to the ultimate holding company		**(36,729)**	–
Tax payable		**(144,526)**	–
Obligations under finance leases	33	**(3,556,549)**	(3,326,631)
Interest-bearing bank loans and other borrowings	34	**(25,306,051)**	(18,648,237)
Provision for major overhauls	35	**(358,399)**	(258,848)
		(45,852,530)	(36,223,952)
Net current liabilities		**(30,246,880)**	(24,352,667)
Total assets less current liabilities		**106,011,654**	104,479,477

The notes on pages 71 to 162 form part of these financial statements.

Statement of Financial Position

At 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Obligations under finance leases	33	**(23,444,512)**	(24,270,585)
Interest-bearing bank loans and other borrowings	34	**(29,937,026)**	(30,433,492)
Provision for major overhauls	35	**(1,656,739)**	(1,488,439)
Provision for early retirement benefit obligations		**(34,942)**	(46,099)
Deferred income	37	**(2,650,844)**	(2,446,980)
Deferred tax liabilities	24	**(244,745)**	(210,441)
		(57,968,808)	(58,896,036)
NET ASSETS		**48,042,846**	45,583,441
CAPITAL AND RESERVES			
Issued capital	38	**13,084,751**	12,891,955
Reserves	38	**34,958,095**	32,691,486
TOTAL EQUITY		**48,042,846**	45,583,441

Approved and authorised for issue by the board of directors on 25 March 2014.

Cai Jianjiang
Director

Fan Cheng
Director

The notes on pages 71 to 162 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	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*
As 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		–	–	(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
Changes in equity for 2012:											
Profit for the year (Restated)	*2(c)(i)*	–	–	–	–	–	4,815,757	–	4,815,757	486,394	5,302,151
Other comprehensive income (Restated)		–	–	450,683	–	3,815	–	–	454,498	695	455,193
Total comprehensive income (Restated)	*2(c)(i)*	–	–	450,683	–	3,815	4,815,757	–	5,270,255	487,089	5,757,344
Elimination of reciprocal shareholding		–	(6,693)	–	–	–	–	–	(6,693)	–	(6,693)
Capital contribution by non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	120,000	120,000
Appropriation of statutory reserve funds		–	–	–	421,943	–	(421,943)	–	–	–	–
Transfer to reserve funds and others		–	–	–	679,126	–	(680,281)	–	(1,155)	(1,082)	(2,237)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(1,519)	(1,519)
Dividends declared in respect of the previous year		–	–	–	–	–	–	(1,521,251)	(1,521,251)	–	(1,521,251)
Proposed final dividends		–	–	–	–	–	(776,580)	776,580	–	–	–
31 December 2012 and 1 January 2013 (Restated)	*2(c)(i)*	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
Changes in equity for 2013:											
Profit for the year		–	–	–	–	–	3,263,642	–	3,263,642	351,319	3,614,961
Other comprehensive income/(losses)		–	–	1,126,075	–	(682,299)	–	–	443,776	(15,896)	427,880
Total comprehensive income/(losses)		–	–	1,126,075	–	(682,299)	3,263,642	–	3,707,418	335,423	4,042,841
Issue of new shares		192,796	–	851,653	–	–	–	–	1,044,449	–	1,044,449
Elimination of reciprocal shareholding		–	(151,472)	–	–	–	–	–	(151,472)	–	(151,472)
Capital contribution by the non-controlling shareholders of a subsidiary		–	–	–	–	–	–	–	–	200,000	200,000
Appropriation of statutory reserve funds		–	–	–	248,011	–	(248,011)	–	–	–	–
Transfer to reserve funds and others		–	–	–	412,353	–	(423,033)	–	(10,680)	(1,013)	(11,693)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(113,598)	(113,598)
Dividends declared in respect of the previous year		–	–	–	–	–	–	(776,580)	(776,580)	–	(776,580)
Proposed final dividends		–	–	–	–	–	(592,870)	592,870	–	–	–
As at 31 December 2013		13,084,751	(3,047,564)	20,754,776	5,233,245	(3,727,738)	20,867,045	592,870	53,757,385	3,788,803	57,546,188

The notes on pages 71 to 162 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Operating activities			
Cash generated from operations	30(b)	18,001,555	15,075,274
Income tax paid		(565,439)	(2,656,454)
Interest paid		(2,827,786)	(2,729,395)
Net cash generated from operating activities		14,608,330	9,689,425
Investing activities			
Purchases of items of property, plant and equipment		(17,914,726)	(15,969,802)
Purchases of investment properties		(49)	–
Purchases of intangible assets		(18)	(23,999)
Increase in lease prepayments		(138,763)	(49,421)
(Increase)/decrease in advance payments for aircraft and flight equipment		(4,564,895)	746,307
Proceeds from disposal of items of property, plant and equipment		675,922	440,594
Proceeds from disposal of held-for-sale assets		590,337	92,487
Decrease of intangible assets		4,710	2,004
Net settlements of financial liabilities		(81,008)	(95,805)
Decrease/(increase) in pledged deposits		54,997	(689,108)
Interest received		247,575	244,941
Capital contributions by non-controlling interests of a subsidiary		200,000	120,000
Purchase of an associate and a joint venture		(10,403)	(86,800)
Dividends received from associates and joint ventures		298,250	494,326
Net cash used in investing activities		(20,638,071)	(14,774,276)
Financing activities			
Proceeds from issue of new shares		1,044,449	–
New bank loans and other loans		35,070,880	30,122,737
Proceeds from issue of corporate bonds		10,700,000	7,500,000
Repayment of bank loans and other loans		(31,475,329)	(28,527,927)
Repayment of principals under finance lease obligations		(3,679,115)	(2,947,764)
Repayment of corporate bonds		(1,500,000)	(3,000,000)
Dividends paid		(890,178)	(1,522,770)
Net cash generated from financing activities		9,270,707	1,624,276
Net increase/(decrease) in cash and cash equivalents		3,240,966	(3,460,575)
Cash and cash equivalents at 1 January	30(a)	11,787,943	15,306,409
Effect of foreign exchange rate changes		(267,079)	(57,891)
Cash and cash equivalents at 31 December	30(a)	14,761,830	11,787,943

The notes on pages 71 to 162 form part of these financial statements.

Notes to the Financial Statements

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

1 CORPORATE INFORMATION

Air China Limited (the "Company") was established as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on the 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, the Company issued 192,796,331 new 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 (together referred to 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 Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

As at 31 December 2013, the Group's and the Company's current liabilities exceeded its current assets by approximately RMB44.26 billion and RMB30.25 billion respectively. The liquidity of the Group and the Company is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB101.58 billion as at 31 December 2013, the Directors of the Company believe that adequate funding is available to fulfill the Group's and the Company's debt obligations and capital expenditure requirements when preparing the financial statements for the year ended 31 December 2013. Accordingly, the financial statements have been prepared on a basis that the Group and the Company will be able to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and the Group's interest in associates and joint ventures.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as trading securities (see note 2(g)).

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(cc)).

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) 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. Impact of the adoption of the above new or amended IFRSs are discussed below:

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

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

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

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 year ended 31 December 2012. The impact of the changes in accounting policies are summarised in note 2(c)(i).

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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 20, 21 and 22.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 41. 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 Group 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 year ended 31 December 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 year ended 31 December 2012. The impact of the changes in accounting policies are summarised in note 2(c)(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 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatement resulting from the adoption of IFRS 11 and revised IAS 19 has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

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 these financial statements 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 during the periods presented.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(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 year ended 31 December 2012, are summarised as follows:

	As previously reported *RMB'000*	Effect of adoption of IFRS 11 *RMB'000*	Effect of adoption of revised IAS 19 *RMB'000*	As restated *RMB'000*
Consolidated statement of profit or loss for the year ended 31 December 2012				
Share of profits less losses of associates	(402,661)	–	37,885	(364,776)
Share of profits less losses of joint ventures	–	(25,918)	–	(25,918)
Profit attributable to equity shareholders of the Company	(4,636,735)	(216,907)	37,885	(4,815,757)
Basic and diluted earnings per share	38.21 cents			39.68 cents
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012				
Total comprehensive income attributable to equity shareholders of the Company	(5,074,816)	(200,401)	4,962	(5,270,255)
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)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(s) or (t) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sales (or included in a disposal group that is classified as held for sale) (see note 2(cc)).

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(cc)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(cc)).

Notes to the Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in note 2(w)(iii) and 2(w)(iv), respectively.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(w)(iv) and 2(w)(iii), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses (see note 2(m)). The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful life	Residual value	Depreciation rate
Aircraft and flight equipment:			
Core parts of airframe and engine	15 to 30 years	5%	3.17%-6.33%
Overhaul of airframe and cabin refurbishment	5 to 12 years	Nil	8.33%-20%
Overhaul of engine	2 to 15 years	Nil	6.67%-50%
Rotable	3 to 15 years	Nil	6.67%-33.33%
Buildings	10 to 50 years	Nil – 5%	1.90%-10%
Machinery	4 to 20 years	Nil – 5%	4.75%-25%
Transportation equipment	3 to 20 years	Nil – 5%	4.75%-33.33%
Office equipment	4 to 8 years	Nil – 5%	11.88%-25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Property, plant and equipment under finance leases are depreciated over the same terms as self-owned fixed assets. If it is reasonably assured that the ownership of the leased property, plant and equipment could be transferred to the Group after the lease periods, the leased assets are depreciated over its estimated useful life. Otherwise, leased assets are depreciated over the shorter of the estimated useful lives of the assets and the lease terms.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Construction in progress represents buildings or various infrastructure projects under construction, and equipment pending for installation in aircraft. Construction in progress is stated at cost less any impairment losses (see note 2(m)) and is not depreciated. Costs of construction in progress comprise the direct costs of construction, the cost of equipment as well as capitalised borrowing costs on related borrowed funds during the construction or installation period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

(i) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent costs are recognised in the carrying amount of the investment properties if it is probable that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably. Otherwise, these costs are recognised in profit or loss as incurred.

The Group chooses the cost method to measure its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful life	Residual value	Depreciation rate
Buildings	20 to 30 years	5%	3.17%-4.75%
Lease prepayments	50 years	–	2%

The carrying amounts of investment properties measured at the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and reduction of the outstanding liability so as to achieve a constant periodical rate of interest on the remaining balance of the liability. Finance charges are charged to the profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(l) Advance payments for aircraft and flight equipment

Advance contractual payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years, including attributable finance costs, are included in assets. The advances are accounted for as part of the cost of property, plant and equipment upon delivery of the aircraft and flight equipment.

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– advance payments for aircraft and flight equipment;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) Treasury shares

Own equity instruments (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Notes to the Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to be incurred to completion and disposal.

(p) Trade and other receivable

Trade and other receivable is initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivable is stated at cost less allowance for impairment of bad and doubtful debts.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Manufacturers' credits

In connection with the acquisition of certain aircraft and flight equipment, the Group receives various credits from the manufacturers. Such credits are deferred until the aircraft and flight equipment are delivered, at which time they are applied as a reduction of the cost of acquiring the aircraft and flight equipment.

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the profit or loss.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Provision of airline and airline-related services

Passenger revenue is recognised either when transportation services are provided or when an unused ticket expires rather than when a ticket is sold. Ticket sales for transportation not yet provided are included in current liabilities as air traffic liabilities. In addition, the Group has code-sharing agreements with other airlines under which a carrier's flights can be marketed under the two-letter airline designator code of another carrier. Revenues earned under these arrangements are allocated between the code share partners based on existing contractual agreements and airline industry standard pro-ratio formulae and are recognised as passenger revenue when the transportation services are provided.

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

Revenue from airline-related services is recognised when the relevant services are rendered.

(ii) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

Notes to the Financial Statements

(Prepared under International Financial Reporting Standards)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the Group's rights to receive payments is established.

(v) Rental income and aircraft and flight equipment lease income

Rental income is recognised on a time proportion basis over the terms of the respective leases.

(x) Frequent-flyer programmes

The Group operates frequent-flyer programmes which allow customers to earn miles when they purchase air tickets from the Group. The miles can then be redeemed for free services or products, subject to a minimum number of points to be obtained. The consideration received or receivable from the tickets sold is allocated between the miles earned by the frequent-flyer programme members and the other components of the sales transactions. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfills its obligations to supply services or products or when the miles expire.

(y) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill certain return conditions under the relevant operating leases. In order to fulfill these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under operating leases are accrued and charged to the profit or loss over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhauls comprise mainly labour and materials. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul.

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

All other routine repair and maintenance costs incurred in restoring such property, plant and equipment to their normal working condition are charged to the profit or loss as and when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the profit or loss over the expected useful life of the relevant asset by equal annual installments.

