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

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London

2017
ANNUAL REPORT

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

Air China is headquartered in Beijing, the capital of China, with three increasingly important hubs in Chengdu, Shanghai and Shenzhen. With Star Alliance, our network covered 1,330 destinations in 192 countries as at 31 December 2017. Air China is dedicated to serving 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 an excellent and unique experience and realising sustainable growth to create value for all related parties.

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

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CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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

WEBSITE:

www.airchina.com.cn

DIRECTOR:[1]

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

SUPERVISORS:[2]

Wang Zhengang
He Chaofan
Xiao Yanjun
Li Guixia

1 On 8 May 2017, the Board received resignation letters from independent non-executive Directors Mr. Pan Xiaojiang and Mr. Simon To Chi Keung, who resigned as independent non-executive Directors with effect from 25 May 2017 as their tenures have expired. On 25 May 2017, the Company convened its 2016 Annual General Meeting, at which Mr. Wang Xiaokang and Mr. Liu Deheng were elected as independent non-executive Directors. Given the election of the new session of the Board on 27 October 2017, Mr. Cao Jianxiong, Mr. Feng Gang and Mr. Ian Sai Cheung Shiu have ceased to be non-executive Directors. Mr. Xue Yasong was elected as employee representative Director by the second session of the employee representative meeting of the Company in 2018.

2 Due to work rearrangement, Mr. Zhou Feng has conveyed to the Supervisory Committee his request to resign from the position as a Supervisor on 2 August 2017. Ms. Li Guixia was elected as the employee supervisor of the fifth session of the Supervisory Committee at the employee representative meeting of the Company and Mr. Shen Zhen has ceased to be the employee supervisor with effect from 27 October 2017.

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:[3]

Zhou Feng
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:

Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:

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

INTERNATIONAL AUDITOR:[4]

Deloitte Touche Tohmatsu

H SHARE REGISTRAR AND TRANSFER OFFICE:

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

LISTING VENUES:

Hong Kong, London and Shanghai

3 On 30 August 2017, the Board received a resignation letter from Ms. Rao Xinyu, the board secretary. Due to work rearrangement, Ms. Rao Xinyu resigned as board secretary and joint company secretary of the Company. On the same date, the Company convened its 48th meeting of the 4th session of the Board, at which Mr. Zhou Feng was appointed as the board secretary and joint company secretary of the Company.

4 After being considered by the 44th meeting of the 4th session of the Board and considered and approved by the 2016 Annual General Meeting, Deloitte Touche Tohmatsu was appointed as the international auditor of the Company for the year of 2017. KPMG has ceased to be the international auditor of the Company.

"Beijing 2022 Winter Olympic and Paralympic Winter Games"

"International Horticultural Exhibition 2019 Beijing China"

Exclusive Official Partner of Air Passenger Transport

Profit before tax of RMB11,486 million, with a year-on-year increase of 12.47%

Net profit attributable to equity shareholders of the Company was RMB7,244 million, representing a year-on-year increase of 6.39%

Gearing ratio of the Group decreased by 6.15 percentage point to 59.75% compared with last year

BOEING 737-8MAX, AIRBUS 320NEO

On 13 December 2017, the Company, Star Alliance and Beijing Capital International Airport entered into the "Move under One Roof" MOU, pursuant to which, the parties will cooperate closely together to build the world-class aviation hub.

In 2017, the Group introduced 56 passenger aircraft, including 7 BOEING 737-8MAX and 2 AIRBUS 320NEO.

RPKs reached
201,078
million

RFTKs reached
7,553
million

Newly launched
12
International and Regional Routes

Newly launched
49
Domestic Routes

Passenger routes reached
185 Cities

NUMBER OF FREQUENT FLYER MEMBER EXCEEDED 50 MILLION

- The total number of "Phoenix Miles" members amounted to 50.91 million
- The revenue contributed by first class and business class service increased to RMB13.11 billion, representing a year-on-year increase of 12.7%
- The percentage of the Group's passenger transport direct sales has increased from 26% to 50.9%, and the percentage of agency commission expense of the marketing revenue has decreased from 4.2% to 1.5%

