



A STAR ALLIANCE MEMBER 

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London



Interim
Report

2016

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 Chengdu and Shanghai. With Star Alliance, our network covered 1,330 destinations in 193 countries as at 30 June 2016. Air China is dedicated to serve passengers with credibility, convenience, comfort and choice.

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

In addition, Air China also holds direct or indirect interests in the following airlines: Air China Cargo Company Limited, 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 Company Limited 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
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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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WEBSITE ADDRESS:

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DIRECTORS:

Cai Jianjiang
Song Zhiyong
Cao Jianxiong
Feng Gang
John Robert Slosar
Ian Sai Cheung Shiu
Pan Xiaojiang
Simon To Chi Keung
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:

Wang Zhengang
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:

DeHeng Law Offices (*as to PRC Law*)
Sullivan & Cromwell (Hong Kong) LLP
(*as to Hong Kong and English Law*)

INTERNATIONAL AUDITOR:

KPMG

H SHARE REGISTRAR AND TRANSFER OFFICE:

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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)	For the six months ended 30 June 2016	For the six months ended 30 June 2015 (Restated)	Change
Revenue	53,984,041	51,917,735	3.98%
Profit from operations	7,996,872	6,636,585	20.50%
Profit before taxation	5,039,086	5,796,649	(13.07%)
Profit after taxation (including profit attributable to non-controlling interests)	3,794,321	4,572,222	(17.01%)
Profit attributable to non-controlling interests	326,080	369,651	(11.79%)
Profit attributable to equity shareholders of the Company	3,468,241	4,202,571	(17.47%)
EBITDA ⁽¹⁾	14,669,546	12,903,849	13.68%
EBITDAR ⁽²⁾	18,172,792	15,873,506	14.49%
Earnings per share attributable to equity shareholders of the Company (RMB)	0.2821	0.3418	(17.47%)
Return on equity attributable to equity shareholders of the Company (%)	5.49	7.18	(1.69 pts)

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

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

(RMB'000)	30 June 2016	31 December 2015	Change
Total assets	225,386,590	213,631,150	5.50%
Total liabilities	155,258,157	147,108,397	5.54%
Non-controlling interests	7,004,320	6,774,742	3.39%
Equity attributable to equity shareholders of the Company	63,124,113	59,748,011	5.65%
Equity attributable to equity shareholders of the Company per share (RMB)	4.82	4.57	5.65%

SUMMARY OF OPERATING DATA

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

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/ (Decrease)
Capacity			
ASK (in millions)	113,386.98	102,881.35	10.21%
International	40,208.19	32,988.59	21.89%
Domestic	68,327.98	65,043.13	5.05%
Hong Kong, Macau and Taiwan	4,850.80	4,849.63	0.02%
AFTK (in millions)	6,288.85	5,818.22	8.09%
International	4,364.74	3,963.68	10.12%
Domestic	1,775.61	1,692.47	4.91%
Hong Kong, Macau and Taiwan	148.49	162.07	(8.38%)
ATK (in millions)	16,520.02	15,100.32	9.40%
Traffic			
RPK (in millions)	90,508.82	82,174.49	10.14%
International	30,807.10	25,530.84	20.67%
Domestic	56,108.92	53,283.15	5.30%
Hong Kong, Macau and Taiwan	3,592.80	3,360.50	6.91%
RFTK (in millions)	3,324.55	3,165.93	5.01%
International	2,501.98	2,380.04	5.12%
Domestic	768.32	729.67	5.30%
Hong Kong, Macau and Taiwan	54.25	56.22	(3.50%)
Passengers carried (in thousands)	46,856.75	43,672.35	7.29%
International	6,368.54	5,161.35	23.39%
Domestic	38,189.90	36,371.74	5.00%
Hong Kong, Macau and Taiwan	2,298.31	2,139.26	7.43%
Cargo and mail carried (tonnes)	834,700.39	798,319.55	4.56%
Kilometres flown (in millions)	623.16	567.31	9.84%
Block hours (in thousands)	995.17	906.32	9.80%
Number of flights	320,007	298,057	7.36%
International	42,410	34,509	22.90%
Domestic	259,609	245,693	5.66%
Hong Kong, Macau and Taiwan	17,988	17,855	0.74%
RTK (in millions)	11,370.57	10,472.65	8.57%



SUMMARY OF OPERATING DATA

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/ (Decrease)
Load factor			
Passenger load factor (RPK/ASK)	79.82%	79.87%	(0.05 ppts)
International	76.62%	77.39%	(0.77 ppts)
Domestic	82.12%	81.92%	0.20 ppts
Hong Kong, Macau and Taiwan	74.07%	69.29%	4.77 ppts
Cargo and mail load factor (RFTK/AFTK)	52.86%	54.41%	(1.55 ppts)
International	57.32%	60.05%	(2.72 ppts)
Domestic	43.27%	43.11%	0.16 ppts
Hong Kong, Macau and Taiwan	36.54%	34.69%	1.85 ppts
Overall load factor (RTK/ATK)	68.83%	69.35%	(0.52 ppts)
Daily utilisation of aircraft (block hours per day per aircraft)	9.58	9.48	0.10 hours
Yield			
Yield per RPK (RMB) (including fuel surcharge)	0.5219	0.5471	(4.60%)
International	0.4213	0.4816	(12.52%)
Domestic	0.5620	0.5622	(0.03%)
Hong Kong, Macau and Taiwan	0.7596	0.8055	(5.70%)
Yield per RPK (RMB) (excluding fuel surcharge)	0.4814	0.5039	(4.45%)
International	0.3061	0.3538	(13.50%)
Domestic	0.5620	0.5595	0.45%
Hong Kong, Macau and Taiwan	0.7272	0.7616	(4.52%)
Yield per RFTK (RMB) (including fuel surcharge)	1.1279	1.3649	(17.36%)
International	1.0849	1.2730	(14.78%)
Domestic	1.1862	1.5681	(24.35%)
Hong Kong, Macau and Taiwan	2.2845	2.6149	(12.63%)
Yield per RFTK (RMB) (excluding fuel surcharge)	0.9957	1.1088	(10.20%)
International	0.9511	0.9857	(3.51%)
Domestic	1.0891	1.4516	(24.98%)
Hong Kong, Macau and Taiwan	1.7288	1.8686	(7.48%)
Unit cost			
Operating cost per ASK (RMB)	0.4056	0.4401	(7.85%)
Operating cost per ATK (RMB)	2.7837	2.9987	(7.17%)

CHAIRMAN'S STATEMENT

In the first half of 2016, global economic recovery was slower than expected, the competition in the international passenger aviation market was intensified and the demand for cargo transport remained slack. The macro economy in China remained sound and healthy with consumption demand maintaining at a high growth rate. Amid the strong demand in the domestic aviation market, the Chinese aviation industry maintained a relatively faster pace of development. In our unwavering commitment to quality and operational excellence, the Group continues to be vigilant and responsive to market changes and remains steadfast in advancing the Company's strategies to maintain its industry leading profitability.

In the first half of 2016, the Group's fleet capacity measured in ATK reached 16,520 million and RTK reached 11,371 million, representing an increase of 9.40% and 8.57%, respectively, compared to the corresponding period last year. We carried 46.86 million passengers and 0.83 million tonnes of cargos and mails, representing an increase of 7.29% and 4.56%, respectively, compared to the corresponding period last year. Our revenue reached RMB53,984 million, representing an increase of 3.98% compared to the corresponding period last year. Our operating cost reached RMB45,987 million, representing an increase of 1.56% compared to the corresponding period last year, which was partially offset by a decrease of RMB2,332 million in fuel costs from the first six months in 2015. The Group achieved net profits attributable to equity shareholders of RMB3,468 million primarily due to the profitability in our main business, after being offset by a loss of RMB1,698 million arising from fluctuations in exchange rates.

Optimized capacity deployment and continuous yield enhancement. In the first half of 2016, the Group introduced 25 aircraft, including three 787-9 aircraft, and phased out 12 aircraft. The total fleet size was 603 aircraft with an average age of 6.26 years, and as a result, the alignment of our fleet and network was further improved. The Company closely followed the market changes to integrate new fleet structure and optimize fleet capacity deployment onto domestic and international routes. In response and in an effort to mitigate the impact from growing terrorism in Europe, we have reduced capacity in international low-yield long-haul routes in a timely manner and reallocated the deployment of wide-body aircraft to our primary domestic markets. We further improved yield management levels by aligning the passenger load factor with fare charges. As a result, we maintained our leading market share in the international aviation market and a stable pricing in the domestic market, which in turn, contributed to improvements in our yield.

Continuous advancement of hub network strategy and further optimization of global network structure. In the first half of 2016, the global network structure has further been enhanced with a 57% increase in international connecting passengers as our efforts in focussing on the hub network strategy and expansion of the route network have attended with pleasing results. To further strengthen the importance of the Beijing hub, we have increased the frequency of a number of international and domestic routes from Beijing to Manila, Bangkok, Fuzhou, Guiyang and other destinations, and commissioned "One Belt, One Road" routes from Beijing to Kumul, Turpan, Xichang and other destinations. We continued to build Shanghai into an international gateway through expansion of our domestic network connecting to Shanghai, and providing international connecting flights to passengers of our existing international routes. In our continuous efforts to develop Chengdu as a regional hub, we increased the frequency of a number of domestic routes to Ningbo, Korla and other destinations, thereby strengthening our competitive position in western region. To cater for the international travel demands of South China, the Company commissioned Shenzhen-Frankfurt and Shenzhen-Beijing-Los Angeles routes, which enabled the Company to further enhance its competitiveness in the region.



CHAIRMAN'S STATEMENT

Acceleration of business model transformation and continuation of sales channel management optimization. The Company has a clear business model transformation centred around a frequent flyer program, ancillary revenue and e-commerce business, to build an aviation travel and life ecosystem. In the first half of 2016, the total number of "Phoenix Miles" member amounted to 40.45 million, whose revenue contribution increased by 7.6% compared to the corresponding period last year. We have completed the integration of our call centre and frequent flyer service centre, which improved our membership e-services and lays a solid foundation for tapping into the commercial value of high-net-worth customers. We have expanded our ancillary revenue service system and the revenue generated from products such as paid seat selection, pre-paid baggage and paid upgrade increased by 18%. The Company continued to optimize and regulate its sales channels, with a substantial improvement in the sales capability of its e-commerce platforms (primarily through mobile applications), and a significant increase in direct sales proportionate to 37.4% of overall revenue, representing an increase of 10.4 percentage points over the corresponding period last year.

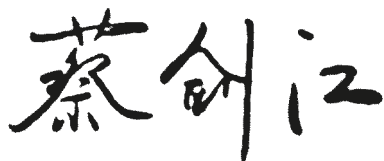
Enrichment of customer experience and continued enhancement of service quality. The Group endeavoured to enhance the quality of the traveller's full-trip service to improve the overall travel experience. In the first half of 2016, we focused on areas that mattered most to customers, such as improvements in handling luggage, irregular flights as well as ticket returns and refunds. We made further improvements in sending notifications and reminders to passengers before check-in so as to address the causes of the issues on number of irregular luggage. In addition, through strengthening flight operation controls and emergency management, large-scale flight delays were effectively controlled, with the ratio of on-schedule flights increased by 7.8 percentage points. Self-rescheduling and cancelling functions for irregular flights were added to the airport self check-in machines, website and mobile application, and ticket rescheduling and cancellation procedures were simplified. Ticket returns and refunds were more efficient with more than 85% direct sale tickets returned and refunded on the same day.

Improvement of resource deployment efficiency and management of financial risks. In the first half of 2016, the Company continuously deepened the joint application of crew resources and strengthened the pooling of MRO resources. The utilization efficiency of core resources was improved with an increase of 0.1 hours in aircraft utilisation over the corresponding period in 2015, which enabled the marginal contribution to be effectively increased. Due to fluctuations in the foreign exchange market, the Company further optimized aircraft introduction by moderately increasing the proportion of aircraft under operating leases, so as to slowdown the growth of US dollar long-term debt. Therefore, the scale of US dollar debt was controlled while residual value risk was avoided. We also enhanced the optimization and adjustment of our foreign debt structure. Our proportion of US dollar debt was reduced significantly so as to alleviate the pressure on foreign exchange losses.

CHAIRMAN'S STATEMENT

Cargo market remained gloomy with cargo business experiencing a loss. In the first half of 2016, due to the slowdown of the global economy and sluggish trade, air cargo prices experienced a continuous drop. Air China Cargo took active efforts to address the operational efficiency problem of long-distance air freighters, and optimized capacity deployment structure. We have strengthened the combined passenger and cargo services, established a passenger and cargo coordination network hub, promoted the sales of our cargo transition business and actively improved revenue increases in bellyhold space services. We have strengthened marketing management, focused on marketing upgraded products, and officially launched our line of new products. At the same time, we have accelerated the integration of logistics resources and the cargo terminal business to further advance the optimization of our cargo business model. We took various measures to mitigate against the unfavourable business environment, which in turn, effectively minimized the loss on our cargo business.