(aa) Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of aircraft borrowing costs ceases when the assets are substantially ready for their intended use or sale are interrupted or complete. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(bb) Employee benefits

(i) Pension obligations

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formula. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. In addition to these plans, the Company, Air China Cargo Co., Ltd ("Air China Cargo"), Beijing Airlines Co., Ltd ("Beijing Airlines"), Dalian Airlines Co., Ltd ("Dalian Airlines"), Shenzhen Airlines Co., Ltd ("Shenzhen Airlines"), Beijing Golden Phoenix Human Resource Co., Ltd. ("Golden Phoenix"), Zhejiang Air Service Co., Ltd. ("Zhejiang Air Service"), Air China Group Import and Export Trading Co., Ltd. ("AIE"), Chengdu Falcon Aircraft Engineering Service Co., Ltd. ("Chengdu Falcon") and so on also implement an additional defined contribution retirement scheme for voluntary employees. Contributions are made based on a percentage of the employees' total salaries and are charged to the profit or loss in accordance with the rules of the scheme.

(ii) Termination and early retirement benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Employee benefits (Continued)

(iii) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(iv) Share-based payments

The Company operates a share appreciation rights ("SARs") plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group are entitled to a future cash payment (rather than an equity instrument) ("cash-settled transactions"), based on the increase in the entity's share price from a specified level over a specified period of time. The Company recognises the services received, and a liability to pay for those services, as the employees render services.

The cost of cash-settled transactions with employees is measured initially at fair value at the grant date using a binomial model. The liability is remeasured at each reporting date up to and including the settlement date, with any changes in fair value recognised in profit or loss for the period.

(cc) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(dd) Translation of foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(dd) Translation of foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on the items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the rates of exchange prevailing at the end of the reporting period and their profits or losses are translated into RMB at the average exchange rates for the period of the translations. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign entity is recognised in the profit or loss.

(ee) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Financial Statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ff) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those polices and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

– Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was RMB1,100 million (2012: RMB1,100 million). More details are given in note 19 to the financial statements.

– Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

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3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

– Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to estimate the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

– Overhaul cost

Cost of overhaul for aircraft and engines under operating leases are accrued and charged to the profit or loss over the estimated overhaul period. This requires estimation of the expected flying hours/cycles, overhaul cost and overhaul cycle, which are largely based on the past experience of overhauls of aircraft and engines of the same or similar types. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

– Deferred income

The amount of revenue attributable to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the fair value of the miles awarded and the expected redemption rate. The fair value of the miles awarded is estimated by reference to external sales. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed.

4 OPERATING 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 the assets of the Group by geographical distribution has therefore not been included.

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

Notes to the Financial Statements

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4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2013 and 2012 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2013

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	97,498,291	129,962	–	97,628,253
Intersegment sales	–	2,008,008	(2,008,008)	–
Total revenue for reportable segments under CASs	97,498,291	2,137,970	(2,008,008)	97,628,253
Business tax not included in segment revenue				(308,512)
Other income not included in segment revenue				772,392
Effects of differences between IFRSs and CASs				88,657
Revenue for the year under IFRSs				98,180,790
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,413,935	169,453	–	4,583,388
Effects of differences between IFRSs and CASs				(65,295)
Profit before taxation for the year under IFRSs				4,518,093

Notes to the Financial Statements

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4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2012 (Restated)

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	99,595,151	245,400	–	99,840,551
Intersegment sales	–	1,814,619	(1,814,619)	–
Total revenue for reportable segments under CASs	99,595,151	2,060,019	(1,814,619)	99,840,551
Business tax not included in segment revenue				(1,728,115)
Other income not included in segment revenue				1,416,602
Effects of differences between IFRSs and CASs				(56,258)
Revenue for the year under IFRSs				99,472,780
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	6,846,148	153,504	–	6,999,652
Effects of differences between IFRSs and CASs				(90,299)
Profit before taxation for the year under IFRSs				6,909,353

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4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

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

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment assets				
Total assets for reportable segments as at 31 December 2013 under CASs	**202,124,315**	**4,365,913**	**(1,128,345)**	**205,361,883**
Effects of differences between IFRSs and CASs				**(278,596)**
Total assets under IFRSs				**205,083,287**
Total assets for reportable segments 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)
Total assets under IFRSs (Restated)				185,283,484

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2013 under CASs	**147,507,445**	**1,039,790**	**(1,128,345)**	**147,418,890**
Effects of differences between IFRSs and CASs				**118,209**
Total liabilities under IFRSs				**147,537,099**
Total liabilities for reportable segments as at 31 December 2012 under CASs (Restated)	133,992,733	791,665	(3,020,021)	131,764,377
Effects of differences between IFRSs and CASs (Restated)				206,866
Total liabilities under IFRSs (Restated)				131,971,243

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4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2013

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	**605,881**	**216,906**	**–**	**822,787**	**–**	**822,787**
Impairment losses recognised in profit or loss, net	**490,714**	**47**	**–**	**490,761**	**107,927**	**598,688**
Depreciation and amortisation	**11,113,873**	**13,884**	**–**	**11,127,757**	**(104,531)**	**11,023,226**
Finance revenue	**2,245,239**	**15,835**	**–**	**2,261,074**	**4,257**	**2,265,331**
Finance costs	**3,035,034**	**2,801**	**–**	**3,037,835**	**(349,746)**	**2,688,089**
Taxation	**897,222**	**16,234**	**–**	**913,456**	**(10,324)**	**903,132**
Interests in associates and joint ventures	**14,123,664**	**1,816,176**	**–**	**15,939,840**	**(81,418)**	**15,858,422**
Additional to non-current assets	**31,605,706**	**23,886**	**–**	**31,629,592**	**–**	**31,629,592**

Year ended 31 December 2012 (Restated)

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	321,395	69,299	–	390,694	–	390,694
Impairment losses recognised/ (reversed) in profit or loss, net	(241,134)	135	–	(240,999)	5,243	(235,756)
Depreciation and amortisation	10,185,468	205,107	–	10,390,575	15,553	10,406,128
Finance revenue	348,988	15,073	–	364,061	7,624	371,685
Finance costs	2,561,274	2,325	–	2,563,599	(301,573)	2,262,026
Taxation	1,583,108	19,991	–	1,603,099	4,103	1,607,202
Interests in associates and jointly ventures	13,226,613	1,673,142	–	14,899,755	(81,418)	14,818,337
Additional to non-current assets	13,599,417	(734,496)	–	12,864,921	–	12,864,921

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4 OPERATING SEGMENT INFORMATION (Continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2013 and 2012, respectively:

Year ended 31 December 2013

	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	**64,386,657**	**5,491,532**	**10,152,698**	**7,929,394**	**5,023,165**	**5,197,344**	**98,180,790**

Year ended 31 December 2012 (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	66,588,134	5,505,452	9,604,615	7,499,994	5,941,709	4,332,876	99,472,780

The Group's main assets to earn income are the aircraft, most of which are registered in China. According to the business demand, the Group needs to flexibly allocate the aircraft to match the need of the route network. Therefore, the Group has no proper benchmark to distribute of these assets according to regional information. Except for the aircraft, most of the Group's assets are located in China.

Information about a major customer

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year (2012: Nil).

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 year is as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Passenger	**86,726,799**	86,898,595
Cargo and mail	**7,876,369**	8,420,854
	94,603,168	95,319,449

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6 OTHER OPERATING REVENUE

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Aircraft engineering income	**93,610**	84,432
Ground service income	**765,613**	711,666
Government grants and subsidies:		
– Recognition of deferred income	**121,377**	309,293
– Others	**689,105**	1,163,575
Service charges on return of unused flight tickets	**744,767**	633,267
Cargo handling service income	**101,688**	79,126
Training service income	**28,970**	43,369
Rental income	**131,913**	128,979
Sale of materials	**17,111**	25,983
Import and export service income	**34,422**	50,787
Others	**849,046**	922,854
	3,577,622	4,153,331

7 EMPLOYEE COMPENSATION COSTS

An analysis of the Group's employee compensation costs, including the emoluments of directors and supervisors, is as follows:

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Wages, salaries and other benefits	**12,569,478**	11,559,224
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**1,446,155**	1,288,400
– Early retirement benefits	**579**	6,165
Share-based benefits (note 39)	**7,427**	(1,235)
	14,023,639	12,852,554

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8 PROFIT FROM OPERATIONS

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

	2013 ***RMB'000***	2012 *RMB'000* (Restated)
Depreciation	**10,936,619**	10,325,780
Amortisation:		
– Lease prepayments	**54,222**	69,293
– Investment properties	**32,385**	11,055
Impairment/(reversal of impairment):		
– Property, plant and equipment	**222,438**	479,426
– Aircraft and flight equipment held for sale	**332,014**	22,779
– Inventories	**19,748**	169
– Accounts receivable	**17,929**	(1,190)
– Prepayments, deposits and other receivables	**6,559**	(736,940)
Gain/(loss) on disposal of property, plant and equipment	**140,141**	(64,325)
Minimum lease payments under operating leases:		
– Aircraft and flight equipment	**4,006,096**	3,437,537
– Land and buildings	**728,925**	634,044
Auditors' remuneration	**16,440**	14,356

9 FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	2013 ***RMB'000***	2012 *RMB'000* (Restated)
Exchange gains, net	**1,937,887**	119,120
Gain on interest rate derivative contracts, net	**–**	4,046
Interest income	**323,188**	244,941
Others	**4,256**	3,578
	2,265,331	371,685

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9 FINANCE REVENUE AND FINANCE COSTS (Continued)

Finance costs

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Interest on interest-bearing bank loans and other borrowings	**2,804,229**	2,311,655
Interest on finance leases	**383,787**	597,168
Loss on interest rate derivative contracts, net	**1,646**	–
	3,189,662	2,908,823
Less: Interest capitalised	**(501,573)**	(646,797)
	2,688,089	2,262,026

The interest capitalisation rates during the year range from 0.81% to 8.46% (2012: 1.11% to 9.40%) per annum relating to the costs of related borrowings during the year.

10 TAXATION

(a) Taxation in the consolidated statement of profit or loss represents:

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Current income tax:		
– Mainland China	**842,656**	1,312,907
– Hong Kong and Macau	**29,214**	3,677
– Over-provision in respect of prior years	**(8,178)**	(298,332)
Deferred income tax (note 24)	**39,440**	588,950
	903,132	1,607,202

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% (2012: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2012: 25%) during the year. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (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 years.

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10 TAXATION (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Profit before taxation	**4,518,093**	6,909,353
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**1,129,523**	1,727,338
Tax rate differential in foreign jurisdictions	**(79,531)**	(94,785)
Tax effect of share of profits less losses of associates and joint ventures	**(205,697)**	(97,674)
Tax effect of non-deductible expenses	**24,474**	19,984
Tax effect of non-taxable income	**(49,791)**	(33,514)
Deductible temporary differences and tax losses not recognised	**228,275**	413,577
Utilisation of tax losses not recognised in prior years	**(4,440)**	(16,359)
Utilisation of deductible temporary differences not recognised in prior years	**(121,904)**	(39,711)
Effect of prior years' recognised taxable temporary differences written-back during the year	**(15,599)**	–
Over-provision in prior years	**(8,178)**	(298,332)
Others	**6,000**	26,678
Actual tax expense	**903,132**	1,607,202
Effective tax rate	**20.0%**	23.3%

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11 DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of directors' and supervisors' emoluments for the year ended 31 December 2013 are as follows:

	Fees *RMB'000*	Basic salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement benefits *RMB'000*	SARs *RMB'000* *(note 39)*	Total *RMB'000*
Executive directors						
Cai Jianjiang [(1)]	–	348	603	85	–	1,036
Fan Cheng	–	287	606	79	–	972
	–	635	1,209	164	–	2,008
Non-executive directors						
Wang Changshun	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Sun Yude	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Li Shuang (Resigned on 29 October 2013)	83	–	–	–	–	83
Fu Yang	100	–	–	–	–	100
Han Fangming (Resigned on 29 October 2013)	83	–	–	–	–	83
Yang Yuzhong	100	–	–	–	–	100
Pan Xiaojiang (Appointed on 29 October 2013)	17	–	–	–	–	17
To Chi Keung, Simon (Appointed on 29 October 2013)	17	–	–	–	–	17
	400	–	–	–	–	400
Supervisors						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	338	109	56	–	503
Su Zhiyong (Resigned on 29 October 2013)	–	203	56	41	–	300
Li Qinglin	–	–	–	–	–	–
Zhang Xueren (Resigned on 29 October 2013)	–	–	–	–	–	–
He Chaofan (Appointed on 29 October 2013)	–	–	–	–	–	–
Shen Zhen (Appointed on 29 October 2013)	–	29	5	7	–	41
	–	570	170	104	–	844
	400	1,205	1,379	268	–	3,252

(1) Cai Jianjiang is both a director and the chief executive of the Company for the year ended 31 December 2013.

(2) Certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in note 39 to the financial statements.