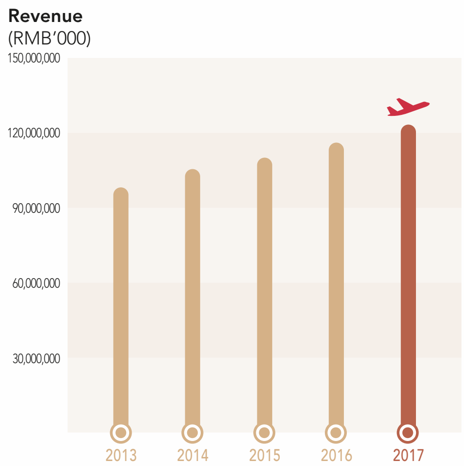
SUMMARY OF FINANCIAL INFORMATION

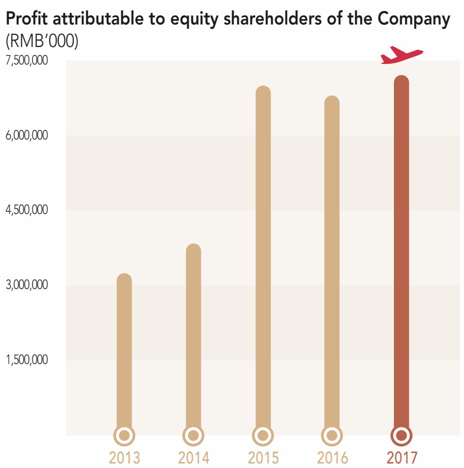
(RMB'000)

	2017	2016	2015	2014	2013
Revenue	**124,026,202**	115,144,692	110,057,034	105,964,897	98,265,058
Profit from operations	**11,755,712**	17,532,575	15,551,622	7,257,047	4,091,469
Profit before taxation	**11,486,232**	10,212,902	9,355,251	5,134,866	4,592,283
Profit after taxation (including profit attributable to non-controlling interests)	**8,641,449**	7,758,681	7,509,487	4,334,102	3,667,422
Profit attributable to non-controlling interests	**1,397,128**	949,522	446,140	481,610	396,595
Profit attributable to equity shareholders of the Company	**7,244,321**	6,809,159	7,063,347	3,852,492	3,270,827
EBITDA(1)	**25,352,031**	31,006,295	28,562,383	18,650,476	15,119,959
EBITDAR(2)	**33,740,737**	38,261,866	34,725,582	24,131,141	20,044,184
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.54**	0.55	0.57	0.31	0.27
Return on equity attributable to equity shareholders of the Company (%)	**8.42**	9.90	11.82	7.10	6.06

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

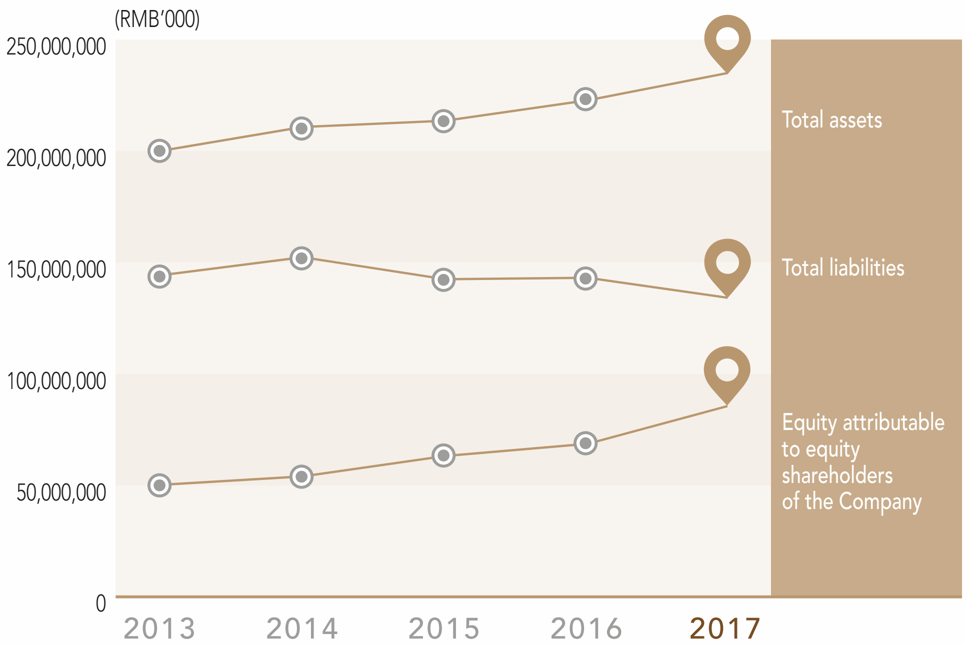
(2) EBITDAR represents EBITDA before deducting operating lease expenses on aircraft and engines as well as other operating lease expenses.