In the second half of 2016, the domestic air passenger market is expected to grow steadily with a continued high demand on outbound tourism. However, intensified industry competition and exchange rate fluctuations will remain. To adequately address the opportunities and challenges ahead, the Group will deepen reform with innovation, advance our strategic imperatives and transform our business model as we endeavour to achieve a greater performance.

A stylized, handwritten signature in black ink, consisting of three Chinese characters: 蔡 (Cai), 剑 (Jian), and 江 (Jiang).

Cai Jianjiang
Chairman

Beijing, PRC
30 August 2016



BUSINESS OVERVIEW

In the first half of 2016, the Group's ASKs reached 113,387 million and the RPKs reached 90,509 million, representing an increase of 10.21% and 10.14%, respectively, from the same period last year. The passenger load factor was 79.82%, representing a decrease of 0.05 percentage points from the same period last year. The Group's AFTKs reached 6,289 million and the RFTKs reached 3,325 million, representing an increase of 8.09% and 5.01%, respectively, from the same period last year. The Group's cargo and mail load factor was 52.86%, representing a decrease of 1.55 percentage points compared to the same period in 2015.

DEVELOPMENT OF FLEET

In the first half of 2016, the Group introduced 25 aircraft, comprising three B787-9, eight B737-800, ten A320 series, two B737-700 and two business jets, and phased out 12 aircraft, comprising one A340, one B757-200, six B737-800, three A320 series and one business jet. As of 30 June 2016, the Group has a total of 603 aircraft, with an average age of 6.26 years (excluding aircraft under wet leases).

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

	Sub-total	30 June 2016			Average age	Introduction plan		
		Self-owned	Finance leases	Operating leases		2016	2017	2018
Passenger aircraft	579	237	173	169	6.22	50	56	46
Of which:								
Airbus series	279	104	97	78	5.93	19	23	23
A319	42	27	9	6	10.40	0	5	0
A320/A321	184	64	71	49	5.07	17	12	15
A330	53	13	17	23	5.38	2	5	5
A350	0	0	0	0	0.00	0	1	3
Boeing series	300	133	76	91	6.49	31	33	23
B737	256	107	61	88	6.32	21	24	21
B747	11	9	2	0	8.46	0	0	0
B777	30	14	13	3	7.82	3	3	0
B787	3	3	0	0	0.06	7	6	2
Cargo aircraft	15	10	5	0	9.04	0	0	0
B747F	3	3	0	0	14.02	0	0	0
B757F	4	4	0	0	19.85	0	0	0
B777F	8	3	5	0	1.76	0	0	0
Business jets	9	1	0	8	4.51	0	0	0
Total	603	248	178	177	6.26	50	56	46

Among the aircraft set out above, the Company operated a fleet of 366 aircraft in total, with an average age of 6.41 years (excluding aircraft under wet leases). In the first half of 2016, the Company introduced 15 aircraft and phased out nine aircraft.

In the first half of 2016, the Company made new progress in hub network, sales and marketing, synergy and cooperation, product and services as well as cost controls.

BUSINESS OVERVIEW

HUB NETWORK

For our Beijing hub, we increased the capacity for routes such as Beijing – Manila and Beijing – Bangkok with outstanding contribution to the network, launched new domestic routes such as Beijing – Kumul – Turpan and Beijing – Xichang, and increased the frequencies of routes from Beijing to Guiyang, Lanzhou, Yinchuan, Fuzhou and Zhanjiang. We started to provide automatic all through luggage check-in services to passengers of domestic flight in five more cities, including Changzhou and Nantong, if such passengers would take our international connecting flights from Beijing. The number of transferable origin and destination points at Beijing increased to 5,690 pairs per week, representing an increase of 357 pairs compared to the same period last year. The number of transit onward passengers reached 2.896 million, representing an increase of 9.3% compared to the same period last year. We continue to enhance the transferable capabilities at Beijing hub. We increased the frequencies for routes from Shanghai international hub such as the routes from Shanghai to Changchun and Hohhot. We continued to improve our domestic routes network, and sought to feed more connecting passengers to our international flights. For our Chengdu regional hub, we increased the frequencies of routes from Chengdu to Changzhi, Yuncheng, Ningbo, Lanzhou and Korla, which effectively responded to the change in market demand in Western China and fortified Chengdu hub's significance as a regional hub. We launched new international and regional routes of Shenzhen – Frankfurt, Shenzhen – Beijing – Los Angeles, Chongqing – Dubai, Wenzhou – Seoul, Yangzhou – Taipei, and also launched new domestic routes from Guangzhou, Zhengzhou, Shanghai Pudong and Kunming. As a result, our global network continued to optimize.

As of 30 June 2016, the Company operated 377 passenger routes, including 263 domestic routes, 98 international routes and 16 regional routes. These routes covered 173 cities in 39 countries, including 108 domestic cities, 61 international cities and four regional cities. Through Star Alliance, the Company's network covers 1,330 destinations in 193 countries.

SALES AND MARKETING

We strive to enhance our direct sales system, which increased the proportion of direct sales. We also explored direct sales business in the overseas market, so as to strengthen the competitiveness of overseas marketing. We further standardized the agency sales agreement and focused on rectifying sales misconducts in the distribution channels. In the first half of 2016, direct sales revenue increased by 42.2% as compared to the same period last year with a direct sales ratio reaching 37.4%, representing an increase of 10.4 percentage points as compared to the same period last year. The total number of "Phoenix Miles" members reached 40.45 million, and contributed RMB12.50 billion to revenue, representing an increase of 7.6% as compared to the same period last year, and the revenue contributed by "Phoenix Miles" members accounted for 38.7% of our total air passenger revenue. The loyalty of frequent travelers to our brand was increased. In the first half of 2016, the travelling frequencies of high-net-worth members increased by 85% as compared to the same period last year, whilst revenue increased by 91% as compared to the same period last year. The loading factor for first class and business class increased by 3.1 percentage points as compared to the same period last year, and revenue increased by 3.3% as compared to the same period last year, reaching 16.8% of our total air passenger revenue. We integrated the business of the call centre and the frequent flyer customer service centre, and integrated the mobile applications of "Air China APP" and "Phoenix Miles Member APP", which optimized the resources for sales and marketing services. In the first half of 2016, the revenue from e-commerce reached RMB8.51 billion, representing an increase of 69% as compared with the same period last year. We promoted paid seat selection service (座享其程) in all international direct flights. Prepaid luggage products were expanded to 20 direct international flight routes departing from Beijing. The awareness on paid upgrade products was further improved. In the first half of 2016, the revenue from our value-added services amounted to RMB57.86 million in total. On 22 June 2016, World Brand Lab published the Top 500 Most Valuable Brand in China in 2016, and Air China ranked 23rd in the list with a brand value of RMB115.689 billion, representing an increase of RMB14,153 million in the brand value as compared with last year, and was the top among the civil aviation companies in China.



SYNERGY AND COOPERATION

The Company further strengthened the strategic synergies among all member airlines in terms of fleet, sales and marketing, aviation safety and MRO (maintenance, repair and operations). The joint cooperation mechanisms and the sharing platforms were further optimized. We commenced the wet lease of three B737-800 aircraft to Air China Inner Mongolia, which enhanced the competitiveness of member airlines in the base market. We further improved the business synergies with Shenzhen Airlines by promoting standardisation in terms of sales and development, agent administration and frequent flyer programmes, so as to enhance the brand recognition. We developed and tested the aviation safety monitoring platform for each member airlines, which is designed to monitor operation safety in a comprehensive and timely manner and as a result, we further promoted our safe operations. We improved the synergy in terms of the MRO among all member airlines, and the resource pooling in terms of the MRO exceeded RMB550 million in the first half of 2016.

We continued to develop our cooperation with external parties. We agreed on the fundamental principles with Lufthansa and made substantial progress in terms of the contemplated joint operating arrangements. We commenced channel marketing and sales motivation jointly with Air New Zealand. We explored code-sharing services with United Airlines of United States and Singapore Airlines as well as cooperation in terms of corporate clients. At the passenger terminals in Paris, Geneva and Barcelona, we launched the fast track immigration clearance services, and participated in the passenger terminals joint operating project "Under One Roof" of Star Alliance. As to interline settlement with Lufthansa and Air New Zealand, we determined the system development plan and proceeded to build the system platform so as to explore more potentials from the system.

PRODUCT AND SERVICES

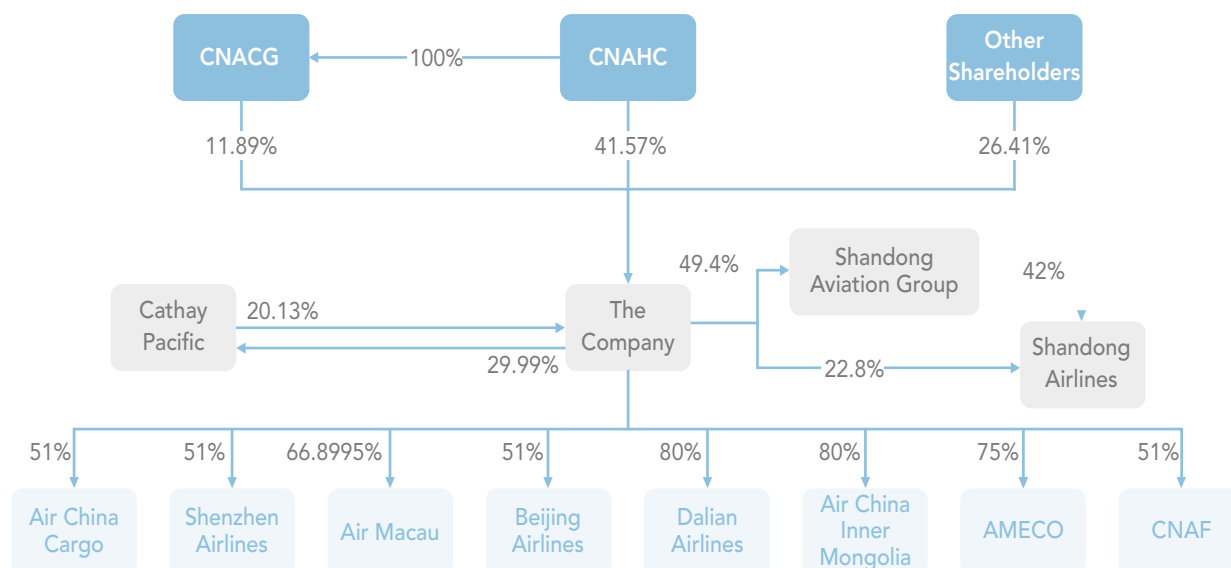
We have promoted the concept of easy travelling and new mobile and Internet technologies. We expanded the coverage of websites and mobile apps. In the first half of 2016, we expanded our online check-in services to another 13 terminals and for 11 international routes departing from Beijing. The self-help check-in terminals were upgraded and family check-in function was added to such terminals, which handled the procedures for passenger and luggage check-in in a one-stop manner. 17 items in the standards and workflows on serving passengers with special needs were optimised, and the customer self-service workflows for passengers with special needs were streamlined. The efficiencies in return and refund of tickets were improved. 85% of return tickets from direct selling channels were handled on the same day. The transfer services and the implementing measures were enhanced and the closed cycle workflow on round-the-clock transfer service was improved. We introduced friendly reminder cards for transit passengers, so as to improve the efficiencies in transit of passengers and luggage as well as travelling experiences. The first class lounge T3C and business class lounge at the Beijing Capital Airport were expanded, thereby improving the branding and services of these lounges. We also launched innovative services such as electronic window, wash room with view and state-of-the-art entertainment systems, which demonstrated the premium experience in travelling on 787-9 aircraft. We accelerated the building of in-flight Internet and continued to promote the use of satellite Internet. The project on flights carrying KU satellite dual-mode antenna projects was commenced in narrow-body aircraft, so as to provide passengers with live television broadcasting service via in-flight Internet. We cooperated with the State Administration of Radio, Film and Television and successfully held the event of "Celebrating the Lunar New Year Festival Eve in the Air (萬米高空看春晚)". The quality of our services has been enhanced steadily and the customer experience throughout their trips has been improved.