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11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Details of directors' and supervisors' emoluments for the year ended 31 December 2012 are as follows:

	Fees *RMB'000*	Basic salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement benefits *RMB'000*	SARs *RMB'000* *(note 39)*	Total *RMB'000*
Executive directors						
Cai Jianjiang [(1)]	–	301	695	73	–	1,069
Fan Cheng	–	281	619	71	–	971
	–	582	1,314	144	–	2,040
Non-executive directors						
Wang Changshun (Appointed on 20 January 2012)	–	–	–	–	–	–
Kong Dong (Resigned on 20 January 2012)	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Sun Yude	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Li Shuang	100	–	–	–	–	100
Fu Yang	100	–	–	–	–	100
Han Fangming	100	–	–	–	–	100
Yang Yuzhong	100	–	–	–	–	100
	400	–	–	–	–	400
Supervisors						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	319	105	51	–	475
Su Zhiyong	–	236	78	46	–	360
Li Qinglin	–	–	–	–	–	–
Zhang Xueren	–	–	–	–	–	–
	–	555	183	97	–	835
	400	1,137	1,497	241	–	3,275

(1) Cai Jianjiang is both a director and the chief executive of the Company for the year ended 31 December 2012.

(2) In 2012, the 30% of remaining SARs were lapsed.

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12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors (2012: none), whose emoluments are reflected in the note 11, was among the five highest paid individuals in the Group for 2013. The aggregate of the emoluments in respect of the five (2012: five) individuals during the year are as follows:

	2013 **RMB'000**	2012 *RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**11,379**	10,714
Discretionary bonuses	**305**	415
	11,684	11,129

The emoluments of the five (2012: five) individuals with the highest emoluments are within the following bands:

	2013 **Number of individuals**	2012 *Number of individuals*
HK$2,500,001 to HK$3,000,000	**3**	5
HK$3,000,001 to HK$3,500,000	**2**	–
	5	5

There was no arrangement under which a director, a supervisor or a chief executive waived or agreed to waive any remuneration during the year (2012: Nil).

13 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company includes a profit of RMB2,191,536,000 in 2013 (2012: RMB3,950,024,000) (note 38(a)) which has been dealt with in the financial statements of the Company.

	2013 *RMB'000*	2012 *RMB'000*
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**1,887,666**	3,804,565
Final dividends from subsidiaries, associates and jointly ventures attributable to the profits of the previous financial year, approved and paid during the year	**303,870**	145,459
The Company's profit for the year (note 38(a))	**2,191,536**	3,950,024

Details of dividends paid and payable to equity shareholders of the Company are set out in note 38(d).

14 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2013 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,264 million (2012: RMB4,816 million (Restated)) and the weighted average of 12,294,184,525 ordinary shares (2012: 12,136,547,108 shares) in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited ("Cathay Pacific") through reciprocal shareholding.

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

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15 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Transportation equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost							
At 1 January 2012 (Restated)	151,240,338	6,649,509	2,647,298	1,924,066	1,249,235	8,182,218	171,892,664
Transfer from construction in progress (Restated)	22,633,509	371,337	227,799	35,267	80,355	(23,348,267)	–
Additions (Restated)	1,818,763	100,180	130,151	157,436	85,175	22,447,036	24,738,741
Reclassification to aircraft and flight equipment held for sale (Restated)	(2,148,509)	–	–	–	–	–	(2,148,509)
Disposals (Restated)	(4,016,146)	(38,844)	(147,815)	(17,312)	(45,059)	–	(4,265,176)
Exchange realignment (Restated)	107	–	5	3	10	–	125
At 31 December 2012 and 1 January 2013 (Restated)	169,528,062	7,082,182	2,857,438	2,099,460	1,369,716	7,280,987	190,217,845
Additions	2,483,315	6,918	101,646	46,047	115,026	19,668,734	22,421,686
Transfer from construction in progress	17,179,615	521,300	582,144	46,573	109,466	(18,439,098)	–
Reclassification to aircraft and flight equipment held for sale	(8,501,157)	–	–	–	–	–	(8,501,157)
Disposals	(5,297,468)	(160,354)	(69,973)	(94,377)	(42,400)	–	(5,664,572)
Exchange realignment	(17,229)	–	(715)	940	(3,080)	–	(20,084)
At 31 December 2013	175,375,138	7,450,046	3,470,540	2,098,643	1,548,728	8,510,623	198,453,718
Accumulated depreciation							
At 1 January 2012 (Restated)	(53,656,322)	(1,889,989)	(1,178,912)	(1,066,164)	(765,891)	–	(58,557,278)
Reclassification to aircraft and flight equipment held for sale (Restated)	1,499,179	–	–	–	–	–	1,499,179
Charge for the year (Restated)	(9,541,354)	(258,997)	(180,264)	(168,034)	(177,131)	–	(10,325,780)
Written back on disposals (Restated)	3,449,956	11,663	106,970	15,164	42,943	–	3,626,696
Exchange realignment (Restated)	(82)	–	(4)	(1)	(8)	–	(95)
At 31 December 2012 and 1 January 2013 (Restated)	(58,248,623)	(2,137,323)	(1,252,210)	(1,219,035)	(900,087)	–	(63,757,278)
Reclassification to aircraft and flight equipment held for sale	6,254,560	–	–	–	–	–	6,254,560
Charge for the year	(10,021,662)	(273,849)	(229,905)	(177,094)	(234,109)	–	(10,936,619)
Written back on disposals	4,201,379	43,395	60,563	83,735	42,879	–	4,431,951
Exchange realignment	13,460	–	685	423	1,182	–	15,750
At 31 December 2013	(57,800,886)	(2,367,777)	(1,420,867)	(1,311,971)	(1,090,135)	–	(63,991,636)

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15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Aircraft and flight equipment *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Transportation equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Impairment							
At 1 January 2012 (Restated)	(2,996,193)	–	(23,742)	(186)	–	–	(3,020,121)
Reclassification to aircraft and flight equipment held for sale (Restated)	33,854	–	–	–	–	–	33,854
Charge for the year (Restated)	(479,426)	–	–	–	–	–	(479,426)
Written back on disposals (Restated)	460,936	–	23,742	186	–	–	484,864
At 31 December 2012 and 1 January 2013 (Restated)	(2,980,829)	–	–	–	–	–	(2,980,829)
Reclassification to aircraft and flight equipment held for sale	916,917	–	–	–	–	–	916,917
Charge for the year	(222,438)	–	–	–	–	–	(222,438)
Written back on disposals	630,112	–	–	–	–	–	630,112
At 31 December 2013	**(1,656,238)**	**–**	**–**	**–**	**–**	**–**	**(1,656,238)**
Net book value							
At 31 December 2013	**115,918,014**	**5,082,269**	**2,049,673**	**786,672**	**458,593**	**8,510,623**	**132,805,844**
At 31 December 2012 (Restated)	108,298,610	4,944,859	1,605,228	880,425	469,629	7,280,987	123,479,738

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2012	119,841,455	5,080,734	1,601,942	1,399,286	1,090,839	4,521,268	133,535,524
Additions	974,669	84,294	125,763	82,072	96,661	17,571,987	18,935,446
Transfer from construction in progress	17,244,360	190,335	166,101	35,261	–	(17,636,057)	–
Reclassification to aircraft and flight equipment held for sale	(740,334)	–	–	–	–	–	(740,334)
Disposals	(3,597,067)	(32,223)	(140,500)	(11,210)	(14,784)	–	(3,795,784)
At 31 December 2012 and 1 January 2013	133,723,083	5,323,140	1,753,306	1,505,409	1,172,716	4,457,198	147,934,852
Additions	318,200	490	122	10,038	18,097	15,601,380	15,948,327
Transfer from construction in progress	14,126,850	507,420	567,841	46,152	78,463	(15,326,726)	–
Reclassification to aircraft and flight equipment held for sale	(7,432,675)	–	–	–	–	–	(7,432,675)
Disposals	(5,374,369)	(26,973)	(58,026)	(19,522)	(32,646)	–	(5,511,536)
At 31 December 2013	**135,361,089**	**5,804,077**	**2,263,243**	**1,542,077**	**1,236,630**	**4,731,852**	**150,938,968**
Accumulated depreciation							
At 1 January 2012	(46,967,465)	(1,510,677)	(676,521)	(795,999)	(670,454)	–	(50,621,116)
Reclassification to aircraft and flight equipment held for sale	671,819	–	–	–	–	–	671,819
Charge for the year	(7,204,201)	(204,197)	(137,888)	(36,734)	(122,616)	–	(7,705,636)
Written back on disposals	3,079,385	9,693	126,081	9,836	11,938	–	3,236,933
At 31 December 2012 and 1 January 2013	(50,420,462)	(1,705,181)	(688,328)	(822,897)	(781,132)	–	(54,418,000)
Reclassification to aircraft and flight equipment held for sale	5,792,690	–	–	–	–	–	5,792,690
Charge for the year	(7,715,671)	(218,783)	(132,444)	(125,476)	(150,679)	–	(8,343,053)
Written back on disposals	4,486,730	12,032	48,114	19,184	30,238	–	4,596,298
At 31 December 2013	**(47,856,713)**	**(1,911,932)**	**(772,658)**	**(929,189)**	**(901,573)**	**–**	**(52,372,065)**

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15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

	Aircraft and flight equipment	Buildings	Machinery	Transportation equipment	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment							
At 1 January 2012	(2,563,577)	–	–	–	–	–	(2,563,577)
Reclassification to aircraft and flight equipment held for sale	33,854	–	–	–	–	–	33,854
Charge for the year	(325,162)	–	–	–	–	–	(325,162)
Written back on disposals	427,683	–	–	–	–	–	427,683
At 31 December 2012 and 1 January 2013	(2,427,202)	–	–	–	–	–	(2,427,202)
Reclassification to aircraft and flight equipment held for sale	727,090	–	–	–	–	–	727,090
Charge for the year	(222,438)	–	–	–	–	–	(222,438)
Written back on disposals	376,254	–	–	–	–	–	376,254
At 31 December 2013	**(1,546,296)**	**–**	**–**	**–**	**–**	**–**	**(1,546,296)**
Net book value							
At 31 December 2013	**85,958,080**	**3,892,145**	**1,490,585**	**612,888**	**335,057**	**4,731,852**	**97,020,607**
At 31 December 2012	80,875,419	3,617,959	1,064,978	682,512	391,584	4,457,198	91,089,650

During the year, the Group recognised an impairment loss of approximately RMB222 million relating to aircraft and flight equipment. The recoverable amounts of these impaired aircraft and flight equipment are the higher of their fair value less costs to sell and value in use.

As at 31 December 2013, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB36,906 million (2012: RMB34,449 million) were pledged to secure certain bank loans of the Group (note 34(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group and the Company amounted to approximately RMB48,401 million (2012: RMB45,778 million) (note 33) and RMB45,142 million (2012: RMB43,715 million) (note 33), respectively.

As at 31 December 2013, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,103 million (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 31 December 2013.

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16 LEASE PREPAYMENTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Cost				
As at 1 January	**2,474,210**	2,424,789	**1,791,173**	1,791,173
Additions	**138,763**	49,421	**57,390**	–
Disposal	**(1,939)**	–	**(1,939)**	–
As at 31 December	**2,611,034**	2,474,210	**1,846,624**	1,791,173
Accumulated amortisation				
As at 1 January	**(353,715)**	(284,422)	**(253,526)**	(198,898)
Amortisation for the year	**(54,222)**	(69,293)	**(39,263)**	(54,628)
Disposal	**280**	–	**280**	–
As at 31 December	**(407,657)**	(353,715)	**(292,509)**	(253,526)
Net carrying amount				
As at 31 December	**2,203,377**	2,120,495	**1,554,115**	1,537,647

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

As at 31 December 2013, the Group's land use rights with an aggregate net book value of approximately RMB38 million (2012: RMB39 million) were pledged to secure certain bank loans of the Group (note 34(a)).

As at 31 December 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 RMB555 million (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 31 December 2013.

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17 INVESTMENT PROPERTIES

The Group's investment properties are subsequently measured at the cost method.

	2013	2012
	RMB'000	*RMB'000*
Cost		
As at 1 January	**338,614**	338,614
Addition	**48,852**	–
As at 31 December	**387,466**	338,614
Accumulated amortisation		
As at 1 January	**(108,790)**	(97,735)
Amortisation for the year	**(32,385)**	(11,055)
As at 31 December	**(141,175)**	(108,790)
Net carrying amount		
As at 31 December	**246,291**	229,824

The Group leased a cargo terminal located in Mainland China to a third party under an operating lease arrangement. As at 31 December 2013, among the carrying amount of investment properties, there are RMB41 million (2012: RMB42 million) relating to land use rights held under a medium term lease.

18 INTANGIBLE ASSET

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**59,216**	37,221	**35,217**	37,221
Additions	**18**	23,999	**–**	–
Reduction upon admission of new Star Alliance members	**(4,710)**	(2,004)	**(4,710)**	(2,004)
As at 31 December	**54,524**	59,216	**30,507**	35,217

The Group's intangible asset represents admission rights of the Company and Shenzhen Airlines to Star Alliance which is stated at cost less impairment losses and has an indefinite useful life.

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19 GOODWILL

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
As at 31 December 2013:		
Cost	**1,276,866**	1,276,866
Impairment	**(176,891)**	(176,891)
Net carrying amount	**1,099,975**	1,099,975

Impairment testing of goodwill

Goodwill acquired through business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Air China Cargo cash-generating unit
- Shenzhen Airlines cash-generating unit

Air China Cargo cash-generating unit

The Group accrued full impairment provision for goodwill allocated impairment to the Air China Cargo in 2011.