(RMB'000)

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Total assets	**235,644,584**	224,050,951	213,631,150	211,669,694	206,194,704
Total liabilities	**140,785,986**	147,654,552	147,108,397	151,791,604	147,908,961
Non-controlling interests	**8,811,036**	7,597,144	6,774,742	5,604,325	4,268,650
Equity attributable to equity shareholders of the Company	**86,047,562**	68,799,255	59,748,011	54,273,765	54,017,093
Equity attributable to equity shareholders of the Company per share (RMB)	**5.92**	5.26	4.57	4.15	4.13

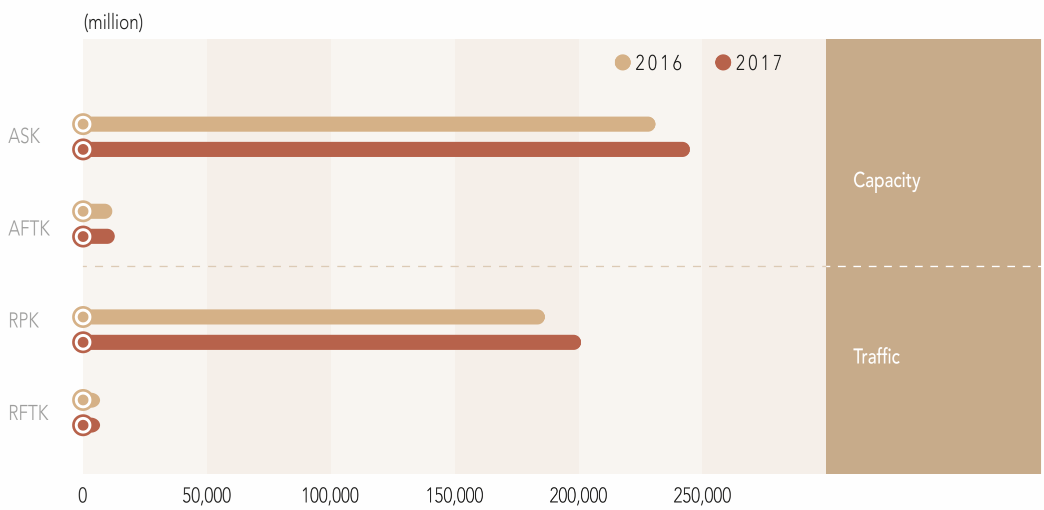


SUMMARY OF OPERATING DATA

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

	2017	2016	Increase/(decrease)
Capacity			
ASK (million)	**247,815.03**	233,218.05	6.26%
International	**90,723.28**	84,158.87	7.80%
Mainland China	**147,938.97**	139,720.36	5.88%
Hong Kong, Macau and Taiwan	**9,152.77**	9,338.82	(1.99%)
AFTK (million)	**13,319.36**	12,736.96	4.57%
International	**8,871.19**	8,845.06	0.30%
Mainland China	**4,169.82**	3,613.37	15.40%
Hong Kong, Macau and Taiwan	**278.35**	278.54	(0.07%)
ATK (million)	**35,672.57**	33,776.53	5.61%
Traffic			
RPK (million)	**201,078.49**	188,158.21	6.87%
International	**71,039.18**	65,445.49	8.55%
Mainland China	**122,876.89**	115,744.65	6.16%
Hong Kong, Macau and Taiwan	**7,162.42**	6,968.07	2.79%
RFTK (million)	**7,552.65**	6,995.06	7.97%
International	**5,791.72**	5,238.68	10.56%
Mainland China	**1,646.49**	1,649.43	(0.18%)
Hong Kong, Macau and Taiwan	**114.44**	106.95	7.00%
Passengers carried (thousand)	**101,576.66**	96,605.87	5.15%
International	**13,487.46**	13,250.22	1.79%
Mainland China	**83,524.14**	78,901.28	5.86%
Hong Kong, Macau and Taiwan	**4,565.07**	4,454.37	2.49%
Cargo and mail carried (tonnes)	**1,841,636.93**	1,769,146.31	4.10%
Kilometres flown (million)	**1,323.36**	1,274.88	3.80%
Block hours (thousand)	**2,115.24**	2,028.68	4.27%
Number of flights	**670,505**	651,108	2.98%
International	**86,005**	86,545	(0.62%)
Mainland China	**549,955**	529,431	3.88%
Hong Kong, Macau and Taiwan	**34,545**	35,132	(1.67%)