BUSINESS OVERVIEW

COST CONTROLS

We further strengthened the cost management in terms of efficiency improvement, cost controls and optimization of debt structure. We strengthened the management over the courses of training, and further explored the synergy of crew member resources as a whole in order to cater for the market demand proactively. The sharing of crew member resources amounted to 82,000 hours and the average utilization rate of the fleet was increased by 0.7 percentage points as compared to the same period last year. We enhanced pooling of MRO resources, which arranged the repair of depot in a reasonable manner. The utilization rates of passenger and cargo aircraft were improved by 0.8 and 1.9 percentage points, respectively. We further explored operation optimization management in terms of second dispatch, route optimisation, reduced utilization hours of APU, which increased our operation efficiency and reduced our operation costs. Upon the shift in sales channels from "Increasing Direct Sales Ratio and Reducing Agency Costs", the amount of agency expenses reduced by RMB647 million, representing a decrease of 41% from the same period last year. We enhanced the management and control mechanisms for in-flight catering services, improved the layover accommodation for crew members in the event of flight delays, and sought to reduce our operation costs by various means. We imposed strict control over routine expenses and expenditures, which reduced non-operational related allowances and management expenses. We adjusted our aircraft introduction plan, which mitigated the growth rate of long-term US dollar denominated debts, so that we maintained a manageable size of US dollar denominated debts while controlling over the risks of residual values. Our debt structures were optimized as we improved capital efficiency and sought to reduce exchange losses.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS





(1) Air China Cargo

Air China Cargo was established in 2003. In 2011, Air China Cargo became a joint venture held by Air China and Cathay Pacific with a registered capital of RMB3,235,294,118. Air China holds 51% of its equity interest. In 2014, Air China and Cathay Pacific subscribed for an additional amount of registered capital of RMB2 billion in Air China Cargo in proportion to their respective shareholdings in Air China Cargo. Upon completion of the capital injection, the registered capital of Air China Cargo increased to RMB5,235,294,118.

As at 30 June 2016, Air China Cargo operated a fleet of 15 aircraft with an average age of 9.04 years.

In the first half of 2016, the AFTKs of Air China Cargo reached 5,813 million, representing an increase of 6.82% as compared to the same period last year. Its RFTKs reached 3,041 million, representing an increase of 4.46% as compared to the same period last year. The volume of cargo and mail was 0.6577 million tonnes, representing an increase of 3.25% as compared to the same period last year. The cargo and mail load factor was 52.31%, representing a decrease of 1.18 percentage points as compared to the same period last year.

In the first half of 2016, Air China Cargo's revenue was RMB4,050 million, representing a decrease of 7.78% as compared to the same period last year, of which, cargo and mail transportation revenue amounted to RMB3,574 million, representing a decrease of 6.00% as compared to the same period last year. The loss was RMB243 million. The profit after taxation of the same period of last year was RMB108 million.

(2) Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB812.5 million. Air China holds 51% of its equity interest.

As at 30 June 2016, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 182 aircraft with an average age of 5.82 years. In the first half of 2016, six aircraft was introduced, and two aircraft was phased out.

In the first half of 2016, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 27,914 million, representing an increase of 10.69% as compared to the same period last year. Its RPKs reached 23,048 million, representing an increase of 11.32% as compared to the same period last year. Shenzhen Airlines (including Kunming Airlines) carried 15.0940 million passengers, representing an increase of 9.37% as compared to the same period last year. The average passenger load factor was 82.57%, representing an increase of 0.46 percentage points as compared to the same period last year.

In terms of air cargo, the AFTKs of Shenzhen Airlines (including Kunming Airlines) reached 402 million, representing an increase of 25.99% as compared to the same period last year. Its RFTKs reached 259 million, representing an increase of 10.56% as compared to the same period last year. The volume of cargo and mail carried by Shenzhen Airlines was 0.1581 million tonnes, representing an increase of 8.80% as compared to the same period last year, while the cargo and mail load factor was 64.32%, representing a decrease of 8.98 percentage points as compared to the same period last year.

In the first half of 2016, Shenzhen Airlines recorded a revenue of RMB12,413 million, representing an increase of 7.84% as compared to the same period last year, of which, air traffic revenue amounted to RMB11,891 million, representing an increase of 8.65% as compared to the same period last year. The profit attributable to equity shareholders for the period was RMB773 million, representing an increase of 40.73% as compared to the same period last year.

BUSINESS OVERVIEW

(3) Air Macau

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

As at 30 June 2016, Air Macau operated a fleet of 17 aircraft with an average age of 7.14 years. In the first half of 2016, two new aircraft was introduced and three was phased out.

In the first half of 2016, the ASKs of Air Macau reached 3,215 million, representing an increase of 16.97% as compared to the same period last year. Its RPKs reached 2,333 million, representing an increase of 27.79% as compared to the same period last year. It carried a total of 1.3745 million passengers, representing an increase of 26.14% as compared to the same period last year, with an average passenger load factor of 72.58%, representing an increase of 6.14 percentage points as compared to the same period of last year.

In terms of air cargo, the AFTKs of Air Macau reached 51.4808 million, representing an increase of 17.61% as compared to the same period last year. Its RFTKs reached 13.4933 million, representing an increase of 10.18% as compared to the same period last year. It carried 8,796.38 tonnes of cargo and mail, representing an increase of 6.35% as compared to the same period last year. The cargo and mail load factor was 26.21%, representing a decrease of 1.77 percentage points as compared to the same period last year.

In the first half of 2016, Air Macau recorded a revenue of RMB1,300 million, representing an increase of 8.29% as compared to the same period last year, of which, air traffic revenue amounted to RMB1,264 million, representing an increase of 8.97% as compared to the same period last year. The loss was RMB38 million. The profit after taxation of the same period of last year was RMB1 million.

(4) Beijing Airlines

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

As at 30 June 2016, Beijing Airlines operated a fleet of eight entrusted business jets and one self-owned business jet with an average age of 4.51 years. Two new entrusted jets were introduced and one aircraft was phased out in the first half of 2016.

In the first half of 2016, Beijing Airlines completed 213 flights, representing a decrease of 4.91% as compared to the same period last year. It completed 629.40 flying hours, representing a decrease of 2.40% as compared to the same period last year. It carried a total of 1,528 passengers, representing a decrease of 14.54% as compared to the same period last year.

In the first half of 2016, Beijing Airlines recorded a revenue of RMB53 million, representing a decrease of 28.52% as compared to the same period last year, of which, charter service revenue amounted to RMB24 million, representing a decrease of 27.27% as compared to the same period last year. Profit after taxation was RMB1 million, representing a decrease of 92.82% as compared to the same period last year.



(5) Dalian Airlines

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

As at 30 June 2016, Dalian Airlines operated a fleet of eight aircraft with an average age of 4.46 years.

In the first half of 2016, the ASKs of Dalian Airlines reached 1,157 million, representing an increase of 12.63% as compared to the same period last year. Its RPKs reached 970 million, representing an increase of 14.20% as compared to the same period last year. It carried a total of 0.9517 million passengers during the period, representing an increase of 20.00%, with an average passenger load factor of 83.84%, representing an increase of 1.15 percentage points as compared to the same period last year.

In terms of air cargo, the AFTKs of Dalian Airlines reached 15.6292 million, representing an increase of 38.26% as compared to the same period last year. Its RFTKs reached 6.9739 million, representing a decrease of 2.06% as compared to the same period last year. It carried a total of 6,299.77 tonnes of cargo and mail during the period, representing an increase of 2.37% as compared to the same period last year. Its cargo and mail load factor was 44.62%, representing a decrease of 18.36 percentage points as compared to the same period last year.

In the first half of 2016, Dalian Airlines recorded a revenue of RMB610 million, all of which was air traffic revenue, representing an increase of 11.19% as compared to the same period last year. Profit after taxation was RMB62 million, representing an increase of 28.15% as compared to the same period last year.

(6) Air China Inner Mongolia

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

As at 30 June 2016, Air China Inner Mongolia operated a fleet of six aircraft (including three aircraft under wet leases from the Company) with an average age of 5.93 years.

In the first half of 2016, the ASKs of Air China Inner Mongolia reached 566 million, representing an increase of 179.50% as compared to the same period last year. Its RPKs reached 456 million, representing an increase of 176.81% as compared to the same period last year. It carried a total of 0.4606 million passengers in the first half of 2016, representing an increase of 111.80% as compared to the same period last year, with an average passenger load factor of 80.67%, representing a decrease of 0.79 percentage points as compared to the same period last year.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 6.4213 million, representing an increase of 235.11% as compared to the same period last year. Its RFTKs reached 4.4121 million, representing an increase of 219.94% as compared to the same period last year. The amount of cargo and mail carried by Air China Inner Mongolia was 3,823.68 tonnes, representing an increase of 134.37% as compared to the same period last year, with a cargo and mail load factor of 68.71%, representing a decrease of 3.26 percentage points as compared to the same period last year.

In the first half of 2016, Air China Inner Mongolia recorded a revenue of RMB376 million, representing an increase of 133.17%, of which, air traffic revenue amounted to RMB369 million, representing an increase of 131.35% as compared to the same period last year. Profit after taxation was RMB54 million, representing an increase of 1,386.11% as compared to the same period last year.

BUSINESS OVERVIEW

(7) AMECO

AMECO was established in 1989 with Air China holding 60% of its equity interest. In 2015, the two shareholders of AMECO, Air China and Lufthansa, have jointly restructured the shareholding structure of AMECO. Upon the completion of the restructuring, the registered capital of AMECO became US\$300,052,800, with Air China holding 75% of its equity interest.

In the first half of 2016, AMECO recorded a revenue of RMB3,132 million and profit after taxation amounted to RMB30 million.

(8) CNAF

CNAF was established in 1994 with Air China holding 19.31% of its equity interest. In 2015, Air China and CNAHC restructured the shareholding structure in CNAF. Upon the completion of the restructuring, the registered capital of CNAF became RMB1,127,961,864 with Air China holding 51% of its equity interest.

In the first half of 2016, CNAF recorded a revenue of RMB88 million, same as that for the first half of last year, and profit after taxation amounted to RMB45 million, representing an increase of 6.14% as compared to the same period last year.

(9) Cathay Pacific

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

As at 30 June 2016, Cathay Pacific operated a fleet of 200 aircraft. One aircraft was introduced and two were phased out during the first half of 2016.

In the first half of 2016, the ASKs of Cathay Pacific reached 72,647 million, representing an increase of 4.24% as compared to the same period last year. Its RPKs reached 61,368 million, representing an increase of 2.56% as compared to the same period last year. A total of 17.2486 million passengers were carried, representing an increase of 2.67% as compared to the same period last year, with an average passenger load factor of 84.47%, representing a decrease of 1.39 percentage points as compared to the same period last year.

In terms of air cargo, the AFTKs of Cathay Pacific reached 8,021 million, representing an increase of 0.63% as compared to the same period last year. Its RFTKs reached 4,990 million, representing a decrease of 2.29% as compared to the same period last year. It carried a total of 0.8659 million tonnes of cargo and mail in the first half of 2016, representing a decrease of 0.26% as compared to the same period last year. The cargo and mail load factor was 62.21%, representing a decrease of 1.85 percentage points as compared to same period last year.

In the first half of 2016, Cathay Pacific recorded a revenue of RMB38,658 million, representing a decrease of 2.73% as compared to the same period last year, of which, air traffic revenue amounted to RMB36,242 million, representing a decrease of 3.47% as compared to the same period last year. The profit attributable to equity shareholders was RMB299 million, representing a decrease of 80.77% as compared to the same period last year.



(10) Shandong Airlines

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

As at 30 June 2016, Shandong Airlines operated a fleet of 93 aircraft (excluding two aircraft on wet leases to Air China) with an average age of 4.44 years. Five aircraft were introduced during the first half of 2016.

In the first half of 2016, the ASKs of Shandong Airlines reached 15,817 million, representing an increase of 23.17% as compared to the same period last year. Its RPKs reached 12,035 million, representing an increase of 22.78% as compared to the same period last year. It carried a total of 8.4246 million passengers, representing an increase of 13.26% as compared to the same period last year. Its average passenger load factor was 76.09%, representing a decrease of 0.24 percentage points as compared to the same period last year.

In terms of air cargo, the AFTKs of Shandong Airlines reached 285 million, representing an increase of 2.01% as compared to the same period last year. Its RFTKs reached 112 million, representing an increase of 15.55% as compared to the same period last year. It carried a total of 0.0705 million tonnes of cargo and mail, representing an increase of 9.30% as compared to the same period last year. The cargo and mail load factor was 39.32%, representing an increase of 4.61 percentage points as compared to the same period last year.

In the first half of 2016, Shandong Airlines recorded a revenue of RMB6,310 million, representing an increase of 10.43% as compared to the same period last year, of which, air traffic revenue amounted to RMB6,124 million, representing an increase of 9.51% as compared to the same period last year. The profit attributable to equity shareholders was RMB284 million, representing an increase of 30.85% as compared to the same period last year.