Shenzhen Airlines cash-generating unit

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to the cash flow projections is 10% (2012: 10%) and cash flows beyond the three-year period were extrapolated using a growth rate of 2% by reference to the long-term average growth rate.

Assumptions were used in the value in use calculation for 31 December 2013 and 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on utilisation of aircraft, market development and discount rates are consistent with external information sources.

With regard to the assessment of value in use of the Shenzhen Airlines cash-generating unit, the Directors of the Company believe that no reasonably possible change in any of the above key assumption would cause the carrying value of the unit to materially exceed its recoverable amount.

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20 INTERESTS IN SUBSIDIARIES

	Company 2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**17,971,735**	17,823,911

Particulars of the principal subsidiaries as at 31 December 2013 are as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$400,000,000	69	31	Investment holding
AIE (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Air Services# (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai Air China Aviation Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Golden Phoenix# (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB1,700,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau	Limited liability company	MOP442,042,000	–	67	Airline operator
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB3,235,294,118	51	–	Provision of cargo carriage services

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20 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2013 are as follows: (Continued)

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Chengdu Falcon (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB37,565,216	60	–	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB812,500,000	51	–	Airline operator
Shenzhen Jingpeng Industrial & Trading Co., Ltd.# (深圳金鵬工貿有限責任公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	–	100	Tickets agent
Kunming Airlines Co., Ltd.# (昆明航空有限公司)	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines (北京航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator

The English names of these companies are direct translations of their Chinese names.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2013 or formed a substantial portion of the net assets of the Group as at 31 December 2013. To give details of other subsidiaries would, in the opinion of the Directors, result in particular of excessive length.

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20 INTERESTS IN SUBSIDIARIES (Continued)

The following table lists out the information relating to Shenzhen Airlines and Air China Cargo, the subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2013		2012	
	Shenzhen Airlines	**Air China Cargo**	Shenzhen Airlines	Air China Cargo
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
NCI percentage	**49%**	**49%**	49%	49%
Current assets	**2,951,611**	**2,183,731**	3,413,206	1,365,700
Non-current assets	**36,379,227**	**8,175,604**	32,073,302	4,597,623
Current liabilities	**(17,302,682)**	**(8,265,177)**	(16,561,096)	(4,384,415)
Non-current liabilities	**(18,074,771)**	**(1,341,685)**	(15,621,725)	(477,023)
Net assets	**3,953,385**	**752,473**	3,303,687	1,101,885
– Equity contributed to equity shareholder of the subsidiary	**3,914,480**	**752,473**	3,256,234	1,101,885
– Equity contributed to the NCI at the subsidiary level	**38,905**	**–**	47,453	–
Carrying amount of NCI	**1,918,095**	**368,712**	1,595,555	539,924
Revenue	**21,637,583**	**8,102,114**	22,294,962	8,220,263
Profit/(loss) for the year	**888,166**	**(348,416)**	2,013,127	(1,075,011)
Total comprehensive income/(expenses)	**888,046**	**(349,412)**	2,013,121	(1,073,727)
Profit/(loss) allocated to NCI	**435,142**	**(171,212)**	986,429	(526,126)
Dividend paid to NCI	**(112,602)**	**–**	–	–
Cash flows from operating activities	**3,381,728**	**426,018**	3,144,703	218,712
Cash flows from investing activities	**(3,031,803)**	**(4,761,236)**	(5,574,690)	(222,728)
Cash flows from financing activities	**(742,895)**	**4,629,667**	2,109,099	(48,567)

21 INTERESTS IN ASSOCIATES

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed shares in the PRC, at cost	**–**	–	**163,477**	163,477
Unlisted investments, at cost	**–**	–	**602,671**	602,671
Share of net assets				
– Listed shares in the PRC	**512,031**	481,895	**–**	–
– Listed shares in Hong Kong	**9,929,488**	9,132,816	**–**	–
– Unlisted investments	**1,265,161**	1,193,797	**–**	–
Goodwill	**2,914,352**	2,914,352	**–**	–
	14,621,032	13,722,860	**766,148**	766,148
Less: impairment	**46,842**	46,842	**–**	–
As at 31 December	**14,574,190**	13,676,018	**766,148**	766,148
Market value of listed shares	**16,363,884**	14,576,987	**1,151,856**	974,016

As at 31 December 2013, there was no listed shares pledged to secure certain bank loans of the Group (2012: RMB4,604 million) (note 34(b)).

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21 INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2013 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific* (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Corporation (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd. (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
China National Aviation Finance Co., Ltd. ("CNAF")** (中航集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Provision of aircraft overhaul and maintenance services
CAAC Cares Chongqing Co., Ltd. (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB9,800,000	24.5	Provision of airline-related information system services
Chengdu CAAC Southwest Cares Co., Ltd.# (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
Zhengzhou Aircraft Maintenance Engineering Co., Ltd.*# (鄭州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	Provision of overhaul and maintenance services
Tibet Airlines Co., Ltd.# (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator

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21 INTERESTS IN ASSOCIATES (Continued)

* The equity interests of these associates are held indirectly through certain subsidiaries of the Company.

** 19.3% of the Group's equity interest in CNAF is held directly by the Company, and the remaining 4.2% is held indirectly through certain subsidiaries of the Company.

\# The English names of these companies are direct translations of their Chinese names.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2013 or formed a substantial portion of the net assets of the Group as at 31 December 2013. To give details of other associates would, in the opinion of the Directors, result in particular of excessive length.

Summarised financial information of Cathay Pacific, the only individually material associate of the Group, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	Cathay Pacific	
	2013	2012
	RMB'000	*RMB'000*
Gross amounts of the associate's		
Current assets	**30,808,422**	29,360,068
Non-current assets	**104,088,990**	96,145,728
Current liabilities	**(32,060,100)**	(29,105,461)
Non-current liabilities	**(53,294,601)**	(50,880,838)
Equity	**49,542,711**	45,519,497
– Equity contributed to equity shareholders of the associate	**49,444,432**	45,424,628
– Equity contributed to NCI of the associate	**98,279**	94,869
Revenue	**80,240,493**	80,571,576
Profit for the year	**2,318,960**	870,773
Other comprehensive income	**3,832,992**	1,508,852
Total comprehensive income	**6,151,952**	2,379,625
Dividend received from the associate	**129,859**	325,217
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**49,444,432**	45,424,628
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**14,828,385**	13,622,846
Elimination of reciprocal shareholding	**(4,898,897)**	(4,490,030)
Goodwill	**2,701,567**	2,701,567
Carrying amount in the consolidated financial statements	**12,631,055**	11,834,383

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21 INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**1,943,135**	1,841,635
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	**223,737**	314,308
Other comprehensive income	**(1,174)**	82
Total comprehensive income	**222,563**	314,390

22 INTERESTS IN JOINT VENTURES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Unlisted investment, at cost	**–**	–	**865,479**	856,076
Share of net assets	**1,277,722**	1,135,809	**–**	–
Goodwill	**6,510**	6,510	**–**	–
	1,284,232	1,142,319	**865,479**	856,076

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22 INTERESTS IN JOINT VENTURES (Continued)

Particulars of the joint ventures of the Group at 31 December 2013 are as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司)	PRC/Mainland China	US$187,533,000	60	57.1	60	Provision of aircraft and engine overhaul and maintenance services
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo carriage services
GA Innovation China (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	50	Wholesale and import of aircraft and components
Sichuan Services Aero-Engine Maintenance Company (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$71,900,000	60	60	60	Provision of engine overhaul and maintenance services

\# The English names of these companies are the direct translations of their Chinese names.

The Directors of the Company are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material listed as follows:

	Group 2013 RMB'000	Group 2012 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,284,232**	1,142,319
Aggregate amounts of the Group's share of those joint ventures'		
Profit from continuing operations	**175,972**	25,918
Other comprehensive income	**(1,003)**	1,289
Total comprehensive income	**174,969**	27,207

23 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments consist of unlisted equity investments measured at cost less impairment losses.

24 DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Deferred tax assets:				
As at 1 January	**2,849,703**	3,071,522	**2,024,156**	2,261,490
Charge for the year *(note 10)*	**413,543**	(221,819)	**182,464**	(237,334)
Gross deferred tax assets as at 31 December	**3,263,246**	2,849,703	**2,206,620**	2,024,156
Deferred tax liabilities:				
As at 1 January	**1,561,424**	1,194,293	**210,441**	136,000
Charge for the year *(note 10)*	**452,983**	367,131	**34,304**	74,441
Gross deferred tax liabilities as at 31 December	**2,014,407**	1,561,424	**244,745**	210,441
Net deferred tax assets as at 31 December	**1,248,839**	1,288,279	**1,961,875**	1,813,715

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24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The principal components of the Group's and the Company's deferred tax assets and liabilities are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Deferred tax assets:				
Differences in value of property, plant and equipment	**74,159**	41,671	**74,159**	35,671
Provisions and accruals	**2,180,112**	1,929,839	**1,440,161**	1,280,329
Unrealised loss on derivative financial instruments	**955**	21,594	**955**	21,594
Impairment	**978,468**	804,883	**661,793**	634,846
Government grants and subsidies	**29,552**	51,716	**29,552**	51,716
Gross deferred tax assets	**3,263,246**	2,849,703	**2,206,620**	2,024,156
Deferred tax liabilities:				
Unrealised exchange gain	**(45,746)**	(67,898)	**(45,746)**	(67,898)
Depreciation allowance in excess of the related depreciation	**(1,822,708)**	(1,387,421)	**(198,999)**	(142,543)
Others	**(145,953)**	(106,105)	**–**	–
Gross deferred tax liabilities	**(2,014,407)**	(1,561,424)	**(244,745)**	(210,441)
Net deferred tax assets	**1,248,839**	1,288,279	**1,961,875**	1,813,715

Deferred tax assets not recognised are as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Tax losses	**2,253,267**	1,524,987
Deductible temporary differences	**687,758**	1,008,315
	2,941,025	2,533,302

The Group has no tax losses arising from operations outside Mainland China (2012: Nil). The Group has tax losses arising from the operation in Mainland China of RMB2,941,025,000 (2012: RMB2,533,302,000 (Restated)) that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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25 AIRCRAFT AND FLIGHT EQUIPMENT HELD FOR SALE

Aircraft and flight equipment held for sale represent aircraft and the related flight equipment to retire in the next 12 months and are measured at the lower of their carrying amounts and fair values less costs to sell.

The aircraft and flight equipment of the Company with an aggregated carrying value of RMB912,895,000 (note 15) have been reclassified as assets held for sale at 31 December 2013 (2012: RMB34,661,000). An impairment loss charged of approximately RMB332,014,000 was made against these aircraft and flight equipment by reference to the contracted selling prices for the year ended 31 December 2013 (2012: RMB3,259,000).

The aircraft and flight equipment of Air China Cargo with an aggregated carrying value of RMB416,785,000 (note 15) have been reclassified as assets held for sale at 31 December 2013 (2012: RMB580,815,000). No impairment loss was charged for the year ended 31 December 2013 (2012: RMB19,520,000).

The assets held for sale as at 31 December 2012 were disposed in 2013 and the selling price approximates its carrying value.

26 INVENTORIES

An analysis of inventories as at the end of the reporting period is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Spare parts of flight equipment	**848,828**	945,147	**532,317**	615,219
Ordinary equipment	**34,206**	39,384	**17,647**	20,218
Catering supplies	**104,750**	56,007	**57,507**	61,559
Others	**56,833**	64,510	**12,374**	15,208
	1,044,617	1,105,048	**619,845**	712,204

27 ACCOUNTS RECEIVABLE

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Accounts receivable	**2,935,838**	2,803,002	**3,250,979**	2,854,978
Impairment	**(74,671)**	(58,899)	**(58,040)**	(41,978)
	2,861,167	2,744,103	**3,192,939**	2,813,000

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27 ACCOUNTS RECEIVABLE (Continued)

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers while some major customers are granted a credit period of 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. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Within 30 days	**2,245,022**	2,457,125	**1,311,589**	1,352,242
31 to 60 days	**259,966**	139,032	**350,112**	311,289
61 to 90 days	**120,542**	46,086	**352,688**	317,626
Over 90 days	**235,637**	101,860	**1,178,550**	831,843
	2,861,167	2,744,103	**3,192,939**	2,813,000

The movement in the provision for impairment of accounts receivable during the year, including both specific and collective loss components, is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
As at 1 January	**58,899**	61,235	**41,978**	45,568
Impairment losses recognised	**20,820**	17,186	**18,241**	1,247
Amount reversed	**(2,891)**	(18,376)	**(1,603)**	(3,736)
Amount written off	**(2,071)**	(1,147)	**(576)**	(1,101)
Exchange realignment	**(86)**	1	**–**	–
As at 31 December	**74,671**	58,899	**58,040**	41,978

At 31 December 2013, the Group's and the Company's accounts receivable of RMB64,382,000 (2012: RMB49,707,000) and RMB47,751,000 (2012: RMB32,786,000) respectively were impaired and fully provided for. The individually impaired accounts receivable related to customers that were in financial difficulties and the probability to recover these receivables is remote.