	2017	2016	Increase/(decrease)
RTK (million)	**25,385.38**	23,697.62	7.12%
Load factor			
Passenger load factor (RPK/ASK)	**81.14%**	80.68%	0.46ppt
International	**78.30%**	77.76%	0.54ppt
Mainland China	**83.06%**	82.84%	0.22ppt
Hong Kong, Macau and Taiwan	**78.25%**	74.61%	3.64ppt
Cargo and mail load factor (RFTK/AFTK)	**56.70%**	54.92%	1.78ppt
International	**65.29%**	59.23%	6.06ppt
Mainland China	**39.49%**	45.65%	(6.16ppt)
Hong Kong, Macau and Taiwan	**41.11%**	38.40%	2.71ppt
Overall load factor (RTK/ATK)	**71.16%**	70.16%	1.00ppt
Daily utilisation of aircraft (block hours per day per aircraft)	**9.47**	9.56	(0.09hr)
Yield			
Yield per RPK (RMB)	**0.5227**	0.5259	(0.61%)
International	**0.4067**	0.4282	(5.03%)
Mainland China	**0.5772**	0.5682	1.58%
Hong Kong, Macau and Taiwan	**0.7373**	0.7393	(0.27%)
Yield per RFTK (RMB)	**1.3578**	1.1873	14.36%
International	**1.3735**	1.1685	17.55%
Mainland China	**1.1700**	1.1646	0.46%
Hong Kong, Macau and Taiwan	**3.2608**	2.4570	32.71%
Unit cost (RMB)			
Operating cost per ASK	**0.4530**	0.4185	8.24%
Operating cost per ATK	**3.1473**	2.8899	8.90%



CHAIRMAN'S STATEMENT

Cai Jianjiang
Chairman

2017 is an important year when the 19th National Congress of the Communist Party of China was successfully held, and the comprehensive implementation of the 13th Five-year Plan has entered a crucial stage. Air China studied and implemented Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and strived to guide its reform and development with new ideas, new thinking and new strategies, forge ahead and work in a down-to-earth way. The Group also spared no effort in safety management and strove to economic benefit, actively improved the service quality. We continuously pushed forward the deepening of reform, intensified the Party building, focused on the strategic target of becoming a top-tier aviation group in the world with global competitiveness, and achieved positive and stable progress in all aspects.

During the reporting period, the Group adhered to the general keynote of making progress while maintaining stability and quality and profit were improved significantly. In 2017, we recorded a profit before tax of RMB11,486 million, with a year-on-year increase of 12.47%. The net profit attributable to equity shareholders of the Company was RMB7,244 million, representing a year-on-year increase of 6.39%. We recorded 2.117 million accident-free flight hours, with a year-on-year increase of 4.2%; traffic measured by RTK reached 25,385 million tonne kilometres, with a year-on-year increase of 7.12%; 102 million passengers were carried, with a year-on-year increase of 5.15%; the passenger load factor was 81.14%, up by 0.46 percentage point year on year.

Continue to expand our route network and enhance airport hub construction. In view of the national development strategies including the Belt and Road Initiative and the coordinated development of the Beijing-Tianjin-Hebei region, 49 domestic routes such as Beijing-Maotai and 12 international and regional routes such as Beijing-Astana were newly launched in 2017. We have also made efforts to accelerate the consolidation of layout of the global route network covering six continents, which is connected by the nodes of Beijing, Chengdu, Shanghai and Shenzhen. The flight bank structure has been under continuous optimization and the number of O&D connected reached 5,918; the transfer capacity and quality continuously increased. The interlining service revenue reached RMB5.51 billion, representing a year-on-year increase of 15.3%. Luggage checking through service is now provided to all flights from Europe, North America and Australia transferring to domestic routes via Beijing and the competitiveness of our hubs were strengthened.

Steadily improve marketing capability and accelerate business model transformation. As at the end of the reporting period, the number of our frequent flyer member exceeded 50 million contributing 43.7%

of our total revenue, representing a year-on-year increase of 3.8 percentage point. Due to the continuous efforts devoted to improving our mobile application platform, a turnover of RMB5.02 billion was recorded, representing a year-on-year increase of 39.4%. We conducted in-depth studies on passenger demands, and this has helped us to increase the revenue contributed by first class and business class service to RMB13.11 billion, representing a year-on-year increase of 12.7%. The revenue generated from ancillary services such as paid seat selection, prepaid luggage and boarding gate upgrade recorded a year-on year increase of 32%. Air China Cargo has achieved positive operating results through exploring new business model, optimizing the arrangement of its routes and the structure of cargo sources, as well as focusing on the development and sale of high value-added services such as cold-chain logistics.