EMPLOYEES

As at 30 June 2016, we had a total of 27,442 employees, and our subsidiaries had a total of 56,932 employees.

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

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

PROFIT ANALYSIS

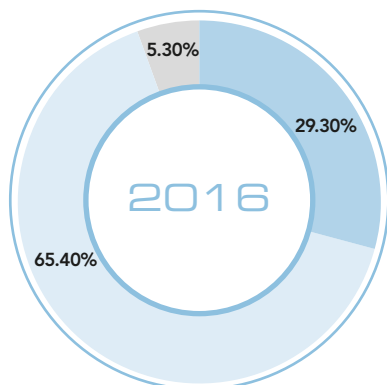
For the six months ended 30 June 2016, the Group proactively reacted to the changes in the competitive landscape in the market and market demand by adopting measures including optimising production arrangement, enhancing marketing capabilities and resources utilization efficiencies as well as strengthening cost control. We recorded profits from operations of RMB7,997 million, representing an increase of 20.50% as compared to the same period last year. The Group recorded profit attributable to equity shareholders of the Company of RMB3,468 million, representing a decrease of 17.47% as compared to the same period last year.

REVENUE

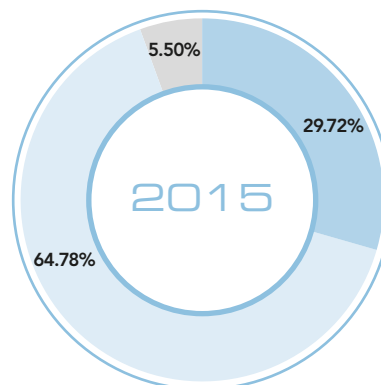
For the six months ended 30 June 2016, the Group's revenue was RMB53,984 million, representing an increase of RMB2,066 million, or 3.98%, as compared with that of the same period last year. Among the total revenue, revenue from our air traffic operations contributed RMB51,013 million, representing an increase of RMB1,703 million, or 3.45%, over the same period last year. Other operating revenue was RMB2,971 million, representing an increase of RMB363 million, or 13.93%, as compared with that of the same period last year.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

(in RMB'000)	For the six months ended 30 June 2016		2015 (Restated)		Change
	Amount	Percentage	Amount	Percentage	
International	15,816,461	29.30%	15,432,236	29.72%	2.49%
Domestic	35,306,967	65.40%	33,629,335	64.78%	4.99%
Hong Kong, Macau and Taiwan	2,860,613	5.30%	2,856,164	5.50%	0.16%
Total	53,984,041	100.00%	51,917,735	100.00%	3.98%



- International
- Domestic
- Hong Kong, Macau and Taiwan





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

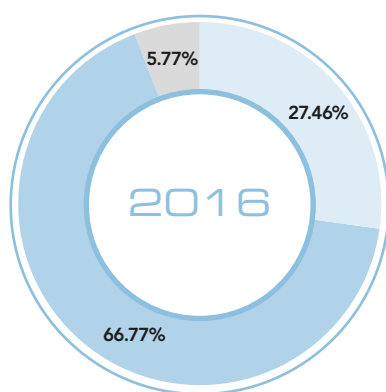
AIR PASSENGER REVENUE

For the six months ended 30 June 2016, the Group recorded an air passenger revenue of RMB47,263 million, representing an increase of RMB2,274 million, or 5.06%, over the same period of 2015. Among the Group's air passenger revenue, the increase in capacity contributed to an increase of RMB4,594 million, while the decrease in passenger load factor and passenger yield resulted in a decrease in revenue of RMB31 million and RMB2,289 million, respectively. The Group's capacity, load factor and passenger yield of our passenger operations for the six months ended 30 June 2016 are as follows:

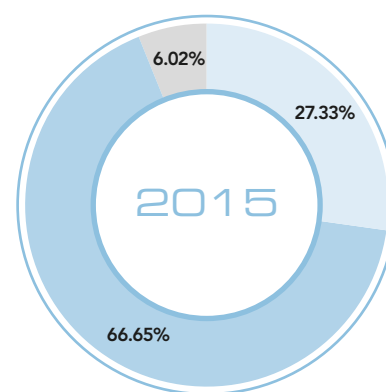
	For the six months ended 30 June		
	2016	2015	Change
Available seat kilometres (million)	113,386.98	102,881.35	10.21%
Passenger load factor (%)	79.82	79.87	(0.05 pts)
Yield per RPK (RMB)	0.5219	0.5471	(4.60%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

For the six months ended 30 June					
(in RMB'000)	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
International	12,978,371	27.46%	12,295,384	27.33%	5.55%
Domestic	31,555,519	66.77%	29,986,433	66.65%	5.23%
Hong Kong, Macau and Taiwan	2,729,169	5.77%	2,706,958	6.02%	0.82%
Total	47,263,059	100.00%	44,988,775	100.00%	5.06%



■ International
■ Domestic
■ Hong Kong, Macau and Taiwan



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

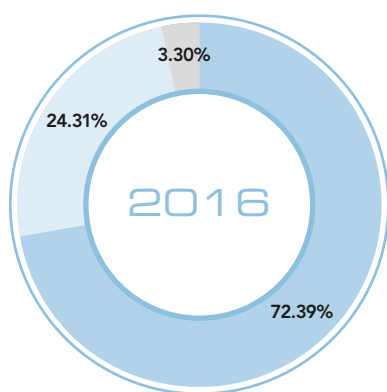
AIR CARGO REVENUE

For the six months ended 30 June 2016, the Group's air cargo and mail revenue was RMB3,750 million, representing a decrease of RMB571 million, or 13.22%, from the same period in 2015. Among the Group's air cargo and mail revenue, the increase in capacity and decrease in cargo and mail load factor contributed to an increase in revenue of RMB350 million and a decrease of RMB133 million respectively, while the decrease in yield of cargo and mail resulted in a decrease in revenue of RMB788 million. The capacity, load factor and yield of our cargo and mail operations for the six months ended 30 June 2016 are as follows:

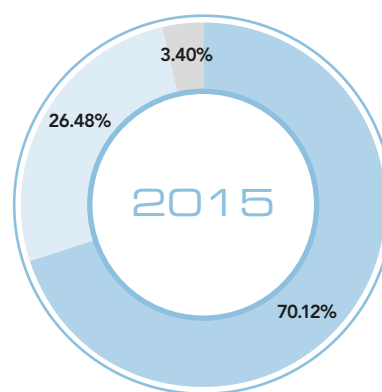
	For the six months ended 30 June		Change
	2016	2015	
Available freight tonne kilometres (million)	6,288.85	5,818.22	8.09%
Cargo and mail load factor (%)	52.86	54.41	(1.55 pts)
Yield per RFTK (RMB)	1.1279	1.3649	(17.36%)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June 2016		For the six months ended 30 June 2015		Change
	Amount	Percentage	Amount	Percentage	
International	2,714,438	72.39%	3,029,893	70.12%	(10.41%)
Domestic	911,409	24.31%	1,144,181	26.48%	(20.34%)
Hong Kong, Macau and Taiwan	123,945	3.30%	147,008	3.40%	(15.69%)
Total	3,749,792	100.00%	4,321,082	100.00%	(13.22%)



■ International
■ Domestic
■ Hong Kong, Macau and Taiwan





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

OPERATING EXPENSES

For the six months ended 30 June 2016, the Group's operating expenses were RMB45,987 million, representing an increase of 1.56% as compared to RMB45,281 million recorded in the same period of 2015. The breakdown of the operating expenses is set out below:

(in RMB'000)	For the six months ended 30 June 2016		2015 (Restated)		Change
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	9,727,175	21.15%	12,059,145	26.63%	(19.34%)
Take-off, landing and depot charges	6,166,595	13.41%	5,563,306	12.29%	10.84%
Depreciation and amortisation	6,672,674	14.51%	6,267,264	13.84%	6.47%
Aircraft maintenance, repair and overhaul costs	2,514,900	5.47%	1,935,921	4.28%	29.91%
Employee compensation costs	9,416,298	20.48%	8,106,626	17.90%	16.16%
Air catering charges	1,563,934	3.40%	1,452,676	3.21%	7.66%
Selling and marketing expenses	2,067,576	4.50%	2,587,719	5.71%	(20.10%)
General and administrative expenses	520,892	1.13%	445,095	0.98%	17.03%
Others	7,337,125	15.95%	6,863,398	15.16%	6.90%
Total	45,987,169	100.00%	45,281,150	100.00%	1.56%

In particular:

- Jet fuel costs decreased by RMB2,332 million, or 19.34%, from the corresponding period in the previous year, mainly due to the decrease in jet fuel price.
- Take-off, landing and depot charges increased by RMB603 million over the same period of 2015, primarily due to an increase in the number of take-offs and landings.
- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft during the reporting period.
- Aircraft maintenance, repair and overhaul costs increased by RMB579 million, or 29.91% over the same period last year, due to the expansion of fleet.
- Employee compensation costs increased by RMB1,310 million, mainly due to the consolidation of AMECO on 31 May 2015, as well as an increase in the number of employees and the adjustment of employee compensation standard.
- Air catering charges increased by RMB111 million, mainly due to the increase in the number of passengers.
- Sales and marketing expenses decreased by RMB520 million as compared to the same period last year, mainly due to the Group's efforts in actively raising the proportion of direct sales and vigorously lowering agency fee expenses.

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

- General and administrative expenses increased by RMB76 million as compared to the same period last year, mainly due to the consolidation of AMECO on 31 May 2015.
- 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 6.90% as compared to the same period last year, mainly due to an increase in the operating lease expenses of aircraft engines and buildings and contributions to the civil aviation development fund for the reporting period as compared to the same period last year.

FINANCE INCOME AND FINANCE COSTS

For the six months ended 30 June 2016, the Group recorded a net exchange loss of RMB1,698 million, representing an increase of RMB1,575 million as compared to the same period in 2015, which was mainly due to the larger appreciation in the exchange rate of US dollars against RMB during the reporting period as compared to the same period last year. The Group incurred interest expenses (excluding the capitalised portion) of RMB1,584 million during the period, representing an increase of RMB158 million over the same period last year, which was mainly due to the growth in interest-bearing liabilities of the Group during the reporting period as compared to the same period last year.

SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2016, the Group's share in the profits of its associates was RMB162 million, representing a decrease of RMB267 million as compared to the share in the profits of associates of RMB429 million for the same period of 2015, mainly due to the decrease in the profits of Cathay Pacific, an associate of the Group, during the reporting period. We recorded a loss on investment of Cathay Pacific of RMB70 million, as compared to a gain on investment of RMB300 million in the same period last year.

For the six months ended 30 June 2016, the Company's share in the profits of its joint ventures was RMB98 million, as compared to a share in the profits of joint ventures of RMB210 million for the same period of 2015, representing a decrease of RMB112 million as compared to the same period last year. This was mainly due to the cessation in recognition of gains on investment in AMECO, originally a joint venture of the Company, which became a subsidiary of the Company, whilst a gain on investment of RMB113 million in AMECO was recognized for the same period last year.

ANALYSIS OF ASSETS STRUCTURE

As at 30 June 2016, the total assets of the Group amounted to RMB225,387 million, representing an increase of 5.50% from 31 December 2015, among which current assets accounted for RMB20,891 million, or 9.27% of the total assets, while non-current assets accounted for RMB204,496 million, or 90.73% of the total assets.

Among the current assets, cash and cash equivalents were RMB7,864 million, representing an increase of 10.17% from 31 December 2015. Accounts receivable amounted to RMB3,510 million, representing an increase of 7.91% as compared with 31 December 2015. Among the non-current assets, the net book value of property, plant and equipment as at 30 June 2016 was RMB157,231 million, representing an increase of 0.79% from 31 December 2015.



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

ASSETS MORTGAGE

As at 30 June 2016, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB98,525 million (approximately RMB106,171 million as at 31 December 2015) and land use rights with a net book value of approximately RMB35 million (approximately RMB36 million as at 31 December 2015). At the same time, the Group had approximately RMB534 million (approximately RMB655 million as at 31 December 2015) in bank deposits with title being restricted, of which approximately RMB431 million were deposited as reserves at the People's Bank of China, approximately RMB103 million of bank deposits were pledged for certain bank loans, operating leases and other security of the Group.

CAPITAL EXPENDITURE

For the six months ended 30 June 2016, the Company's capital expenditure amounted to RMB13,163 million, of which the total investment in aircraft and engines was RMB12,926 million. Other capital expenditure amounted to RMB237 million, which was mainly spent on infrastructure construction, procurement of equipment and facilities, flight simulators, IT system construction, as well as routine protective investments.