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27 ACCOUNTS RECEIVABLE (Continued)

The ageing analysis of the accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Neither past due nor impaired	**2,047,645**	2,238,870	**1,114,213**	1,133,987
Less than 3 moths past due	**311,549**	159,056	**633,841**	602,853
More than 3 months past due	**220,370**	97,825	**1,163,282**	827,808
	2,579,564	2,495,751	**2,911,336**	2,564,648

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

28 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:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Prepayments				
Advances and others	**295,854**	285,549	**194,392**	204,291
Manufacturers' credits	**1,414,371**	1,292,880	**1,407,806**	1,288,014
Prepaid aircraft operating lease rentals	**384,108**	338,205	**200,431**	152,461
	2,094,333	1,916,634	**1,802,629**	1,644,766
Deposits and other receivables	**1,824,132**	2,108,859	**1,560,480**	1,815,453
	3,918,465	4,025,493	**3,363,109**	3,460,219

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28 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
As at 1 January	**2,888,674**	3,625,711	**–**	–
Impairment losses recognised	**8,904**	63,303	**822**	–
Amount reversed	**(2,345)**	(800,243)	**–**	–
Amount written off	**(6,447)**	(97)	**–**	–
Exchange realignment	**(219)**	–	**–**	–
As at 31 December	**2,888,567**	2,888,674	**822**	–

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 31 December 2013, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property"), an associate of Shenzhen Airlines, and its subsidiaries was RMB695,819,000 (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 31 December 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 statement of the Group.

As at 31 December 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 31 December 2013.

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29 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Group

	2013		2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Interest rate swaps	**2,825**	**24,070**	3,817	120,413
Listed equity securities	**8,525**	**–**	8,854	–
	11,350	**24,070**	12,671	120,413

Company

	2013		2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Interest rate swaps	**–**	**3,819**	–	86,375

The above financial assets and liabilities are accounted for as held-for-trading financial instruments and any fair value changes are recognised in the profit or loss.

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendlemen-Barter 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.

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30 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	note	Group 2013 RMB'000	Group 2012 RMB'000 (Restated)	Company 2013 RMB'000	Company 2012 RMB'000
Time deposits with banks and other financial institution		**8,945,829**	8,137,560	**4,601,317**	3,802,847
Less: Pledged deposits	*(ii)*	**(745,847)**	(802,941)	**(663,317)**	(663,317)
Non-pledged deposits		**8,199,982**	7,334,619	**3,938,000**	3,139,530
Cash and bank		**6,561,848**	4,453,324	**1,986,189**	760,648
Cash and cash equivalents		**14,761,830**	11,787,943	**5,924,189**	3,900,178

Notes:

(i) As at 31 December 2013, the Group's and the Company's deposits with CNAF, an associate of the Group, amounted to RMB2,126 million and RMB1,926 million, respectively (2012: RMB1,923 million and RMB1,922 million, respectively).

(ii) Details of pledged deposits are as follows:

	Group 2013 RMB'000	Group 2012 RMB'000 (Restated)	Company 2013 RMB'000	Company 2012 RMB'000
Pledged deposits against:				
– Aircraft operating leases	**66,535**	123,561	**–**	–
– Bank loan *(note 34(c))*	**663,317**	663,317	**663,317**	663,317
– Others	**15,995**	16,063	**–**	–
	745,847	802,941	**663,317**	663,317

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30 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	2013 **RMB'000**	2012 RMB'000 (Restated)
Cash flows from operating activities		
Profit before taxation	**4,518,093**	6,909,353
Adjustments for:		
Share of profits less losses of associates and joint ventures	**(822,787)**	(390,694)
Exchange gains, net	**(1,937,887)**	(119,120)
Interest income	**(323,188)**	(244,941)
Finance costs	**2,688,089**	2,262,026
Changes of fair value on financial assets and financial liabilities, net	**1,646**	(4,046)
Depreciation	**10,936,619**	10,325,780
Impairment loss on property, plant and equipment	**222,438**	479,426
Gains on disposal of property, plant and equipment, net	**137,781**	(64,325)
Amortisation of lease prepayments	**54,222**	69,293
Amortisation of investment properties	**32,385**	11,055
Impairment of aircraft held for sale	**332,014**	22,779
Gains on disposal of aircraft held for sale	**2,360**	–
Impairment of inventories	**19,748**	169
Impairment/(reversal of impairment) of accounts receivable	**17,929**	(1,190)
Impairment/(reversal of impairment) of prepayments, deposits and other receivables	**6,559**	(736,940)
Decrease/(increase) in deposits for aircraft under operating leases	**17,164**	(22,685)
Decrease in inventories	**40,683**	22,947
Increase in accounts receivable	**(134,993)**	(682,061)
Decrease in bills receivable	**1,122**	348
Decrease/(increase) in prepayments, deposits and other receivables	**100,469**	(627,528)
Increase in amount due from the ultimate holding company	**(16,370)**	(4,107)
Increase in other current assets	**(1,092,387)**	(144,552)
Increase/(decrease) in air traffic liabilities	**584,661**	(685,986)
Increase in accounts payable	**970,401**	149,793
(Decrease)/increase in bills payable	**(1,503)**	1,503
Increase/(decrease) in other payables and accruals	**849,127**	(1,844,492)
Increase in amount due to the ultimate holding company	**7,759**	16,013
Increase in provision for major overhauls	**537,682**	359,759
Decrease in provision for early retirement benefit obligations	**(11,639)**	(9,850)
Increase in deferred income	**317,554**	27,456
(Decrease)/increase in long-term payables	**(54,196)**	91
Cash generated from operations	**18,001,555**	15,075,274

(c) Major non-cash transactions

During the year, the Group entered into several finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB5,394 million (2012: RMB10,104 million).

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31 ACCOUNTS PAYABLE

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Within 30 days	**7,315,999**	7,276,666	**4,923,028**	4,601,982
31 to 60 days	**826,040**	660,691	**803,250**	367,340
61 to 90 days	**785,549**	551,187	**750,291**	420,393
Over 90 days	**1,421,947**	1,361,174	**1,155,198**	1,237,584
	10,349,535	9,849,718	**7,631,767**	6,627,299

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

32 OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Accrued salaries, wages and benefits	**2,442,395**	2,491,414	**1,395,292**	1,243,063
Receipts in advance for employee residence	**1,882,580**	1,889,506	**–**	–
Accrued operating expenses	**1,304,706**	1,498,711	**833,452**	820,604
Business tax, customs duties and levies tax payable	**356,032**	559,086	**214,658**	186,296
Deposits received from sales agents	**599,758**	804,523	**375,279**	470,555
Due to a non-controlling shareholder of a subsidiary	**207,787**	207,787	**–**	–
Interest payable	**712,165**	352,515	**631,840**	311,029
Land lease payable	**207,734**	256,538	**–**	–
Current portion of deferred income related to the frequent-flyer programme	**581,455**	308,014	**446,955**	177,607
Current portion of deferred income related to government grants	**122,218**	122,218	**122,218**	122,218
Current portion of long-term payables	**51,698**	60,919	**–**	–
Provision for staff housing benefits	**88,062**	32,487	**88,062**	30,228
Others	**2,229,287**	1,353,032	**1,006,706**	720,821
	10,785,877	9,936,750	**5,114,462**	4,082,421

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33 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2016 to 2025 (2012: 2013 to 2024) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, is as follows:

Group

	Minimum lease payments 2013 *RMB'000*	**Present values of minimum lease payments 2013 *RMB'000***	Minimum lease payments 2012 *RMB'000*	Present values of minimum lease payments 2012 *RMB'000*
Amounts repayable:				
Within 1 year	**4,228,660**	**3,859,317**	3,891,075	3,476,572
After 1 year but within 2 years	**4,328,448**	**3,999,168**	3,950,503	3,587,292
After 2 years but within 5 years	**11,764,859**	**11,026,088**	11,644,866	10,801,502
After 5 years	**11,421,534**	**10,947,459**	11,646,818	11,087,813
Total minimum finance lease payments	**31,743,501**	**29,832,032**	31,133,262	28,953,179
Less: Amounts representing finance charges	**(1,911,469)**		(2,180,083)	
Present value of minimum lease payments	**29,832,032**		28,953,179	
Less: Portion classified as current liabilities	**(3,859,317)**		(3,476,572)	
Non-current portion	**25,972,715**		25,476,607	

The Group's finance leases were secured by mortgages over certain of the Group's aircraft, which had an aggregate net carrying amount of approximately RMB48,401 million (2012: RMB45,778 million) (note 15).

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33 OBLIGATIONS UNDER FINANCE LEASES (Continued)

Company

	Minimum lease payments 2013 *RMB'000*	**Present values of minimum lease payments 2013** *RMB'000*	Minimum lease payments 2012 *RMB'000*	Present values of minimum lease payments 2012 *RMB'000*
Amounts repayable:				
Within 1 year	**3,812,676**	**3,556,549**	3,657,710	3,326,631
After 1 year but within 2 years	**3,922,868**	**3,693,243**	3,731,010	3,440,048
After 2 years but within 5 years	**10,620,634**	**10,097,739**	11,023,691	10,339,324
After 5 years	**10,015,327**	**9,653,530**	10,974,625	10,491,213
Total minimum finance lease payments	**28,371,505**	**27,001,061**	29,387,036	27,597,216
Less: Amounts representing finance charges	**(1,370,444)**		(1,789,820)	
Present value of minimum lease payments	**27,001,061**		27,597,216	
Less: Portion classified as current liabilities	**(3,556,549)**		(3,326,631)	
Non-current portion	**23,444,512**		24,270,585	

Certain finance lease arrangements comprise finance leases between the Company and certain of its subsidiaries, and the corresponding borrowings between such subsidiaries and commercial banks. The Company has guaranteed the subsidiaries' obligations under those bank borrowing arrangements and, accordingly, the relevant assets and obligations are recorded in the Company's statement of financial position to reflect the substance of the transactions. The future payments under these finance leases have therefore been presented by the Company and the Group in the amounts that reflect the payments under the bank borrowing arrangements between the subsidiaries and commercial banks.

As at 31 December 2013, there were 124 (2012: 113) aircraft under finance lease agreements of the Group. Under the terms of the leases, the Company has the option to purchase these aircraft, at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from -1.39% to 6.55% (2012: -1.17% to 6.55%) per annum.

The Company's finance leases were secured by mortgages over certain of the Company's aircraft, which had an aggregate net carrying amount of approximately RMB45,142 million (2012: RMB43,715 million) (note 15).

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34 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Bank loans:				
Secured	**26,512,690**	25,240,859	**12,064,165**	11,313,540
Unsecured	**30,057,932**	29,674,915	**21,178,912**	24,268,189
	56,570,622	54,915,774	**33,243,077**	35,581,729
Loans from CNAF *(note 43)*:				
Secured	**90,000**	150,000	**–**	–
Unsecured	**2,408,000**	1,900,000	**–**	–
	2,498,000	2,050,000	**–**	–
Corporate bonds – unsecured	**22,700,000**	13,500,000	**22,000,000**	13,500,000
	81,768,622	70,465,774	**55,243,077**	49,081,729
Bank loans repayable:				
Within 1 year	**33,334,216**	24,751,613	**22,306,051**	17,148,237
After 1 year but within 2 years	**4,330,402**	12,119,568	**2,006,798**	9,998,594
After 2 years but within 5 years	**9,380,455**	8,722,764	**3,935,899**	3,444,267
After 5 years	**9,525,549**	9,321,829	**4,994,329**	4,990,631
	56,570,622	54,915,774	**33,243,077**	35,581,729
Loans from CNAF repayable:				
Within 1 year	**2,468,000**	1,960,000	**–**	–
After 1 year but within 2 years	**30,000**	60,000	**–**	–
After 2 years but within 5 years	**–**	30,000	**–**	–
	2,498,000	2,050,000	**–**	–
Corporate bonds:				
Within 1 year	**3,700,000**	1,500,000	**3,000,000**	1,500,000
After 1 year but within 2 years	**3,000,000**	3,000,000	**3,000,000**	3,000,000
After 2 years but within 5 years	**3,500,000**	3,000,000	**3,500,000**	3,000,000
After 5 years	**12,500,000**	6,000,000	**12,500,000**	6,000,000
	22,700,000	13,500,000	**22,000,000**	13,500,000
Total interest-bearing bank loans and other borrowings	**81,768,622**	70,465,774	**55,243,077**	49,081,729
Less: Portion classified as current liabilities	**(39,502,216)**	(28,211,613)	**(25,306,051)**	(18,648,237)
Non-current portion	**42,266,406**	42,254,161	**29,937,026**	30,433,492