Promote premium brand strategy and improve service quality. Focusing on the concept of "Internet plus convenient transportation", we promoted products such as self-service check-in, self-service ticket endorsement, self-print itinerary and self-service luggage check-in on all routes and established the whole-process convenient travel service mode. We continuously improved our service hardware such as infrastructure and service software such as operating codes to improve service quality. We have also made efforts to promote the application of big data and the construction of "mobile cabin" to realize the timely transmission of operation related information and connect the whole service information chain. As the exclusive official partner of air passenger transport for the Beijing 2022 Winter Olympic and Paralympic Winter Games and the International Horticultural Exhibition 2019 Beijing China, the Group took such opportunity to promote its brand in a more innovative way and to build its brand image characterized by "the leader of civil aviation industry in China" and "international network coverage".

Strive to enhance cost control and maintain cost advantage. We devoted great energy to streamline and strengthen our management, and to improve the quality and efficiency of our services. We focused on the optimization of the operation of wide-body aircraft to improve our cost management system, strengthen cost process management and improve our performance. We actively carried out the policy of "Lower Leverage, Reduce Liability and Control Risk". As a result, as at 31 December 2017, the gearing ratio of the Group decreased by 6.15 percentage points to 59.75% compared with last year, which is at a relatively superior level in the industry. We promoted special projects such as "increase direct sales and reduce distribution costs", "reduce trade receivables and inventories" and "streamline management structure". Since 2014, the percentage of the Group's passenger transport direct sales has increased from 26% to 50.9%, and the percentage of agency commission expense of the marketing revenue has decreased from 4.2% to 1.5%. Therefore, our cost competitiveness was continuously improved.

2018 marks the 40th anniversary of the Reform and Opening of China, and also the first year to implement the guiding principles of the 19th National Congress of the Communist Party of China. The Group will fully implement the guiding principles of the 19th National Congress. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, adhering to the development principles of "Innovation, Coordination, Green, Openness and Sharing", we will focus on the reform on quality, efficiency and growth driver, carry out our work in a down-to-earth manner, prevent and mitigate risks and strengthen Party building, and will take a solid step towards the strategic goal of building a world-class aviation group by achieving further spectacular performance in safety, results, service and reform.

Cai Jianjiang
Chairman

Beijing, PRC
27 March 2018

In 2017, the Group's ASKs and RPKs reached 247,815 million and 201,078 million, representing a year-on-year increase of 6.26% and 6.87%, respectively. The passenger load factor was 81.14%, representing a year-on-year increase of 0.46 ppt. The Group's AFTKs and RFTKs reached 13,319 million and 7,553 million, representing a year-on-year increase of 4.57% and 7.97%, respectively. The Group's cargo and mail load factor was 56.70%, representing a year-on-year increase of 1.78 ppt.

DEVELOPMENT OF FLEET

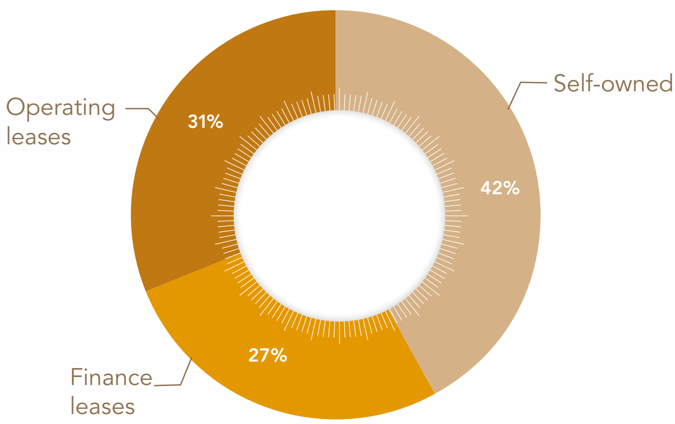
In 2017, the Group introduced 56 aircraft, (including six B787-9 aircraft, three B777-300ER aircraft, twenty-four B737 series aircraft (including seven B737-8MAX aircraft), six A330-300 aircraft, seventeen A320 series aircraft (including two A320NEO aircraft), among which seventeen were bought with our own funds, twenty-three were acquired under finance leases and sixteen were acquired under operating leases. And the Group phased out 24 aircraft (including three B777-200 aircraft, eighteen B737 series aircraft, two A320 series aircraft and one business jet). As at the end of 2017, the Group had a total of 655 aircraft, with an average age of 6.53 years (excluding aircraft under wet leases).