EQUITY INVESTMENT

As at 30 June 2016, the Group's equity investment in its associates was RMB12,556 million, representing an increase of 8.68% from 31 December 2015, of which the equity investment in Cathay Pacific, Shandong Aviation Group and Shandong Airlines was RMB10,341 million, RMB1,147 million and RMB747 million, respectively. Cathay Pacific, Shandong Aviation Group and Shandong Airlines recorded a profit of RMB426 million, RMB369 million and RMB284 million, respectively, for the six months ended 30 June 2016.

As at 30 June 2016, the Group's equity investment in its joint ventures was RMB997 million, representing a decrease of 3.95% from 31 December 2015.

DEBT STRUCTURE ANALYSIS

As at 30 June 2016, the total liabilities of the Group amounted to RMB155,258 million, representing an increase of 5.54% from 31 December 2015, among which current liabilities were RMB66,764 million and non-current liabilities were RMB88,494 million, representing 43.00% and 57.00% of the total liabilities, respectively.

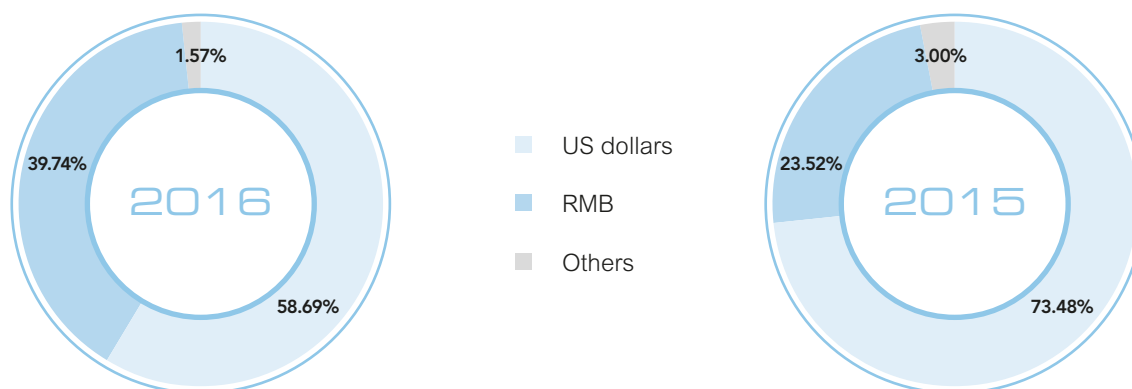
Among the current liabilities, interest-bearing debts (including bank and other loans, and obligations under finance leases) amounted to RMB36,064 million, representing an increase of 108.88% from 31 December 2015. Other payables and accruals amounted to RMB30,699 million, representing a decrease of 7.76% from 31 December 2015.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, and obligations under finance leases) amounted to RMB77,748 million, representing a decrease of 10.42% from 31 December 2015.

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

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

(in RMB'000)	30 June 2016		31 December 2015		Change
	Amount	Percentage	Amount	Percentage	
US dollars	66,790,927	58.69%	76,468,517	73.48%	(12.66%)
RMB	45,231,564	39.74%	24,471,165	23.52%	84.84%
Others	1,789,857	1.57%	3,117,052	3.00%	(42.58%)
Total	113,812,348	100.00%	104,056,734	100.00%	9.38%



COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments of the Group are mainly for the purchase of certain aircraft and related equipment payable in the next few years. As at 30 June 2016, capital commitments of the Group amounted to RMB93,565 million, a decrease of 2.34% compared to RMB95,808 million as at 31 December 2015. The Group had operating lease commitments of RMB43,621 million as at 30 June 2016, representing an increase of 8.68% as compared to 31 December 2015, which were primarily used in leasing certain aircraft, office premises and related equipment. Investment commitments of the Group were RMB58 million as at 30 June 2016, almost the same as the amount as at 31 December 2015, which were primarily used for the signed investment agreements.

Details of the Group's contingent liabilities are set out in note 24 of the unaudited interim financial report included in this interim report.

GEARING RATIO

As at 30 June 2016, the Group's gearing ratio (total liabilities divided by total assets) was 68.89%, which remained generally stable from 68.86% as at 31 December 2015. Given that high gearing ratios are common among aviation enterprises, the Group continued to maintain a reasonable gearing ratio and the long-term insolvency risks are under control.



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

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2016, the Group's net current liabilities (current liabilities minus current assets) were RMB45,873 million, an increase of RMB15,537 million from 31 December 2015, which was mainly attributable to the increase in short-term loans. The Group's current ratio (current assets divided by current liabilities) was 0.31, a fall of 0.09 from 0.40 as at 31 December 2015.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In the first half of 2016, the Group's net cash inflow generated from operating activities was RMB11,285 million, almost the same as RMB11,594 million over the same period in 2015. Net cash outflow from investment activities was RMB14,669 million, an increase of RMB10,368 million from RMB4,301 million over the same period of 2015, primarily due to an increase in the amount paid for aircraft procurement as compared to the same period last year. The Group recorded a net cash inflow from financing activities of RMB4,035 million, as compared to a net cash outflow from financing activities of RMB8,357 million during the same period of 2015. The change was primarily due to the significant increase in cash inflow generated from borrowings and the issuance of short-term financing bonds during the period.

The Company has obtained bank facilities with a maximum amount of RMB160,022 million from a number of banks in the PRC, of which approximately RMB27,838 million has been utilised, sufficient to meet our demands for working capital and commitments on capital expenditures in future.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to financial risks as we have a substantial amount of liabilities and assets dominated in foreign currencies. When exchange rate fluctuates, gains and losses resulting from foreign exchanges could substantially affect the Company's operating results. Exchange rate volatility also affects costs generated from overseas purchase of aircraft, equipment, jet fuel and overseas expenses relating to take-off and landing, and it could also have an impact on the overseas travel demand of Chinese citizens, which ultimately affects the operating results of the Company. In addition, interest rate volatility could also affect the Company's finance cost and operating results.

SIGNIFICANT EVENTS

On 5 February 2016, the Company and Air China Cargo entered into a settlement agreement with the plaintiffs in the United States cargo antitrust lawsuit (see Note 24 (b) of the unaudited interim financial report for details), pursuant to which, the Company and Air China Cargo agreed to make a payment of US\$50 million in aggregate to settle the lawsuit. Neither the Company nor Air China Cargo acknowledges any wrongdoing or liability on the part of the Company or Air China Cargo in the settlement agreement and there is no admission of any wrongdoing or liability in the settlement agreement. The underlying actions of the allegation by the plaintiffs in the antitrust lawsuit took place during the period between 1 January 2000 and 30 September 2006. In 2004, the Company and CNAHC and CNACG entered into a restructuring agreement, and in 2010, the Company, Cathay Pacific China Cargo Holdings Limited, Fine Star Enterprises Corporation and Air China Cargo entered into a capital increase agreement with respect to the capital increase in Air China Cargo. Pursuant to the above agreements, CNAHC and the Company shall bear 52.27% and 47.73%, respectively, of the settlement amount and settlement costs in connection with the antitrust lawsuit. The amount due was fully settled by both parties on 18 March 2016. The settlement agreement shall take effect after the approval of the court. Details are set out in the Company's announcements which were published on the website of the Hong Kong Stock Exchange on 6 February 2016 and 19 March 2016.



CHANGES IN DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES INFORMATION

On 14 April 2016, the Board received a resignation letter from Mr. Fan Cheng in respect of his resignation from the position as an executive Director and the vice president due to retirement reason.

On 6 June 2016, the Board received a resignation letter from Ms. Wang Yinxiang in respect of her resignation from the position as a non-executive Director and the vice chairman due to the change in position. On the same day, the Company held the 34th meeting of the forth session of the Board, where the executive Director Mr. Song Zhiyong was also elected as the vice Chairman.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2016, the Company's Directors, Supervisors or chief executives had the 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) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

Name of corporation and relevant shareholder	Personal interest	Number of shares		Total	Shareholding percentage as at 30 June 2016
		Interest of children under the age of 18 or spouse	Corporate interest		
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 30 June 2016, none of the Directors, Supervisors or chief executives of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Mr. John Robert Slosar is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and is concurrently a non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at 30 June 2016, which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Hong Kong Dragon Airlines Limited ("Dragonair"). Mr. Cai Jianjiang, the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, the executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and 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 shall be disclosed under Rule 8.10 of the Listing Rules.



SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

SUBSTANTIAL SHAREHOLDERS' SIGNIFICANT INTERESTS IN THE COMPANY

As at 30 June 2016, to the knowledge of the Directors, Supervisors and chief executives of the Company, the following persons (other than a Director, Supervisor or chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Types of interests	Type and number of shares of the Company held	Percentage of the total issued shares of the Company	Percentage of the total issued A Shares of the Company	Percentage of the total issued H Shares of the Company	Short position
CNAHC	Beneficial owner	5,438,757,879 A Shares	41.57%	63.82%	–	–
CNAHC ⁽¹⁾	Attributable interests	1,332,482,920 A Shares	10.18%	15.64%	–	–
CNAHC ⁽¹⁾	Attributable interests	223,852,000 H Shares	1.71%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A Shares	10.18%	15.64%	–	–
CNACG	Beneficial owner	223,852,000 H Shares	1.71%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,633,725,455 H Shares	20.13%	–	57.72%	–
Swire Pacific Limited ⁽²⁾	Attributable interests	2,633,725,455 H Shares	20.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited ⁽²⁾	Attributable interests	2,633,725,455 H Shares	20.13%	–	57.72%	–
John Swire & Sons Limited ⁽²⁾	Attributable interests	2,633,725,455 H Shares	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 executives are aware, as at 30 June 2016:

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 54.67% equity interest and 63.16% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% equity interest in Cathay Pacific as at 30 June 2016, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 30 June 2016, to the knowledge of the Directors, Supervisors and chief executives of the Company, no other person (other than a Director, Supervisor or chief executive of the Company) had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2016, the Company complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted and formulated a code of conduct on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 of the Listing Rules. After making specific enquiries, the Company confirmed that each Director and each Supervisor of the Company have complied with the required standards of the Model Code and the Company's code of conduct throughout the six months ended 30 June 2016.



MISCELLANEOUS

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of 2016 (the term “securities” has the meaning ascribed to it under paragraph 1 of Appendix 16 of the Listing Rules).

INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2016.

REVIEW BY AUDIT AND RISK CONTROL COMMITTEE

The Audit and Risk Management Committee of the Company has reviewed the Company’s interim report for the six months ended 30 June 2016, the Company’s unaudited interim financial report and the accounting policies and practices adopted by the Group.

OTHER INFORMATION

According to paragraph 40 of Appendix 16 of the Listing Rules, save as disclosed herein, the Company confirms that the current information of the Company in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company’s 2015 Annual Report.

NON-PUBLIC ISSUE OF A SHARES

Upon the approval by the 21st meeting of the fourth session of the Board and the 25th meeting of the fourth session of the Board of the Company, and the 1st extraordinary general meeting in 2016, the 1st A shareholders’ class meeting and the 1st H shareholders’ class meeting, the Company proposed to issue the non-public offering of A shares not exceeding RMB12 billion to not more than 10 specified investors (including CNAHC, the controlling shareholder of the Company), with the total number of shares to be issued under non-public offering not exceeding 1,520,912,547 shares and the issue price not less than RMB7.89 per share. CNAHC will subscribe for not more than 506,970,849 shares at the issue price not more than RMB4,000 million. For details, please refer to the Company’s announcements which were published on the website of the Hong Kong Stock Exchange on 28 July 2015, 11 December 2015 and 26 January 2016.

On 5 February 2016, CSRC accepted the administrative permission application materials of the “Non-public Issuance for Listed Companies” submitted by the Company, and issued the “Notice regarding CSRC’s Feedback on the Review of Administrative Permission Items” (《中國證監會行政許可項目審查反饋意見通知書》) on 8 March 2016. On 4 May 2016, the Company and the relevant agencies replied in writing to the CSRC. On 20 July 2016, the non-public issue of A shares by the Company was approved by the Public Offering Review Committee of CSRC during its work meeting. For details, please refer to the Company’s announcements which were published on the website of the Hong Kong Stock Exchange on 5 February 2016, 11 March 2016, 4 May 2016 and 21 July 2016.

Given that the implementation of the profit distribution proposal of the Company for the year 2015 was completed on 30 June 2016, the issue price of the non-public issue was adjusted from originally no less than RMB7.89 per share to no less than RMB7.79 per share; and the number of shares to be issued was adjusted from originally up to 1,520,912,547 shares to up to 1,540,436,456 shares. The number of A Shares to be subscribed for by CNAHC was adjusted from originally up to 506,970,849 shares to up to 513,478,818 shares. For details, please refer to the Company’s announcement which was published on the website of the Hong Kong Stock Exchange on 22 July 2016.