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34 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Further details of the bank loans, loans from CNAF and corporate bonds at the end of the reporting period are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Bank loans and loans from CNAF				
RMB denominated loans:				
Fixed interest rate ranging from 5.04% to 7.20% (2012: 5.04% to 7.92%) per annum, with final maturities through to 2015	**3,593,889**	6,437,819	**–**	–
Floating interest rate ranging from 5.04% to 8.46% (2012: 5.04% to 6.56%) per annum, with final maturities through to 2023	**5,754,136**	4,244,680	**–**	–
Total RMB denominated loans	**9,348,025**	10,682,499	**–**	–
US$ denominated loans:				
Fixed interest rate:				
Fixed interest rate ranging from 2.4% to 4.61% (2012: 3.8%) per annum, with final maturities through to 2019	**1,451,672**	191,519	**403,859**	191,519
Floating interest rate:				
At one-month LIBOR + 1.4% (2012: LIBOR + 1.4%) per annum, with final maturities through to 2022	**280,533**	325,920	**–**	–
Ranging from three-month LIBOR + 0.9% to three-month LIBOR + 3.95% (2012: LIBOR + 0.75% to LIBOR + 4.50%) per annum, with final maturities through to 2024	**18,262,888**	14,500,644	**13,639,146**	14,500,644
Ranging from six-month LIBOR + 0.45% to six-month LIBOR + 5.55% (2012: LIBOR + 0.4% to LIBOR + 5.55%) per annum, with final maturities through to 2024	**28,628,847**	30,045,077	**18,303,719**	19,760,809
Ranging from twelve-month LIBOR + 0.4% and BTMULIBOR +1.5% to BTMULIBOR +2.0% (2012: LIBOR + 3.6% and BTMULIBOR +1.5%) per annum, with final maturities through to 2017	**931,932**	706,633	**731,628**	615,275
Total US$ denominated loans	**49,555,872**	45,769,793	**33,078,352**	35,068,247

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34 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Further details of the bank loans, loans from CNAF and corporate bonds at the end of the reporting period are as follows: (Continued)

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
HK$ denominated loans:				
Floating interest rate at three-month HIBOR (2012: HIBOR + 0.45%) per annum, with final maturities through to 2013	**–**	340,557	**–**	340,557
Euros denominated loans:				
Fixed interest rate at 4.38% (2012: 4.38%) per annum, with final maturities through to 2014	**164,725**	172,925	**164,725**	172,925
Total bank loans and loans from CNAF	**59,068,622**	56,965,774	**33,243,077**	35,581,729
Corporate bonds				
RMB denominated loans:				
Fixed interest rate ranging from 3.48% to 5.30% (2012: 3.48% to 4.99%) per annum, with final maturities through to 2019	**22,700,000**	13,500,000	**22,000,000**	13,500,000
Total interest-bearing bank loans and other borrowings	**81,768,622**	70,465,774	**55,243,077**	49,081,729

The interest rates of RMB denominated loans are set and subject to change by the People's Bank of China.

The Group's bank loans and loans from CNAF of approximately RMB26,603 million as at 31 December 2013 (2012: RMB25,391 million) were secured by:

(a) mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB36,906 million as at 31 December 2013 (2012: RMB34,449 million) (note 15); and land use rights with an aggregate carrying amount of approximately RMB38 million as at 31 December 2013 (2012: RMB39 million) (note 16); and

(b) As at 31 December 2013, there was no listed shares pledged to secure certain bank loans of the Group (2012: RMB4,604 million) (note 21); and

(c) the pledged time deposit with an amount of approximately RMB663 million as at 31 December 2013 (2012: RMB663 million) (note 30(a)(ii)); and

(d) there was no guarantee by any commercial banks as at 31 December 2013 (2012: Nil); and

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34 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

(e) As at 31 December 2013, bank loans of the Group with an aggregate amount of US$85.56 million (equivalent to RMB522 million) were guaranteed by an associate.

The Company's bank loans of approximately RMB12,064 million as at 31 December 2013 (2012: RMB11,314 million) were secured by:

(a) mortgages over certain of the Company's aircraft and buildings with an aggregate net book value of approximately RMB14,750 million as at 31 December 2013 (2012: RMB12,763 million); and land use rights with an aggregate carrying amount of approximately RMB32 million as at 31 December 2013 (2012: RMB33 million); and

(b) There was no guarantee provided by certain commercial banks as at 31 December 2013 (2012: Nil); and

(c) As at 31 December 2013, the Company provided guarantee to a subsidiary's bank loans amounting to US$89.05 million (equivalent to RMB543 million).

As at 31 December 2013, there was no PRC state-owned banks provided counter-guarantees (2012: Nil) to one of the above-mentioned commercial banks.

35 PROVISION FOR MAJOR OVERHAULS

Details of the movements in provision for major overhauls in respect of aircraft and engines under operating leases at the end of the reporting period are as follows:

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
As at 1 January	**3,445,176**	3,085,417	**1,747,287**	1,616,307
Provision for the year	**1,453,951**	1,346,050	**648,347**	543,256
Utilisation during the year	**(916,269)**	(986,291)	**(380,496)**	(412,276)
As at 31 December	**3,982,858**	3,445,176	**2,015,138**	1,747,287
Less: Portion classified as current liabilities	**(699,378)**	(699,849)	**(358,399)**	(258,848)
Non-current portion	**3,283,480**	2,745,327	**1,656,739**	1,488,439

The amount of provision is estimated based on the costs of overhauls and actual flying hours/cycles of aircraft and engines under operating leases. The estimation basis is reviewed on an ongoing basis and revised whenever appropriate.

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36 LONG-TERM PAYABLES

An analysis of long-term payables at the end of the reporting period is as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Non-voting redeemable preference shares of a subsidiary	**114,892**	156,080
Others	**29,878**	52,107
	144,770	208,187
Less: Portion classified as current liabilities	**(51,698)**	(60,919)
Non-current portion	**93,072**	147,268

37 DEFERRED INCOME

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Frequent-flyer programme *(a)*	**3,010,284**	2,625,418	**1,973,153**	1,691,359
Government grants *(b)*	**705,566**	760,224	**677,691**	755,621
Gain on sale and lease back arrangements	**64,905**	74,144	**–**	–
Operating lease rebates	**16,746**	20,161	**–**	–
	3,797,501	3,479,947	**2,650,844**	2,446,980

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37 DEFERRED INCOME (Continued)

(a) The movements in deferred income related to the Group's frequent-flyer programme during the year are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**2,933,432**	2,692,271	**1,868,966**	1,849,999
Arising during the year	**1,727,556**	1,794,226	**1,476,108**	1,450,148
Recognised as air traffic revenue during the year	**(1,069,249)**	(1,553,065)	**(924,966)**	(1,431,181)
As at 31 December	**3,591,739**	2,933,432	**2,420,108**	1,868,966
Less: Portion classified as current liabilities	**(581,455)**	(308,014)	**(446,955)**	(177,607)
Non-current portion	**3,010,284**	2,625,418	**1,973,153**	1,691,359

(b) The movements in deferred income related to government grants during the year are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000* (Restated)	***RMB'000***	*RMB'000*
As at 1 January	**882,442**	1,190,985	**877,839**	1,184,860
Additions	**66,719**	750	**43,121**	–
Recognised as revenue during the year	**(121,377)**	(309,293)	**(121,051)**	(307,021)
As at 31 December	**827,784**	882,442	**799,909**	877,839
Less: Portion classified as current liabilities	**(122,218)**	(122,218)	**(122,218)**	(122,218)
Non-current portion	**705,566**	760,224	**677,691**	755,621

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38 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Issued capital *RMB'000*	Capital reserve *RMB'000*	Reserve funds *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
As at I January 2012	12,891,955	16,803,307	3,462,222	9,997,184	43,154,668
Total comprehensive income for the year	–	–	–	3,950,024	3,950,024
Dividends declared in respect of the previous year	–	–	–	(1,521,251)	(1,521,251)
Appropriation of statutory reserve funds	–	–	421,943	(421,943)	–
Transfer to reserve funds and others	–	–	679,126	(679,126)	–
As at 31 December 2012 and 1 January 2013	12,891,955	16,803,307	4,563,291	11,324,888	45,583,441
Issue of new shares	192,796	851,653	–	–	1,044,449
Total comprehensive income for the year	–	–	–	2,191,536	2,191,536
Dividends declared in respect of the previous year	–	–	–	(776,580)	(776,580)
Appropriation of statutory reserve funds	–	–	248,011	(248,011)	–
Transfer to reserve funds and others	–	–	421,943	(421,943)	–
As at 31 December 2013	**13,084,751**	**17,654,960**	**5,233,245**	**12,069,890**	**48,042,846**

Under the PRC Company Law and the Company's articles of association, profit after taxation as reported in the PRC statutory financial statements can only be distributed as dividends after allowances have been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory reserve fund of at least 10% of the after-tax profit, until the fund reaches 50% of the Company's registered capital (for the purpose of calculating transfers to reserves, profit after taxation would be the amount determined under CASs. The transfers to reserves should be made before any distribution of dividends to shareholders. The statutory reserve fund can be used to offset previous years' losses, if any, and part of the statutory reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company); and

(iii) allocations to the discretionary reserve fund if approved by the shareholders.

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38 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

As at 31 December 2013, in accordance with the PRC Company Law, an amount of approximately RMB20,963 million (2012: RMB20,112 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB5,233 million (2012: RMB4,563 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained earnings of approximately RMB12,134 million available for distribution as at 31 December 2013.

(b) Share Capital

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

	Number of shares 2013	**Nominal value 2013** *RMB'000*	Number of shares 2012	Nominal value 2012 *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	**8,329,271,309**	**8,329,272**	8,199,737,630	8,199,738
Trade-restricted *	**192,796,331**	**192,796**	129,533,679	129,534
	13,084,751,004	**13,084,751**	12,891,954,673	12,891,955

* The trade-restricted shares of 129,533,679 shares as at 31 December 2012 were issued on 12 November 2010 and desterilized on 12 November 2013. The trade-restricted shares of 192,796,331 shares as at 31 December 2013 were issued on 30 January 2013.

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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38 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Treasury shares

As at 31 December 2013, the Group owned 29.99% equity interest in Cathay Pacific, which in turn owned 20.13% 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.

(d) Dividends

	Company	
	2013	2012
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period	**592,870**	776,580
Final dividend in respect of the previous financial year, declared and paid during the year	**776,580**	1,521,251

In accordance with the Company's articles of association, the profit after taxation 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.

Pursuant to the shareholders' approval at the Annual General Meeting on 23 May 2013, a final dividend of RMB0.5935 (including tax) per ten shares totalling RMB777 million in respect of the year ended 31 December 2012 has been paid out in 2013.

Pursuant to a resolution passed at the Directors' meeting on 25 March 2014, a final dividend in respect of the year ended 31 December 2013 of RMB0.4531 (including tax) per ten shares totalling RMB593 million was proposed for shareholders' approval at the Annual General Meeting. As the final dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 31 December 2013.

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

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38 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management (Continued)

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods are as follows:

	2013	2012
	RMB'000	*RMB'000* (Restated)
Total liabilities	**147,537,099**	131,971,243
Total assets	**205,083,287**	185,283,484
Gearing ratio	**71.94%**	71.23%

39 SHARE APPRECIATION RIGHTS

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 31 December 2013 was RMB7,427,480 and a corresponding staff costs of RMB7,427,480 (note 7) was recognised during 2013.

40 CONTINGENT LIABILITIES

As at 31 December 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.

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40 CONTINGENT LIABILITIES (Continued)

(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, 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.

(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 these consolidated financial statements.

(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 31 December 2013, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB475,979,454 (31 December 2012: RMB547,015,640) and for pilot trainees' tuition loans amounting to RMB273,167,836 (31 December 2012: RMB346,954,579).

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's principal financial instruments, other than derivatives, comprise bank loans, loans from CNAF and corporate bonds, obligations under finance leases, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, mainly including principally interest rate swaps contracts. The purpose is to manage interest rate risk arising from the Group's operations.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

The Group operates globally and generates revenue in various currencies. The Group's airline operations are exposed to credit risk, liquidity risk, interest rate risk, foreign currency risk, and jet fuel price risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance.

Financial risk management policies are periodically reviewed and approved by the Board of Directors and they are summarised below.

(a) Credit risk

The following table sets forth the maximum credit exposure of the Group, within which loans and receivables granted and deposits are placed at carrying amount, net of any impairment losses, and derivatives are at current fair value. For financial guarantees and loan commitments, the maximum exposure represents the maximum amount the Group could be required to pay without consideration of the probability of the actual outcome.

	2013	2012
	RMB'000	*RMB'000* (Restated)
Cash and cash equivalents	**14,761,830**	11,787,943
Pledged deposits	**745,847**	802,941
Due from the ultimate holding company	**239,417**	223,047
Financial assets	**11,350**	12,671
Account receivables	**2,861,167**	2,744,103
Bills receivables	**131**	1,253
Other receivables	**2,874,967**	3,105,126
Deposits for aircraft under operating leases	**426,375**	443,539
Guarantees	**749,147**	893,970
Commitments	**95,141,050**	74,240,526
	117,811,281	94,255,119

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 27 to the financial statements.