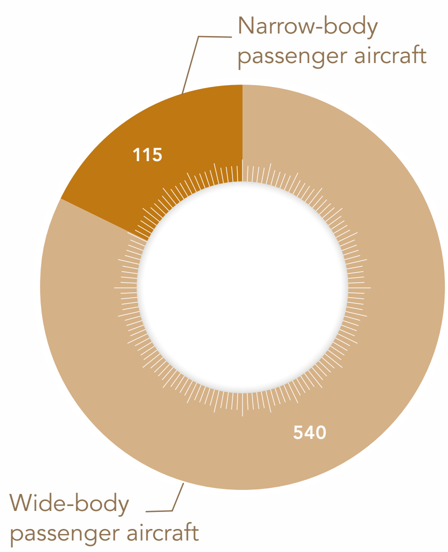
Details of the fleet of the Group are set out in the table below:

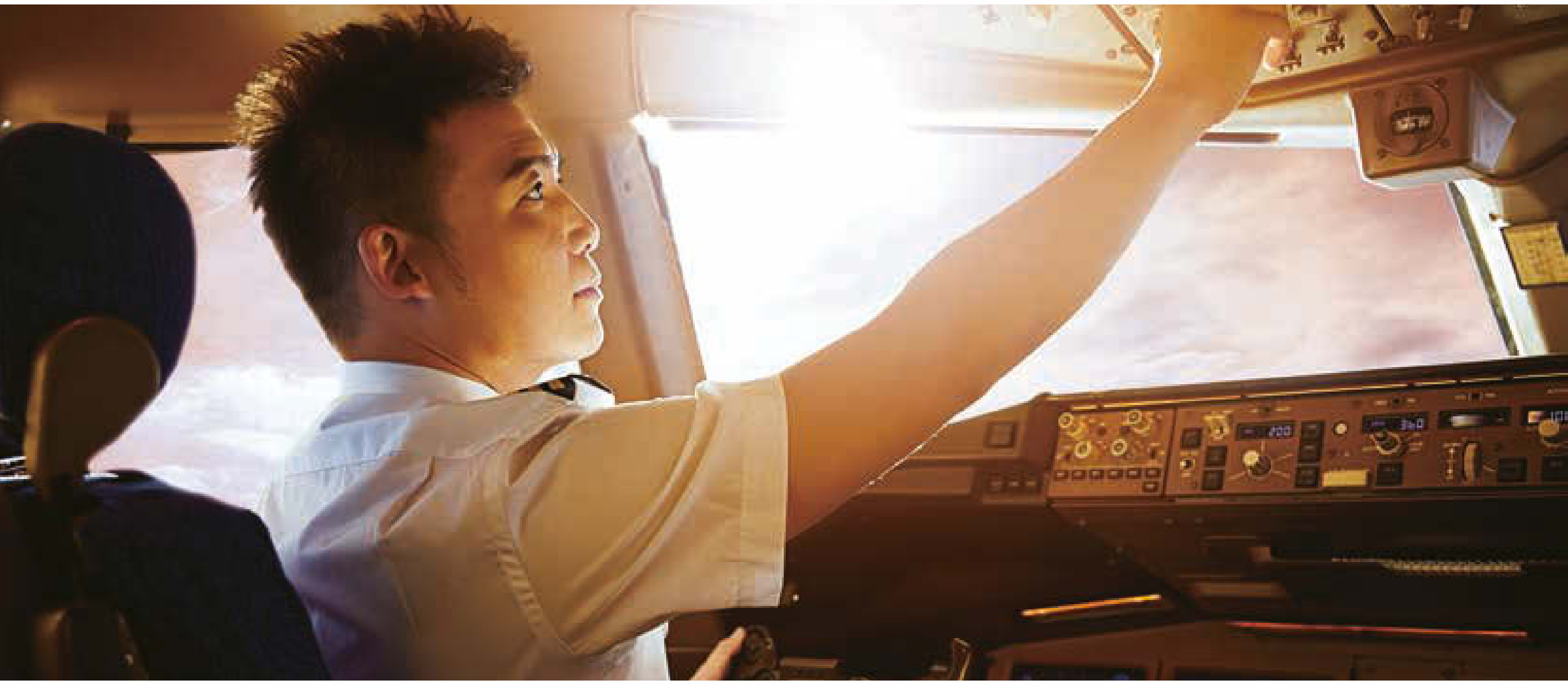
	31 December 2017				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Passenger aircraft	**634**	**265**	**171**	**198**	**6.45**
Airbus	**311**	**127**	**89**	**95**	**6.63**
A319	47	32	6	9	10.67
A320/A321	203	72	73	58	5.87
A330	61	23	10	28	6.05
Boeing	**323**	**138**	**82**	**103**	**6.26**
B737	269	110	64	95	6.42
B747	11	9	2	0	9.96
B777	30	8	16	6	5.79
B787	13	11	0	2	0.94
Cargo air-craft	**15**	**10**	**5**	**0**	**10.54**
B747F	3	3	0	0	15.53
B757F	4	4	0	0	21.35
B777F	8	3	5	0	3.26
Business jets	**6**	**1**	**0**	**5**	**5.28**
Total	**655**	**276**	**176**	**203**	**6.53**