INDEPENDENT AUDITORS' REPORT



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

INTRODUCTION

We have reviewed the interim financial report of Air China Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 33 to 64, which comprises the consolidated statement of financial position as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34"), issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34.

KPMG
Certified Public Accountants

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

30 August 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	For the six months ended	
		30 June 2016 RMB'000	30 June 2015 RMB'000 (Restated)
Revenue			
Air traffic revenue	5	51,012,851	49,309,857
Other operating revenue	6	2,971,190	2,607,878
		53,984,041	51,917,735
Operating expenses			
Jet fuel costs		(9,727,175)	(12,059,145)
Take-off, landing and depot charges		(6,166,595)	(5,563,306)
Depreciation and amortisation		(6,672,674)	(6,267,264)
Aircraft maintenance, repair and overhaul costs		(2,514,900)	(1,935,921)
Employee compensation costs		(9,416,298)	(8,106,626)
Air catering charges		(1,563,934)	(1,452,676)
Aircraft and engine operating lease expenses		(3,013,776)	(2,528,364)
Other operating lease expenses		(489,470)	(441,293)
Other flight operation expenses		(3,833,879)	(3,893,741)
Selling and marketing expenses		(2,067,576)	(2,587,719)
General and administrative expenses		(520,892)	(445,095)
		(45,987,169)	(45,281,150)
Profit from operations	7	7,996,872	6,636,585
Finance income	8	64,738	70,264
Finance costs	8	(3,281,987)	(1,549,052)
Share of profits less losses of associates		161,897	429,350
Share of profits less losses of joint ventures		97,566	209,502
Profit before taxation		5,039,086	5,796,649
Taxation	9	(1,244,765)	(1,224,427)
Profit for the period		3,794,321	4,572,222
Attributable to:			
– Equity shareholders of the Company		3,468,241	4,202,571
– Non-controlling interests		326,080	369,651
Profit for the period		3,794,321	4,572,222
Earnings per share	11		
– Basic and diluted		RMB28.21 cents	RMB34.18 cents

The notes on pages 40 to 64 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000 (Restated)
Profit for the period	3,794,321	4,572,222
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	285	(211)
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures	927,788	675,303
– Available-for-sale securities: net change in fair value	5,726	43,180
– Exchange realignment	386,232	(7,426)
Other comprehensive income for the period	1,320,031	710,846
Total comprehensive income for the period	5,114,352	5,283,068
Attributable to:		
– Equity shareholders of the Company	4,776,170	4,893,458
– Non-controlling interests	338,182	389,610
Total comprehensive income for the period	5,114,352	5,283,068

The notes on pages 40 to 64 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	30 June 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	12	157,230,503	155,990,977
Lease prepayments	13	3,014,261	3,034,209
Investment properties		709,336	722,663
Intangible assets		132,767	35,902
Goodwill		1,099,975	1,099,975
Interests in associates		12,555,753	11,552,825
Interests in joint ventures		997,135	1,038,118
Advance payments for aircraft and flight equipment		22,891,716	14,476,913
Deposits for aircraft under operating leases		608,747	597,920
Held-to-maturity securities		10,000	10,000
Available-for-sale securities		1,210,918	1,106,588
Deferred tax assets		3,738,590	3,753,729
Other non-current assets		296,399	–
		204,496,100	193,419,819
Current assets			
Aircraft and flight equipment held for sale		331,351	582,074
Inventories		1,995,273	1,730,742
Accounts receivable	14	3,509,519	3,252,205
Accounts receivable due from the ultimate holding company		259,616	409,149
Bills receivable		1,279	224
Prepayments, deposits and other receivables	15	3,908,821	3,635,925
Financial assets	16	598	995
Restricted bank deposits	17	534,125	654,946
Cash and cash equivalents	17	7,863,807	7,138,098
Other current assets		2,486,101	2,806,973
		20,890,490	20,211,331
Total assets		225,386,590	213,631,150

The notes on pages 40 to 64 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	30 June 2016 RMB'000	31 December 2015 RMB'000
Current liabilities			
Air traffic liabilities		(5,731,685)	(5,759,233)
Accounts payable	18	(10,296,640)	(9,252,750)
Bills payable		–	(11,646)
Other payables and accruals	19	(10,593,619)	(11,290,303)
Amounts due to the ultimate holding company		(2,539,841)	(4,857,426)
Current taxation		(358,661)	(819,880)
Obligations under finance leases		(5,953,017)	(5,963,977)
Interest-bearing bank loans and other borrowings		(30,111,356)	(11,290,310)
Provision for major overhauls		(1,178,820)	(1,301,821)
		(66,763,639)	(50,547,346)
Net current liabilities		(45,873,149)	(30,336,015)
Total assets less current liabilities		158,622,951	163,083,804
Non-current liabilities			
Obligations under finance leases		(36,633,366)	(37,803,279)
Interest-bearing bank loans and other borrowings		(41,114,609)	(48,987,522)
Provision for major overhauls		(3,374,257)	(3,112,201)
Provision for early retirement benefit obligations		(10,336)	(13,465)
Long-term payables		(47,472)	(10,180)
Defined benefit obligations	20	(281,895)	(276,968)
Deferred income		(3,945,688)	(3,489,698)
Deferred tax liabilities		(3,086,895)	(2,867,738)
		(88,494,518)	(96,561,051)
NET ASSETS		70,128,433	66,522,753

The notes on pages 40 to 64 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	30 June 2016 RMB'000	31 December 2015 RMB'000
CAPITAL AND RESERVES			
Issued capital	21	13,084,751	13,084,751
Treasury shares	22	(3,047,564)	(3,047,564)
Reserves		53,086,926	49,710,824
Total equity attributable to equity shareholders of the Company		63,124,113	59,748,011
Non-controlling interests		7,004,320	6,774,742
TOTAL EQUITY		70,128,433	66,522,753

Approved and authorised for issue by the board of directors on 30 August 2016.

Cai Jianjiang
Director

Song Zhiyong
Director

The notes on pages 40 to 64 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

Note	Attributable to equity shareholders of the Company									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2016	13,084,751	(3,047,564)	15,831,794	6,633,105	54,951	(2,593,116)	29,784,090	59,748,011	6,774,742	66,522,753
Changes in equity for the six months ended 30 June 2016										
Profit for the period	-	-	-	-	-	-	3,468,241	3,468,241	326,080	3,794,321
Other comprehensive income	-	-	931,460	-	-	376,469	-	1,307,929	12,102	1,320,031
Total comprehensive income	-	-	931,460	-	-	376,469	3,468,241	4,776,170	338,182	5,114,352
Appropriation of discretionary reserve funds and others	-	-	-	544,081	-	-	(544,081)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(117,592)	(117,592)
Dividends declared in respect of the previous year	10	-	-	-	-	-	(1,400,068)	(1,400,068)	-	(1,400,068)
Others	-	-	-	-	-	-	-	-	8,988	8,988
As at 30 June 2016	13,084,751	(3,047,564)	16,763,254	7,177,186	54,951	(2,216,647)	31,308,182	63,124,113	7,004,320	70,128,433
As at 1 January 2015	13,084,751	(3,047,564)	17,790,103	5,802,819	38,364	(3,645,243)	24,250,535	54,273,765	5,604,325	59,878,090
Changes in equity for the six months ended 30 June 2015										
Profit for the period (restated)	-	-	-	-	-	-	4,202,571	4,202,571	369,651	4,572,222
Other comprehensive income (restated)	-	-	698,143	-	-	(7,256)	-	690,887	19,959	710,846
Total comprehensive income (restated)	-	-	698,143	-	-	(7,256)	4,202,571	4,893,458	389,610	5,283,068
Acquisition of a subsidiary	-	-	26,198	-	-	-	-	26,198	514,629	540,827
Appropriation of discretionary reserve funds and others	-	-	-	285,331	-	-	(285,331)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(87,110)	(87,110)
Dividends declared in respect of the previous year	10	-	-	-	-	-	(683,417)	(683,417)	-	(683,417)
Others (restated)	-	-	(1,385)	874	487	-	1,464	1,440	(6,094)	(4,654)
As at 30 June 2015 (restated)	13,084,751	(3,047,564)	18,513,059	6,089,024	38,851	(3,652,499)	27,485,822	58,511,444	6,415,360	64,926,804

The notes on pages 40 to 64 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – unaudited
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	For the six months ended	
		30 June 2016 RMB'000	30 June 2015 RMB'000 (Restated)
Operating activities			
Cash generated from operations		14,204,840	13,917,786
Income tax paid		(1,473,597)	(948,042)
Interest paid		(1,446,486)	(1,376,219)
Net cash generated from operating activities		11,284,757	11,593,525
Investing activities			
Payment for the purchase of property, plant and equipment		(4,368,609)	(2,522,105)
Increase in advance payments for aircraft and flight equipment		(11,083,274)	(2,308,872)
Proceeds from sale of property, plant and equipment and held-for-sale assets		165,623	54,083
Cash acquired through acquisition of a subsidiary		28,984	145,380
Cash flows arising from other investing activities		588,125	330,287
Net cash used in investing activities		(14,669,151)	(4,301,227)
Financing activities			
New bank loans and other loans		11,998,558	9,250,587
Proceeds from issuance of corporate bonds		10,850,241	600,000
Repayment of bank loans and other borrowings		(14,241,507)	(15,656,716)
Repayment of principal under finance lease		(3,054,944)	(2,462,330)
Dividends paid		(1,517,660)	(88,559)
Net cash generated from/(used in) financing activities		4,034,688	(8,357,018)
Net increase/(decrease) in cash and cash equivalents		650,294	(1,064,720)
Cash and cash equivalents at 1 January	17	7,138,098	8,639,687
Effect of foreign exchanges rates changes		75,415	5,472
Cash and cash equivalents at 30 June	17	7,863,807	7,580,439

The notes on pages 40 to 64 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

1 CORPORATE INFORMATION

Air China Limited (the "Company") was established as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on The Stock Exchange of Hong Kong Limited (the "HKSE") and the London Stock Exchange (the "LSE") while the Company's A shares are listed on the Shanghai Stock Exchange. In the opinion of the Directors, 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, which does not produce financial statements available for public use.

The principal activities of the Company and its subsidiaries (together referred to the "Group") are provision of airline and 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 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("IAS 34") *"Interim Financial Reporting"*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 30 August 2016.

As at 30 June 2016, the Group's current liabilities exceeded its current assets by approximately RMB45,873 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB132,184 million as at 30 June 2016, the Directors of the Company believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the interim financial report for the six months ended 30 June 2016. Accordingly, the interim financial report has been prepared on a basis that the Group will be able to continue as a going concern.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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2 BASIS OF PREPARATION (Continued)

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

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2016.