The Group's cash and cash equivalents are deposited with banks in Mainland China, overseas banks and an associate. The Group has policies in place to limit the exposure to any single financial institution.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB1,069 million or 37% of accounts receivable as at 31 December 2013 (2012: RMB598 million or 22% of accounts receivable).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk

The Group's net current liabilities amounted to approximately RMB44,257 million as at 31 December 2013 (2012: RMB34,820 million (Restated)). The Group recorded a net cash inflow from operating activities of approximately RMB14,608 million for the year ended 31 December 2013 (2012: RMB9,689 million (Restated)). For the same period, the Group had a net cash outflow from investing activities of approximately RMB20,638 million (2012: RMB14,774 million (Restated)). The Group also recorded a net cash inflow from financing activities of approximately RMB9,271 million for the year ended 31 December 2013 (2012: cash outflow of RMB1,624 million (Restated)). The Group recorded an increase in cash and cash equivalents of approximately RMB3,241 million for the year ended 31 December 2013 and a decrease of approximately RMB3,461 million for the year ended 31 December 2012, respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB145,268 million as at 31 December 2013 (2012: RMB139,152 million), of which an amount of approximately RMB43,684 million was utilised (2012: RMB47,126 million).

The Directors of the Company had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2013. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2013 Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	**More than 1 year but less than 2 years** *RMB'000*	**More than 2 years but less than 5 years** *RMB'000*	**More than 5 years** *RMB'000*	**Total** *RMB'000*	**Carrying amount** *RMB'000*
Accounts payables	**10,349,535**	**–**	**–**	**–**	**10,349,535**	**10,349,535**
Due to the ultimate holding company	**36,729**	**–**	**–**	**–**	**36,729**	**36,729**
Financial liabilities included in other payables and accruals	**7,575,593**	**–**	**–**	**–**	**7,575,593**	**7,575,593**
Financial liabilities	**24,070**	**–**	**–**	**–**	**24,070**	**24,070**
Obligations under finance leases	**4,228,660**	**4,328,448**	**11,764,859**	**11,421,534**	**31,743,501**	**29,832,032**
Interest-bearing bank loans and other borrowings	**40,792,980**	**8,787,704**	**15,709,981**	**26,421,181**	**91,711,846**	**81,768,622**
Provision for major overhauls	**699,378**	**398,089**	**2,054,207**	**831,184**	**3,982,858**	**3,982,858**
Long-term payables	**51,698**	**–**	**93,072**	**–**	**144,770**	**144,770**
Guarantees	**749,147**	**–**	**–**	**–**	**749,147**	**749,147**
	64,507,790	**13,514,241**	**29,622,119**	**38,673,899**	**146,318,049**	**134,463,356**

	2012 (Restated) Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Accounts payables	9,849,718	–	–	–	9,849,718	9,849,718
Bills payables	1,503	–	–	–	1,503	1,503
Due to the ultimate holding company	28,970	–	–	–	28,970	28,970
Financial liabilities included in other payables and accruals	6,684,749	–	–	–	6,684,749	6,684,749
Financial liabilities	120,413	–	–	–	120,413	120,413
Obligations under finance leases	3,891,075	3,950,503	11,644,866	11,646,818	31,133,262	28,953,179
Interest-bearing bank loans and other borrowings	28,634,598	16,066,417	13,162,073	16,811,469	74,674,557	70,465,774
Provision for major overhauls	699,849	–	2,745,327	–	3,445,176	3,445,176
Long-term payables	60,919	–	147,268	–	208,187	208,187
Guarantees	893,970	–	–	–	893,970	893,970
	50,865,764	20,016,920	27,699,534	28,458,287	127,040,505	120,651,639

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2013 Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Accounts payables	7,631,767	–	–	–	7,631,767	7,631,767
Due to the ultimate holding company	36,729	–	–	–	36,729	36,729
Financial liabilities included in other payables and accruals	2,418,657	–	–	–	2,418,657	2,418,657
Financial liabilities	3,819	–	–	–	3,819	3,819
Obligations under finance leases	3,812,676	3,922,868	10,620,634	10,015,327	28,371,505	27,001,061
Interest-bearing bank loans and other borrowings	26,961,674	6,225,357	9,381,819	20,964,822	63,533,672	55,243,077
Provision for major overhauls	358,399	381,350	444,205	831,184	2,015,138	2,015,138
Guarantees	542,939	–	–	–	542,939	542,939
	41,766,660	10,529,575	20,446,658	31,811,333	104,554,226	94,893,187

	2012 Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Accounts payables	6,627,299	–	–	–	6,627,299	6,627,299
Financial liabilities included in other payables and accruals	2,161,956	–	–	–	2,161,956	2,161,956
Financial liabilities	86,375	–	–	–	86,375	86,375
Obligations under finance leases	3,657,710	3,731,010	11,023,691	10,974,625	29,387,036	27,597,216
Interest-bearing bank loans and other borrowings	19,382,250	13,812,117	7,606,427	11,993,310	52,794,104	49,081,729
Provision for major overhauls	258,848	–	1,488,439	–	1,747,287	1,747,287
	32,174,438	17,543,127	20,118,557	22,967,935	92,804,057	87,301,862

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps contract, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

(i) Interest rate profile

The following table sets out the carrying amounts, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	Group			
	2013		2012	
	Effective interest rate	***RMB'000***	Effective interest rate	*RMB'000*
Fixed rate:				
Obligations under finance leases	**1.61%-4.79%**	**8,836,576**	1.61%-4.79%	9,705,342
Interest-bearing bank loans and other borrowings	**2.57%-7.20%**	**27,616,521**	1.83%-7.92%	17,459,300
Time deposits	**1.35%-3.30%**	**(8,945,829)**	1.35%-4.20%	(8,125,089)
		27,507,268		19,039,553
Floating interest rate:				
Obligations under finance leases	**(1.57%)-6.55%**	**20,995,456**	(1.39%)-6.55%	19,247,837
Interest-bearing bank loans and other borrowings	**0.81%-8.46%**	**54,152,101**	0.85%-7.92%	53,006,474
Time deposits	**0.35%**	**(6,107,460)**	0.35%	(4,314,920)
		69,040,097		67,939,391
Total net borrowings		**96,547,365**		86,978,944
Net fixed rate borrowings as a percentage of total net borrowings		**28%**		22%

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

	Company			
	2013		2012	
	Effective interest rate	***RMB'000***	Effective interest rate	*RMB'000*
Fixed rate:				
Obligations under finance leases	**1.61%-4.79%**	**8,836,576**	1.61%-4.79%	9,705,342
Interest-bearing bank loans and other borrowings	**3.48%-5.30%**	**22,324,707**	3.80%-4.99%	13,864,444
Time deposits	**1.35%-3.30%**	**(1,139,788)**	1.35%-4.20%	(3,413,317)
		30,021,495		20,156,469
Floating interest rate:				
Obligations under finance leases	**(1.57%)-2.56%**	**18,164,485**	(1.39%)-2.77%	17,891,874
Interest-bearing bank loans and other borrowings	**0.86%-4.20%**	**32,918,370**	0.85%-4.97%	35,217,285
Time deposits	**0.35%**	**(5,384,308)**	0.35%	(1,049,217)
		45,698,547		52,059,942
Total net borrowings		**75,720,042**		72,216,411
Net fixed rate borrowings as a percentage of total net borrowings		**40%**		28%

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as a fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit for the year and equity (through the impact on floating rate borrowings) for the year (increase/(decrease)).

	Profit for the year *RMB'000*	**Equity** *RMB'000*
31 December 2013		
If interest rate of borrowings increases by 50 basis points	**(180,168)**	**(180,168)**
31 December 2012		
If interest rate of borrowings increases by 50 basis points	(182,593)	(182,593)

(d) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses to meet its foreign currency liabilities repayable within one year.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

Group

	Exposure to foreign currencies (expressed in RMB)					
	2013			2012(Restated)		
	US$	**EURO**	**HK$**	US$	EURO	HK$
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	**199,747**	**202,306**	**5,753**	215,850	182,713	30,067
Other receivables	**1,929,675**	**43,913**	**–**	1,081,207	87,942	530
Cash and cash equivalents	**2,456,185**	**136,369**	**1,829,219**	2,045,021	78,369	1,725,849
Accounts payable	**(1,589,986)**	**(236,302)**	**(85,501)**	(1,086,562)	(180,617)	(44,474)
Obligations under finance leases	**(28,641,486)**	**–**	**–**	(27,597,217)	–	–
Interest-bearing bank loans and other borrowings	**(49,555,872)**	**(164,725)**	**–**	(45,769,793)	(172,925)	(340,557)
Net exposure arising from recognised assets and liabilities	**(75,201,737)**	**(18,439)**	**1,749,471**	(71,111,494)	(4,518)	1,371,415

Company

	Exposure to foreign currencies (expressed in RMB)					
	2013			2012(Restated)		
	US$	**EURO**	**HK$**	US$	EURO	HK$
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	**149,508**	**192,414**	**2,116**	149,111	182,713	24,448
Other receivables	**1,554,624**	**43,913**	**–**	1,080,886	87,942	–
Cash and cash equivalents	**271,675**	**58,468**	**16,330**	169,061	70,485	6,621
Accounts payable	**(512,354)**	**(189,701)**	**(29,702)**	(1,060,430)	(180,615)	(40,769)
Obligations under finance leases	**(23,679,144)**	**–**	**–**	(24,270,585)	–	–
Interest-bearing bank loans and other borrowings	**(33,078,352)**	**(164,725)**	**–**	(35,068,247)	(172,925)	(340,557)
Net exposure arising from recognised assets and liabilities	**(55,294,043)**	**(59,631)**	**(11,256)**	(59,000,204)	(12,400)	(350,257)

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, EURO and HK$ exchange rate, with all other variables held constant, of the Group's profit for the year and equity (due to changes in the fair value of monetary assets and liabilities) for the year (increase/(decrease)):

31 December 2013	**Profit for the year** ***RMB'000***	**Equity** ***RMB'000***
If RMB appreciates against following currencies by 1%		
United States Dollars	**368,461**	**368,461**
Euros	**138**	**138**
Hong Kong Dollars	**(13,121)**	**(13,121)**
	355,478	**355,478**

31 December 2012	Profit for the year *RMB'000*	Equity *RMB'000*
If RMB appreciates against following currencies by 1%		
United States Dollars	448,198	448,198
Euros	91	91
Hong Kong Dollars	2,526	2,526
	450,815	450,815

(e) Jet fuel price risk

The Group's strategy for managing the risk on jet fuel price aims to provide the Group with protection against sudden and significant increases in prices.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in fuel price, with all other variables held constant and excluding the impact of fuel derivative contracts, of the Group's profit for the year and equity for the year (increase/(decrease)):

	Profit for the year *RMB'000*	**Equity** *RMB'000*
31 December 2013		
If jet fuel price increases by 5%	**(1,686,114)**	**(1,686,114)**
31 December 2012		
If jet fuel price increases by 5%	(1,781,998)	(1,781,998)

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	as at 31 December 2013			
	Fair value	**Level 1**	**Level 2**	**Level 3**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets				
– Interest rate swaps	**2,825**	**–**	**2,825**	**–**
– Listed equity securities	**8,525**	**8,525**	**–**	**–**
Financial liabilities:				
– Interest rate swaps	**24,070**	**–**	**24,070**	**–**

	as at 31 December 2012			
	Fair value	Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*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 year ended 31 December 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.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement (Continued)

(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.

(iii) 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 2013 and 2012.

42 COMMITMENTS

(a) Capital commitments

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000* (Restated)	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
– Aircraft and flight equipment	**92,775,903**	71,559,127	**66,968,722**	59,834,526
– Buildings	**1,279,595**	984,384	**550,376**	1,610,595
– Others	**24,726**	139,156	**24,726**	74,900
	94,080,224	72,682,667	**67,543,824**	61,520,021
Authorised, but not contracted for:				
– Buildings	**729,588**	1,252,531	**551,722**	706,211
– Others	**274,899**	152,500	**274,899**	152,500
	1,004,487	1,405,031	**826,621**	858,711
Total capital commitments	**95,084,711**	74,087,698	**68,370,445**	62,378,732

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42 COMMITMENTS (Continued)

(b) Investment commitment

The Group and the Company had the following amount of investment commitment as at the end of the reporting period:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
– Associates and joint ventures	**56,339**	66,428	**21,339**	31,428
– Others	**–**	86,400	**–**	86,400
	56,339	152,828	**21,339**	117,828

(c) Operating lease commitments

The Group and the Company lease certain office premises, aircraft and flight equipment under operating lease arrangements. Leases for these assets are negotiated for terms ranging from 1 to 16 years.