Among the aircraft set out above, the Company operated a fleet of 396 aircraft in total, with an average age of 6.57 years (excluding aircraft under wet leases). The Company introduced 34 aircraft and phased out 19 aircraft among which one was leased to Dalian Airlines.

	Introduction Plan			Phase-out Plan		
	2018	2019	2020	2018	2019	2020
Passenger aircraft						
Airbus	**25**	**32**	**22**	**2**	**4**	**6**
A319	0	0	3	2	4	6
A320/A321	15	28	19	0	0	0
A330	4	0	0	0	0	0
A350	6	4	0	0	0	0
Boeing	**29**	**31**	**31**	**20**	**13**	**6**
B737	25	31	31	17	13	6
B777	2	0	0	3	0	0
B787	2	0	0	0	0	0
Total	**54**	**63**	**53**	**22**	**17**	**12**







In 2017, the Company made new progress in respect of hub network, sales and marketing, products and services, external cooperation, safety management, employee self-achievement, customer service, supplier management, environmental protection and social welfare, etc.

HUB NETWORK

The Company (including Dalian Airlines and Air China Inner Mongolia) newly launched or adjusted 61 domestic and international routes. As for the Beijing Hub, the Company launched international routes from Beijing to Astana, Zurich, Brisbane, etc., and domestic routes of Beijing-Maotai, Beijing-Zhengzhou-Shaoyang, Beijing-Harbin-Jiansanjiang, etc. The Company also boosted the flight frequency on the routes of Beijing-Islamabad-Karachi, Beijing-Urumchi and other international and domestic routes. The passenger visits to transiting hotels and lounges increased by 8.8% year-on-year, with continuous enhancement of our transiting service capabilities. The transiting passengers from overseas to domestic destinations via Beijing increased by 7.2% year-on-year; the number of O&D connected reached 5,918, and the super hub value of Beijing steadily increased. The Company continuously developed the Chengdu International Hub which launched new routes such as Chengdu-Shihezi-Yining, Chengdu-Hami, Chongqing-Nanchang and Chongqing-Taipei Songshan. Shanghai international gateway launched new routes such as Shanghai Pudong-Barcelona and Shanghai Pudong-Bangkok and Shenzhen international gateway launched new routes such as Shenzhen-Los Angeles, Guangzhou-Lanzhou and Guangzhou-Yinchuan. The quadrilateral network structure has been continuously optimized and the competitiveness of the hubs has been steadily improved. In addition, route network has been further developed and the interlining flights products have been further diversified by launching new international and domestic routes such as Dalian-Chengdu, Guiyang-Haikou, Hohhot-Xiamen, Tianjin-Lianyungang-Bangkok, Hangzhou-Phuket and Yuncheng-Hong Kong. In 2018, the Company plans to launch international long-distance routes such as Beijing-Panama City, Beijing-Copenhagen, Beijing-Barcelona, Chengdu-Bangkok, Chengdu-Bali, Hangzhou-Nha Trang and domestic routes such as Chengdu-Hongyuan-Lhasa and Chongqing-Urumqi.

As at 31 December 2017, the Company (including Dalian Airlines and Air China Inner Mongolia) was operating 420 passenger routes, with 101 international routes, 16 regional routes and 303 domestic routes. The above passenger routes reached 40 countries (regions) and 185 cities, including 66 international cities, 3 regions and 116 domestic cities. With Star Alliance, our network covered 1,330 destinations in 192 countries.