China National Aviation Finance Co., Ltd (“CNAF”) was acquired by the Company in September 2015. As CNAF and the Company had been under the common control of CNAHC before and after the acquisition, the acquisition was reflected in the consolidated financial statements of the Group using the principles of merger accounting. Accordingly, the assets and liabilities of CNAF had been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisition had been restated to include the result of operations and assets and liabilities of CNAF on a combined basis. As a result, the comparative figures of the interim financial report for consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement have been restated.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

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

Annual Improvements to IFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, Interim financial reporting, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group’s interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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3 CHANGES IN ACCOUNTING POLICIES (Continued)

Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

4 SEGMENT INFORMATION

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

- (a) the "airline operations" segment which mainly comprises the provision of air passenger and air cargo services; and
- (b) the "other operations" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

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

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 UNAUDITED INTERIM FINANCIAL REPORT

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4 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 six months ended 30 June 2016 and 2015 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2016 (unaudited)

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	52,816,702	707,756	–	53,524,458
Intersegment sales	124,917	3,805,867	(3,930,784)	–
Revenue for reportable segments under CASs	52,941,619	4,513,623	(3,930,784)	53,524,458
Business tax and surcharges not included in segment revenue				(137,426)
Other income not included in segment revenue				597,009
Effect of other differences between IFRSs and CASs				–
Revenue for the period under IFRSs				53,984,041
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,950,659	134,830	(60,563)	5,024,926
Effect of differences between IFRSs and CASs				14,160
Profit before taxation for the period under IFRSs				5,039,086

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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4 SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2015 (unaudited) (restated)

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	51,015,214	136,062	–	51,151,276
Intersegment sales	–	1,605,262	(1,605,262)	–
Revenue for reportable segments under CASs	51,015,214	1,741,324	(1,605,262)	51,151,276
Business tax and surcharges not included in segment revenue				(117,163)
Other income not included in segment revenue				854,070
Effect of other differences between IFRSs and CASs				29,552
Revenue for the period under IFRSs				51,917,735
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	5,485,908	46,786	–	5,532,694
Effect of differences between IFRSs and CASs				263,955
Profit before taxation for the period under IFRSs				5,796,649



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4 SEGMENT INFORMATION (Continued)

Operating segments (Continued)

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2016 and 31 December 2015 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 30 June 2016 under CASs (unaudited)	217,449,789	15,427,480	(7,428,914)	225,448,355
Effect of differences between IFRSs and CASs				(61,765)
Total assets as at 30 June 2016 under IFRSs (unaudited)				225,386,590
Total assets for reportable segments as at 31 December 2015 under CASs	206,654,516	15,615,623	(8,566,604)	213,703,535
Effect of differences between IFRSs and CASs				(72,385)
Total assets as at 31 December 2015 under IFRSs				213,631,150

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4 SEGMENT INFORMATION (Continued)

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2016 and 2015, respectively:

For the six months ended 30 June 2016 (unaudited)

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	35,306,967	2,860,613	4,257,048	4,501,813	3,141,470	3,916,130	53,984,041

For the six months ended 30 June 2015 (unaudited) (restated)

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	33,629,335	2,856,164	4,674,442	4,629,832	3,319,508	2,808,454	51,917,735

5 AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2016 RMB'000	30 June 2015 RMB'000
Passenger	47,263,059	44,988,775
Cargo and mail	3,749,792	4,321,082
	51,012,851	49,309,857



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6 OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2016 RMB'000	30 June 2015 RMB'000 (Restated)
Aircraft engineering income	467,891	79,425
Ground service income	403,695	398,957
Government grants:		
– Recognition of deferred income	18,346	45,896
– Others	512,596	522,847
Service charges on return of unused flight tickets	671,473	517,192
Training service income	17,770	12,177
Rental income	70,955	75,033
Import and export service income	26,120	15,636
Others	782,344	940,715
	2,971,190	2,607,878

7 PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2016 RMB'000	30 June 2015 RMB'000 (Restated)
Depreciation of property, plant and equipment	6,606,986	6,223,173
Depreciation of investment properties	13,328	14,241
Amortisation of lease prepayments	32,986	29,850
Amortisation of intangible assets	19,374	–
(Reversal)/accrual of bad debt provision, net	(13,160)	5,130
Loss on disposal of property, plant and equipment, net	8,608	29,542
Minimum lease payments under operating leases:		
– Aircraft and related equipment	3,013,776	2,528,364
– Land and buildings	441,719	404,176

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8 FINANCE INCOME AND FINANCE COSTS

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

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000 (Restated)
Finance income		
Interest income	64,738	70,264
Finance costs		
Interest on borrowings and finance leases	1,749,709	1,658,449
Exchange loss, net	1,697,710	122,922
	3,447,419	1,781,371
Less: Interest capitalised	(165,432)	(232,319)
	3,281,987	1,549,052

The interest capitalisation rates during the period ranges from 1.03% to 4.41% (six months ended 30 June 2015: 0.77% to 5.99%) per annum relating to the costs of related borrowings during the period.

9 TAXATION

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000 (Restated)
Current income tax:		
– Mainland China	1,003,557	923,758
– Hong Kong and Macau	8,179	17
Under-provision in respect of prior years	642	2,868
Deferred taxation	232,387	297,784
	1,244,765	1,224,427

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for one subsidiary and two branches which enjoy a preferential rate of 15% for the six months ended 30 June 2016 (six months ended 30 June 2015: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2015: 25%) during the period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2015: 16.5% and 12%), respectively.



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9 TAXATION (Continued)

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

10 DIVIDEND

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

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

The Board of Directors decided not to declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the interim period, of RMB0.10700 per share (including tax) (six months ended 30 June 2015: RMB0.05223 per share (including tax))	1,400,068	683,417

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2016 was based on the profit attributable to equity shareholders of the Company of RMB3.47 billion (six months ended 30 June 2015 (restated): RMB4.20 billion) and the weighted average of 12,294,896,740 ordinary shares (six months ended 30 June 2015: 12,294,896,740 shares) in issue during the period, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited ("Cathay Pacific") through reciprocal shareholding (note 22).

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

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12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired aircraft and flight equipment with an aggregate cost of RMB6,044 million (six months ended 30 June 2015: RMB11,481 million). Total property, plant and equipment with net book value of RMB27 million were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB69 million), resulting in a loss on disposal of RMB9 million (six months ended 30 June 2015: a loss on disposal of RMB30 million).

As at 30 June 2016, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB32,920 million (31 December 2015: RMB37,953 million) were pledged to secure certain bank loans of the Group.

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB65,605 million (31 December 2015: RMB68,218 million). These aircraft were pledged under certain lease agreements of the Group.

As at 30 June 2016, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,021 million (31 December 2015: RMB2,780 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2016.

13 LEASE PREPAYMENTS

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

As at 30 June 2016, the Group's land use rights with an aggregate net book value of approximately RMB35 million (31 December 2015: RMB36 million) were pledged to secure certain bank loans of the Group.

As at 30 June 2016, 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 RMB511 million (31 December 2015: RMB536 million). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2016.



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14 ACCOUNTS RECEIVABLE

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:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 30 days	2,161,666	2,419,604
31 to 60 days	469,997	328,902
61 to 90 days	174,211	166,916
Over 90 days	703,645	336,783
	3,509,519	3,252,205

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Prepayments		
Advances and others	578,414	561,758
Manufacturers' credits	799,756	882,801
Prepaid aircraft operating lease rentals	557,430	507,505
	1,935,600	1,952,064
Deposits and other receivables	1,973,221	1,683,861
	3,908,821	3,635,925

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 recovery 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.

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15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

As at 30 June 2016, the gross amounts due from Shenzhen Huirun Investment Co., Ltd. ("Huirun") and Shenzhen Airlines Property Development Co., Ltd. and its subsidiaries were RMB1,075,182,000 (31 December 2015: RMB1,075,182,000) and RMB649,486,000 (31 December 2015: RMB649,486,000), respectively, for which full provision had been provided.

16 FINANCIAL ASSETS

	30 June 2016 RMB'000	31 December 2015 RMB'000
Interest rate swaps	598	967
Listed equity securities	–	28
	598	995

The above financial assets are accounted for as financial instruments at fair value through profit or loss and any fair value changes are recognised in the profit or loss.

17 RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	30 June 2016 RMB'000	31 December 2015 RMB'000
Cash at bank and in hand	8,397,932	7,793,044
Less: Restricted bank deposits	(534,125)	(654,946)
Cash and cash equivalents	7,863,807	7,138,098

18 ACCOUNTS PAYABLE

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 30 days	4,575,802	4,548,654
31 to 60 days	1,618,771	1,373,626
61 to 90 days	1,348,539	1,086,846
Over 90 days	2,753,528	2,243,624
	10,296,640	9,252,750



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19 OTHER PAYABLES AND ACCRUALS

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Accrued salaries, wages and benefits	1,959,622	1,933,927
Receipts in advance for employee residence	380,310	308,377
Accrued operating expenses	1,084,198	1,727,321
Other taxes payable	520,112	484,499
Deposits received from sales agents	869,648	850,339
Due to a non-controlling shareholder of a subsidiary	100,000	100,000
Interest payable	871,862	673,595
Current portion of deferred income related to the frequent-flyer programme	515,161	711,345
Current portion of deferred income related to government grants	48,881	47,807
Current portion of long-term payables	21,842	40,665
Provision for staff housing benefits	109,624	109,264
Deposits received by CNAF from related parties	1,225,912	1,305,324
Others	2,886,447	2,997,840
	10,593,619	11,290,303

20 DEFINED BENEFIT OBLIGATIONS

The liabilities recognised in the consolidated statement of financial position represent:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Post-retirement benefit obligations	310,701	304,613
Less: current portion	(28,806)	(27,645)
Long-term portion	281,895	276,968

Aircraft Maintenance and Engineering Corporation Beijing ("AMECO"), a subsidiary of the Company, affords monthly retirement benefits for those staff who were retired before AMECO adopted its own enterprise annuity plan. These retirement benefits are recognised as defined benefit obligations.

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20 DEFINED BENEFIT OBLIGATIONS (Continued)

(a) Movements in the defined benefit obligations are set out as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
At 1 January	304,613	–
Acquired through business combination	–	294,109
Remeasurement (gain)/loss	(285)	21,054
Past service cost	16,418	–
Interest cost	4,279	5,908
Payments	(14,324)	(16,458)
At 30 June/31 December	310,701	304,613
Less: current portion	(28,806)	(27,645)
Long-term portion	281,895	276,968

(b) Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	For the six months ended 30 June 2016 RMB'000	30 June 2015 RMB'000
Employee compensation costs		
– Past service cost	16,418	–
Finance costs		
– Interest cost	4,279	879
Other comprehensive income		
– Remeasurement (gain)/loss	(285)	211
Total defined benefit costs	20,412	1,090

(c) Significant actuarial assumptions (expressed as weighted averages) are as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Discount rate	2.8%	2.8%
Annual growth rate	0%	0%
Average expected remaining life of eligible employees	13.55 years	14 years



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21 ISSUED CAPITAL

The numbers of shares of the Company and their nominal values as at 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016		31 December 2015	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered, issued and fully paid:				
– H shares of RMB1.00 each:				
Tradable	4,562,683,364	4,562,683	4,562,683,364	4,562,683
– A shares of RMB1.00 each:				
Tradable	8,522,067,640	8,522,068	8,329,271,309	8,329,272
Trade-restricted*	–	–	192,796,331	192,796
	13,084,751,004	13,084,751	13,084,751,004	13,084,751

* The trade-restricted shares of 192,796,331 shares as at 31 December 2015 became tradable on 1 February 2016.

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.

22 TREASURY SHARES

As at 30 June 2016, the Group owned a 29.99% (31 December 2015: 29.99%) equity interest in Cathay Pacific, which in turn owned a 20.13% (31 December 2015: 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.

23 SHARE APPRECIATION RIGHTS SCHEME

The Company's "Measures on Management of the Stock Appreciation Rights ("SARs") of Air China Limited (revised)" and "Proposal for the Second Grant of the Stock Appreciation Rights of Air China Limited" (together "the Scheme") were approved by the 2012 Annual General Meeting on 23 May 2013.

Pursuant to the Scheme, 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, with valid period of 5 years since granted.

No shares will be issued under the Scheme. 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. Upon the satisfaction of certain performance conditions, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants, since the first trading day after the second, third and fourth anniversary from the grant date.

The exercise price, expected period, expected volatility of the share price, expected dividend yield, the risk free rate and market price are used as the key inputs into the model with reference to the Scheme's provisions and the Company's H Share's historical trading information. The fair value of the liability for SARs as at 30 June 2016 was RMB5,407,000 (31 December 2015: RMB18,352,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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(Expressed in Renminbi unless otherwise indicated)

24 CONTINGENT LIABILITIES

As at 30 June 2016, the Group had the following contingent liabilities:

- (a) Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.
- (b) On 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summons 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 during the period from 1 January 2000 to 30 September 2006. On 5 February 2016, the Company and Air China Cargo entered into a settlement agreement with the plaintiffs in respect of the lawsuit. Under the settlement agreement, the Company and Air China Cargo have agreed to make a payment of US\$50 million in aggregate to settle the lawsuit, which has been paid out in March 2016. The settlement agreement was still subject to the Court's approval.
- (c) In May 2011, Shenzhen Airlines received a summons issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loans borrowed by Huirun. The directors of the Company consider that the provision of RMB130,000,000 which was provided in prior years in respect of this legal claim is adequate.
- (d) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 30 June 2016, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB175,234,000 (31 December 2015: RMB357,010,000) and for pilot trainees' tuition loans amounting to RMB286,000 (31 December 2015: RMB1,108,000).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2016 RMB'000	Fair value measurements as at 30 June 2016 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets:				
– Interest rate swaps	598	–	598	–
Available-for-sale equity securities				
– Listed	75,506	–	75,506	–
Available-for-sale debt securities	1,092,687	189,371	903,316	–
Total financial assets at fair value	1,168,791	189,371	979,420	–

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

25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets:				
– Interest rate swaps	967	–	967	–
– Listed equity securities	28	28	–	–
Available-for-sale equity securities				
– Listed	67,819	–	67,819	–
Available-for-sale debt securities	996,044	194,395	801,649	–
Total financial assets at fair value	1,064,858	194,423	870,435	–

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The fair value of interest rate swaps as at the end of the reporting period was estimated by using quotations from counterparty banks, 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.