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within 1 year	**6,799,506**	3,827,974	**5,407,999**	2,661,068
After 1 year but within 5 years	**11,146,245**	8,758,228	**6,126,290**	4,730,749
Over 5 years	**8,285,770**	6,856,521	**6,013,629**	4,684,494
	26,231,521	19,442,723	**17,547,918**	12,076,311

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43 RELATED PARTY TRANSACTIONS

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

	Group 2013 RMB'000	2012 RMB'000 (Restated)
(i) Service provided to the CNAHC Group		
Sales commission income	15,325	14,223
Sale of cargo space	85,622	104,803
Government charter flights	379,688	503,879
Ground services income	2,154	2,605
Air catering income	15,466	10,194
Income from advertising media business	31,132	29,736
Interest income	62,734	61,123
Aircraft and flight equipment leasing income	246	278
Others	1,652	113
	594,019	726,954
(ii) Service provided by the CNAHC Group		
Sales commission expenses	3,276	3,910
Air catering charges	709,158	745,872
Airport ground services, take-off, landing and depot expenses	603,350	665,981
Repair and maintenance costs	216	63
Management fees	55,691	26,440
Lease charges for land and buildings	87,134	78,900
Other procurement and maintenance	104,534	61,311
Interest expenses	126,923	79,667
Media advertisement expenses	66,425	76,127
Construction management expenses	13,694	11,557
Others	1,016	1,665
	1,771,417	1,751,493

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43 RELATED PARTY TRANSACTIONS (Continued)

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

		Group	
		2013	2012
		RMB'000	*RMB'000*
			(Restated)
(iii)	Service provided to joint ventures and associates		
	Sales commission income	**13,751**	6,797
	Sale of cargo space	**37,112**	62,532
	Ground services income	**88,786**	71,533
	Aircraft maintenance income	**47,321**	12,820
	Air catering income	**8,722**	1,597
	Frequent-flyer programme income	**101,241**	5,705
	Lease income for land and buildings	**18,055**	18,231
	Aircraft and flight equipment leasing income	**25,582**	15,978
	Others	**8,066**	–
		348,636	195,193
(iv)	Service provided by joint ventures and associates		
	Sales commission expenses	**40,761**	51,439
	Air catering charges	**37,965**	32,621
	Airport ground services, take-off, landing and depot expenses	**184,413**	140,664
	Repair and maintenance costs	**2,372,370**	2,668,425
	Aircraft and flight equipment leasing fees	**616,249**	646,172
	Lease charges for land and buildings	**2,318**	2,896
	Other procurement and maintenance	**13,419**	5,751
	Purchase of aircraft and engines	**78,178**	112,186
	Frequent-flyer programme expenses	**4,173**	3,528
	Others	**13,884**	16,628
		3,363,730	3,680,310

The directors of the Company are of the opinion that the above transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

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

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43 RELATED PARTY TRANSACTIONS (Continued)

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

	31 December 2013 *RMB'000*	31 December 2012 *RMB'000* (Restated)
(v) Deposits, loans:		
Deposits placed with an associate	**2,126,326**	1,922,528
Loans from an associate *(note 34)*	**2,498,000**	2,050,000
(vi) Outstanding balances with related parties:		
Due from the ultimate holding company	**239,417**	223,047
Due from associates	**135,257**	371,646
Due from joint ventures	**18,977**	25,460
Due from other related companies	**61,385**	19,386
Due to the ultimate holding company	**36,729**	28,970
Due to associates	**300,983**	331,540
Due to joint ventures	**360,828**	464,314
Due to other related companies	**303,317**	361,319

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

(b) Guarantee with related parties

Group

Name of guarantor	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty Completed (Y/N)
Cathay Pacific	Air China Cargo	US$85,559,358.80	2013/12/16	2023/12/15	N

Company

Name of guarantor	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty Completed (Y/N)
The Company	Air China Cargo	US$89,051,577.52	2013/12/16	2023/12/15	N

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43 RELATED PARTY TRANSACTIONS (Continued)

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

	Group	
	2013	2012
	RMB'000	RMB'000
Compensation of key management		
Short term employee benefits	**11,009**	10,404
Post-employment benefits	**1,022**	858
Cash-settled share option expense	**1,450**	(237)
	13,481	11,025

Further details of the remuneration of the Directors and supervisors are included in note 11 to the financial statements.

(d) On 25 August 2004, CNACG entered into two licence agreements with CNAC pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect for the use of these trademarks during each of the two years ended 31 December 2013 and 2012.

(e) The Company entered into several agreements with CNAHC regarding the use of trademarks granted by the Company to CNAHC; the provision of financial services by CNAF; the provision of construction project management services by China National Aviation Construction and Development Company ("Aviation Construction & Development"); the subcontracting of charter flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; the media and advertising service arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance by China Aircraft Services Limited.

(f) Commitments

(i) Investment commitments

Pursuant to an equity investment agreement signed in 2009, a subsidiary of the Group commits to contribute paid-in capital of RMB45,000,000 to an associate. As at 31 December 2013, RMB10,000,000 had been paid and the outstanding commitment balance is RMB35,000,000.

Pursuant to an equity investment agreement signed in 2012, the Company commits to contribute paid-in capital of US$5,000,000 to a joint venture. As at 31 December 2013, US$1,500,000 had been paid and the outstanding commitment balance is US$3,500,000.

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43 RELATED PARTY TRANSACTIONS (Continued)

(f) Commitments (Continued)

(ii) Operating lease commitments

The Group lease certain aircraft, flight equipments, office premises and warehouses from related parties under operating lease arrangements. Leases for these assets are negotiated for terms within 1 year.

	Group	
	2013	2012
	RMB'000	*RMB'000*
Operating lease commitments to associates	**511,560**	458,504
Operating lease commitments to other related parties	**21,185**	102
	532,745	458,606

(iii) Capital commitments

According to the construction contracts between the Company and Aviation Construction & Development, the construction costs of RMB203,519,000 will be paid by the Company to Aviation Construction & Development in 2014. In addition, the Company has authorised but not contracted with Aviation Construction & Development for construction services fees of RMB508,194,000.

	Group	
	2013	2012
	RMB'000	*RMB'000*
Contracted, but not provided for:		
– Capital commitments to associates	**–**	78,263
– Capital commitments to other related parties	**203,519**	152,304
	203,519	230,567
Authorised, but not contracted for:		
– Capital commitments to other related parties	**508,194**	609,881

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43 RELATED PARTY TRANSACTIONS (Continued)

(g) 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 43(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.

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Jet fuel costs	**28,357,794**	28,993,259

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Accounts payable – jet fuel costs	**2,704,000**	1,778,230

Notes to the Financial Statements

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

44 COMPARATIVE FIGURES

As a result of the application of new accounting policies (see note 2), 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.

45 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 10, *Consolidated financial statements,* IFRS 12, *Disclosure of interests in other entities* and IAS 27 *Separate financial statements* *"Investment entities"*	1 January 2014
Amendments to IAS 32, *Financial instruments: presentation "Offsetting financial assets and financial liabilities"*	1 January 2014
Amendments to IAS 36, *Impairment of assets "Recoverable amount disclosures for non-financial assets"*	1 January 2014
Amendments to IAS 39, *Financial instruments: Recognition and measurement "Novation of derivatives and continuation of hedge accounting"*	1 January 2014
IFRIC 21, *Levies*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2013
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	2013 RMB'000	2012 RMB'000 (Restated)
Revenue from operations	97,628,253	99,840,551
Less: Cost of operations	82,645,652	80,774,145
Business taxes and surcharges	308,512	1,728,115
Selling expenses	7,199,337	6,894,474
General and administrative expenses	3,073,329	3,177,883
Finance costs	776,761	2,199,538
Impairment losses recognised/(reversed)	490,761	(240,999)
Add: Gains from movements in fair value	310	4,603
Investment income	825,087	345,001
Including: Share of profits less losses of associates and joint ventures	822,787	390,694
Profit from operations	3,959,298	5,656,999
Add: Non-operating income	880,463	1,447,782
Including: Gain on disposal of non-current assets	108,071	89,867
Less: Non-operating expenses	256,373	105,129
Including: Loss on disposal of non-current assets	206,209	26,788
Profit before taxation	4,583,388	6,999,652
Less: Taxation	913,456	1,603,099
Net profit	3,669,932	5,396,553
Net profit attributable to equity shareholders of the Company	3,318,613	4,910,159
Non-controlling interests	351,319	486,394
Earnings per share (RMB)		
Basic and diluted	0.27	0.40
Item that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures that may be reclassified subsequently to profit or loss	1,126,075	450,683
– Exchange realignment	(698,195)	4,510
Other comprehensive income for the year, net of tax	427,880	455,193
Total comprehensive income	4,097,812	5,851,746
Attributable to:		
Equity shareholders of the Company	3,762,389	5,364,657
Non-controlling interests	335,423	487,089

Consolidated Balance Sheet

At 31 December 2013

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

	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)
ASSETS		
Current assets		
Cash and bank balances	**15,507,677**	12,590,884
Financial assets at fair value through profit or loss	**11,350**	12,671
Bills receivable	**131**	1,253
Accounts receivable	**3,100,584**	2,967,150
Other receivables	**2,849,938**	3,103,008
Prepayments	**679,962**	623,754
Inventories	**1,044,617**	1,105,048
Held for sale	**994,413**	592,697
Other current assets	**1,236,939**	144,552
Total current assets	**25,425,611**	21,141,017
Non-current assets		
Long-term receivables	**451,404**	445,657
Long-term equity investments	**15,987,808**	14,947,723
Investment properties	**246,291**	229,824
Fixed assets	**123,988,709**	115,710,328
Construction in progress	**31,772,505**	25,977,975
Intangible assets	**2,864,299**	2,810,814
Goodwill	**1,102,185**	1,102,185
Long-term deferred expenses	**363,536**	296,613
Deferred tax assets	**3,159,535**	2,756,316
Total non-current assets	**179,936,272**	164,277,435
Total assets	**205,361,883**	185,418,452

Consolidated Balance Sheet

At 31 December 2013

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

	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans	22,821,013	16,787,697
Short-term bonds payable	700,000	1,500,000
Financial liabilities at fair value through profit or loss	24,070	120,413
Bills payable	–	1,503
Accounts payable	11,828,973	11,246,311
Domestic air traffic liabilities	1,785,306	1,566,686
International air traffic liabilities	2,676,142	2,310,101
Receipts in advance	133,112	162,884
Employee compensations payable	2,239,516	2,192,434
Taxes payable	711,649	444,972
Interest payable	712,165	352,515
Other payables	5,505,080	5,322,884
Non-current liabilities repayable within one year	20,507,235	13,802,983
Total current liabilities	69,644,261	55,811,383
Non-current liabilities		
Long-term loans	23,266,406	30,254,161
Corporate bonds	19,000,000	12,000,000
Long-term payables	3,376,552	2,892,595
Obligations under finance leases	25,972,715	25,476,607
Accrued liabilities	376,601	406,470
Deferred income	3,767,948	3,361,737
Deferred tax liabilities	2,014,407	1,561,424
Total non-current liabilities	77,774,629	75,952,994
Total liabilities	147,418,890	131,764,377
Shareholders' equity		
Issued capital	13,084,751	12,891,955
Capital reserve	18,318,568	16,492,312
Reserve funds	5,233,245	4,572,881
Retained earnings	21,245,364	19,374,375
Foreign exchange translation reserve	(3,727,738)	(3,045,439)
Equity attributable to shareholders of the Company	54,154,190	50,286,084
Non-controlling interests	3,788,803	3,367,991
Total shareholders' equity	57,942,993	53,654,075
Total liabilities and shareholders' equity	205,361,883	185,418,452

Supplementary Information

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRSs AND CASs

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Net profit attributable to shareholders of the Company under CASs		3,318,613	4,910,159
Deferred taxation	(i)	10,324	(4,103)
Differences in value of fixed assets and other non-current assets	(ii)	(153,952)	(146,174)
Government grants	(iii)	88,657	76,552
Others		–	(20,677)
Net profit attributable to shareholders of the Company under IFRSs		3,263,642	4,815,757

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Equity attributable to shareholders of the Company under CASs		54,154,190	50,286,084
Deferred taxation	(i)	103,711	93,387
Differences in value of fixed assets and other non-current assets	(ii)	(522,226)	(368,274)
Government grants	(iii)	(118,209)	(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		53,757,385	49,944,250

Notes:

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

(ii) The differences in the value of fixed assets and other non-current 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; (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 profit or loss 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 received before the Group adopted CASs. Therefore, in the Group's financial statements prepared in accordance with CASs, these government grants received were debited as the relevant assets and credited as capital reserve; and government subsidies were debited as cash and bank balances and credited as subsidy income in the profit or loss. Such differences are expected to be eliminated gradually through amortisation of deferred income to the profit or loss in future.

(iv) The difference was 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 annual 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
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Beijing Airlines"	Beijing Airlines Company Limited
"Board"	the board of directors of the Company
"CASs"	China Accounting Standards for Business Enterprises
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAF"	China National Aviation Finance Co., Ltd.
"CNAHC"	China National Aviation Holding Company
"CNAMC"	China National Aviation Media and Advertisement Co., Ltd
"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, its subsidiaries and joint ventures
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IASs"	International Accounting Standards
"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
"ppts"	percentage points
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisor(s)"	the supervisor(s) of the Company