For the fair value of available-for-sale debt securities, the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2016, the fair value is close to the carrying amount.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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26 COMMITMENTS

(a) Capital commitments

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	92,086,834	94,397,176
– Buildings and others	634,688	397,920
	92,721,522	94,795,096
Authorised, but not contracted for:		
– Buildings and others	843,856	1,013,146
Total capital commitments	93,565,378	95,808,242

(b) Investment commitments

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
– Associates and joint ventures	58,209	57,728

(c) Operating lease commitments

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

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 1 year	5,948,085	5,969,033
After 1 year but within 5 years	18,687,490	17,124,487
Over 5 years	18,985,734	17,045,029
	43,621,309	40,138,549

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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27 RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had the following significant transactions with CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the “CNAHC Group”); its joint ventures; and its associates:

- (i) Transactions with related parties

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Service provided to the CNAHC Group		
Sales commission income	380	8,052
Sale of cargo space	30,387	34,051
Government charter flights	173,626	160,777
Air catering income	7,671	8,247
Ground services income	1,304	937
Income from advertising media business	7,162	14,392
Aircraft and flight equipment leasing income	123	62
Others	1,444	1,251
	222,097	227,769
Service provided by the CNAHC Group		
Sales commission expenses	235	821
Air catering charges	481,765	440,840
Airport ground services, take-off landing and depot expenses	394,396	381,713
Management fees	58,962	49,358
Aircraft and flight equipment leasing fees	11,490	—
Lease charges for land and buildings	70,541	83,822
Other procurement and maintenance	37,687	28,834
Aviation communication expenses	266,603	247,837
Interest expenses	25,169	—
Media advertisement expenses	15,046	28,689
Others	3,036	4,898
	1,364,930	1,266,812



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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27 RELATED PARTY TRANSACTIONS (Continued)

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

(i) Transactions with related parties (Continued)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Loans to the CNAHC Group by CNAF		
Net granting/(net repayment) of loans	4,000	(374,000)
Interest income	23,334	29,646
Deposits from the CNAHC Group received by CNAF		
Decrease in deposits received	605,050	1,155,559
Interest expenses	30,023	23,120
Service provided to joint ventures and associates		
Sales commission income	8,522	4,030
Aircraft maintenance income	55,919	24,971
Air catering income	1,572	3,514
Ground services income	50,823	53,206
Frequent-flyer programme income	92,660	9,449
Lease income for land and buildings	–	7,749
Airline joint operation income	8,673	2,777
Others	735	7,069
	218,904	112,765

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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

27 RELATED PARTY TRANSACTIONS (Continued)

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

(i) Transactions with related parties (Continued)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Service provided by joint ventures and associates		
Sales commission expenses	2,970	25,208
Air catering charges	11,601	10,128
Airport ground services, take-off, landing and depot expenses	226,525	203,331
Repair and maintenance costs	401,103	1,702,008
Aircraft and flight equipment leasing fees	161,626	242,526
Other procurement and maintenance	2,748	3,014
Aviation communication expenses	22,421	15,203
Interest expenses	15,299	–
Airline joint operation expenses	14,338	7,721
Frequent-flyer programme expenses	1,042	2,158
	859,673	2,211,297
Loans to joint ventures and associates by CNAF		
Net granting of loans	296,000	–
Interest income	343	–
Deposits from joint ventures and associates received by CNAF		
Decrease/(Increase) in deposits received	91,407	(2,223)
Interest expenses	185	39

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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Prepared under International Financial Reporting Standards)
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27 RELATED PARTY TRANSACTIONS (Continued)

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

(ii) Balances with related parties

	30 June 2016 RMB'000	31 December 2015 RMB'000
Outstanding balances with related parties		
Amounts due from the ultimate holding company	259,616	409,149
Amounts due from associates	360,100	150,253
Amounts due from joint ventures	414	3,041
Amounts due from other related companies	15,329	8,655
Amounts due to the ultimate holding company	1,043,391	2,739,181
Amounts due to associates	412,349	351,608
Amounts due to joint ventures	57,581	50,439
Amounts due to other related companies	1,169,124	937,133

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Outstanding balances between CNAF and related parties		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	1,149,000	1,145,000
Deposits received	2,726,204	3,331,254
Interest payable to related parties	13,277	12,569
Interest receivable from related parties	1,070	—
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	296,000	—
Deposits received	3,109	94,516
Interest payable to related parties	20	10
Interest receivable from related parties	363	—

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

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27 RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June 2016 RMB'000	30 June 2015 RMB'000
Short term employee benefits	6,326	7,691
Retirement scheme contributions	621	642
	6,947	8,333

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

	For the six months ended 30 June 2016 RMB'000	30 June 2015 RMB'000
Directors and supervisors	739	1,041
Senior management	6,208	7,292
	6,947	8,333

(c) Guarantee with related parties

Name of guarantor	Name of guarantee	Amount of guaranty USD'000	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo	71,692	16/12/2013	15/12/2023
Cathay Pacific	Air China Cargo	76,936	12/03/2014	11/03/2024
Cathay Pacific	Air China Cargo	76,937	31/03/2014	30/03/2024
Obligations under finance leases:				
Cathay Pacific	Air China Cargo	59,046	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo	60,541	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo	64,047	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo	67,402	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo	67,358	31/08/2015	30/08/2027

28 SUBSEQUENT EVENT

The China Securities Regulatory Commission approved the application for the non-public issuance of A shares by the Company on 20 July 2016. Up to the date of issuance of this interim financial report, the non-public issuance was not yet completed.



CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016 - unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Revenue from operations	53,524,458	51,151,276
Less: Cost of operations	41,160,412	40,133,858
Business taxes and surcharges	137,426	117,163
Selling expenses	2,851,253	3,325,192
General and administrative expenses	1,896,031	1,720,532
Finance costs	3,290,815	1,535,907
Impairment (reversal)/losses	(8,160)	12,535
Add: (Losses)/Gains from movements in fair value	(110)	6,613
Investment income	292,576	659,984
Including: Share of profits less losses of associates and joint ventures	259,463	638,852
Profit from operations	4,489,147	4,972,686
Add: Non-operating income	565,014	624,624
Including: Gains on disposal of non-current assets	1,008	19,636
Less: Non-operating expenses	29,235	64,616
Including: Losses on disposal of non-current assets	6,892	41,180
Profit before taxation	5,024,926	5,532,694
Less: Taxation	1,241,225	1,213,772
Net profit	3,783,701	4,318,922
Including: net profit of the combined party before common control combinations		42,453
Net profit attributable to equity shareholders of the Company	3,457,621	3,949,271
Non-controlling interests	326,080	369,651
Earnings per share (RMB)		
Basic and diluted	0.28	0.32

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016 - unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000 (Restated)
Other comprehensive income for the period		
Other comprehensive income attributed to equity shareholders of the Company after taxation		
Item that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	214	(158)
Items that may be reclassified to profit or loss:		
– Share of other comprehensive income of the investees accounted by the equity method	928,326	676,279
– Exchange realignment	376,469	(7,256)
– Gains or losses arising from changes in fair value of available-for-sale financial assets	2,920	22,022
Other comprehensive income after taxation attributed to non-controlling interests	12,102	19,959
Total comprehensive income	5,103,732	5,029,768
Attributable to:		
Equity shareholders of the Company	4,765,550	4,640,158
Non-controlling interests	338,182	389,610



CONSOLIDATED BALANCE SHEET

At 30 June 2016 – unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	30 June 2016 RMB'000	31 December 2015 RMB'000
ASSETS		
Current assets		
Cash and bank	8,397,932	7,793,044
Financial assets at fair value through profit or loss	598	995
Bills receivable	1,279	224
Accounts receivable	3,769,135	3,661,354
Other receivables	2,137,599	1,882,945
Prepayments	1,135,844	1,069,263
Inventories	1,995,273	1,730,742
Held-for-sale assets	331,351	582,074
Other current assets	2,486,101	2,806,973
Total current assets	20,255,112	19,527,614
Non-current assets		
Available-for-sale financial assets	1,212,961	1,108,631
Held-to-maturity investments	10,000	10,000
Long-term receivables	905,146	598,312
Long-term equity investments	13,412,969	12,451,024
Investment properties	345,614	353,511
Fixed assets	149,605,315	149,267,398
Construction in progress	30,045,533	20,747,815
Intangible assets	4,245,362	4,169,341
Goodwill	1,102,185	1,102,185
Long-term deferred expenses	635,378	683,325
Deferred tax assets	3,672,780	3,684,379
Total non-current assets	205,193,243	194,175,921
Total assets	225,448,355	213,703,535

CONSOLIDATED BALANCE SHEET

At 30 June 2016 – unaudited
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	30 June 2016 RMB'000	31 December 2015 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans	11,366,584	3,055,641
Short-term bonds	12,347,582	2,598,843
Bills payable	–	11,646
Accounts payable	12,186,362	11,747,465
Domestic air traffic liabilities	1,933,762	2,619,395
International air traffic liabilities	3,797,923	3,139,838
Receipts in advance	227,116	148,505
Employee compensations payable	1,959,622	1,933,927
Taxes payable	878,773	1,304,379
Interest payable	874,911	679,394
Other payables	7,920,913	10,574,693
Non-current liabilities repayable within one year	12,936,091	12,399,620
Total current liabilities	66,429,639	50,213,346
Non-current liabilities		
Long-term loans	22,920,069	30,794,484
Corporate bonds	18,194,540	18,193,038
Long-term payables	3,421,729	3,122,381
Obligations under finance leases	36,633,366	37,803,279
Defined benefit obligations	281,895	276,968
Accrued liabilities	344,336	347,465
Deferred income	3,945,688	3,489,698
Deferred tax liabilities	3,086,895	2,867,738
Total non-current liabilities	88,828,518	96,895,051
Total liabilities	155,258,157	147,108,397
Shareholders' equity		
Issued capital	13,084,751	13,084,751
Capital reserve	16,509,531	16,509,531
Other comprehensive income	(4,399,132)	(5,707,061)
Reserve funds	7,177,186	6,633,105
Retained earnings	30,758,591	29,245,119
General reserve	54,951	54,951
Equity attributable to shareholders of the Company	63,185,878	59,820,396
Non-controlling interests	7,004,320	6,774,742
Total shareholders' equity	70,190,198	66,595,138
Total liabilities and shareholders' equity	225,448,355	213,703,535



SUPPLEMENTARY INFORMATION

EFFECTS OF DIFFERENCES BETWEEN CASs AND IFRSs

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

	Note	For the six months ended 30 June 2016 RMB'000	30 June 2015 RMB'000 (Restated)
Net profit attributable to shareholders of the Company under CASs		3,457,621	3,949,271
Deferred taxation	(i)	(3,540)	(10,655)
Differences in value of fixed assets and other non-current assets	(ii)	14,160	234,403
Government grants	(iii)	–	29,552
Net profit attributable to shareholders of the Company under IFRSs		3,468,241	4,202,571

	Note	30 June 2016 RMB'000	31 December 2015 RMB'000
Equity attributable to shareholders of the Company under CASs		63,185,878	59,820,396
Deferred taxation	(i)	65,810	69,350
Differences in value of fixed assets and other non-current assets	(ii)	(267,494)	(281,654)
Unrecognised profit of the disposal of Hong Kong Dragon Airlines	(iv)	139,919	139,919
Equity attributable to shareholders of the Company under IFRSs		63,124,113	59,748,011

SUPPLEMENTARY INFORMATION

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 since 2005 and under CASs since 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 were eliminated in 2015.
- (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 transportation multiplied by the kilometres flown

TRAFFIC MEASUREMENTS

"revenue passenger kilometres" or "RPK(s)"	the number of revenue passengers carried multiplied by the kilometres flown
"passenger traffic"	measured in revenue passenger kilometres, 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 revenue freight tonne kilometres, 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"/"yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield"/"yield per RFTK"	revenues from cargo operations divided by RFTKs

LOAD FACTORS

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

UTILISATION

"block hour(s)"	each whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft
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DEFINITIONS

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

"Air China Cargo"	Air China Cargo Company Limited
"Air China Inner Mongolia"	Air China Inner Mongolia Company Limited
"Air Macau"	Air Macau Company Limited
"AMECO"	Aircraft Maintenance and Engineering Corporation
"Beijing Airlines"	Beijing Airlines Company Limited
"Board"	the board of directors of the Company
"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
"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
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers
"MOP"	Macau Pataca, the lawful currency of Macau
"ppts"	percentage points



DEFINITIONS

"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Company Limited
"Shandong Aviation Group"	Shandong Aviation Group Company Limited
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisor(s)"	the supervisor(s) of the Company
"US\$" or "US dollar(s)"	the lawful currency of the United States of America