SALES AND MARKETING

The Company continuously strengthened our strength in domestic key bases and routes, optimized the capacity resources distribution, dynamically adjusted our domestic and international capacity deployment structure, made full use of slot resources and increased our deployment of wide-body aircraft for domestic routes in trunk markets. We also actively carried out our price priority strategy in response to the market dynamics and adjusted the ticket prices of 64 domestic routes, resulting in an increase in revenue of approximately RMB921 million throughout the year. The successful marketing of premium class drove a year-on-year increase in revenue from premium class of 12.7%. In addition, we reconstructed the business process and model of the frequent flier credit point accumulation platform, completed 16 upgrades to the mobile platform, optimized and added more than 450 functions, significantly enhancing customer experience. The total number of"Phoenix Miles" members amounted to 50.91 million and the electronization of frequent flier services has been materialized. With the significant increase of frequent fliers' satisfaction, loyalty, and consumption stickiness, revenue contribution was up by 19.6% compared to the same period last year, accounting for 43.7% of the revenue. Moreover, the Company continuously expanded our ancillary services and products to explore new business growth points. During the reporting period, our cumulative sales revenue from ancillary products reached RMB270 million, representing a year-on-year increase of 32%. Given our brand characteristics, the Company launched an IP image "Panda (胖安達)" with an aim to enhance our brand identity and spark public emotional resonance. As the exclusive official partner of air passenger transport for the Beijing 2022 Olympic and Paralympic Winter Games, our brand strategic plans have been systematically implemented so as to continuously establish our core competitiveness and long-term development capability.

PRODUCTS AND SERVICES

Focusing on the concept of "Internet plus convenient transportation", the Company has established a whole-process convenient travel service mode to build a one-stop intelligent air travel platform. New functions such as passport reading, self-service ticket endorsement and self-print itinerary were added to self-service check-in machines. With the introduction of new process of self-service baggage check with boarding pass, the growth rate of domestic passengers boarding through self-service check-in machines has reached 13%. During the reporting period, six self-operated lounges were newly built, rebuilt or expanded, with a newly-added area of 4,600 square meters; Chongqing and Wuhan lounges were officially launched. The design of a new passenger services interface such as seats, entertainment systems, cabin interiors and scene lighting for newly introduced aircraft such as A350, A320NEO and B737-8MAX has been completed, creating brand new product experience in the new aircraft. We also managed to launch and operate the "mobile cabin", realizing the timely transmission of air-ground information and connect the whole service information chain. We continued to revise or develop such rules and codes of service as Standards for Rain and Snow Proof Services for Passengers Embarking and Disembarking at the Apron (Trial) (《雨雪天氣遠機位旅客防雨雪服務標準(試行)》) and Regulations for Management of Injury, Death and Serious Diseases of Passengers (《旅客傷亡、重病事件處置管理規程》), Standards for Irregular Flight Services (《不正常航班服務標準》) and Standards for Donated Human Organ Transshipment Services (《人體捐獻器官運輸服務標準》), so as to further improve the standardization of services and reinforce the soft power of our services. We enhanced our service quality from the perspective of passengers with problem-oriented policies, and actively expanded the access to passengers' opinions, resulting in the significant increase of passengers' response rate.

EXTERNAL COOPERATION

During 2017, the Group formally commenced its cooperation with Lufthansa Group on jointly operating China-European routes. The parties have launched a united network plan to provide passengers with more convenient traveling options; carried out the joint corporate customer scheme to provide corporate customers with more attractive products; further optimized the frequent flier scheme to reward our frequent fliers; and enhanced the standard consistency for ground service, shared lounges and improved processes for irregular flights. By adopting such measures, service of the China-European routes has been continuously

improved, and our overall competitive strength in European market was obviously enhanced. Besides, we further deepened the joint operation with the Air New Zealand, and has initiated negotiation on joint operation with the Air Canada. We also engaged in code sharing arrangement with a Columbian airline, and currently cooperated with 36 airlines in code sharing and offered 14,467 code sharing flights per week. Last but not least, in 2017, the 10th year of joining the Star Alliance, the Company signed a memorandum of cooperation for the project "Move Under One Roof" with Star Alliance and Beijing Capital International Airport, with aims of facilitating development of the Beijing Capital International Airport and building it a first-class gateway airport, the achieving of which will greatly improve flight experiences in the futures. We also jointly carried out a series of programs with Star Alliance members, which includes but not limited to brand promotion under the theme of "20th anniversary of Star Alliance", fast customs clearance program and luggage hub program.

SAFETY MANAGEMENT

The Company upheld the development philosophy of "Safety First, Prevention First and Comprehensive Management". We embodied the statements and requirements in relation to new development philosophy, overall national security outlook, social governance and other aspects mentioned in the report of the 19th National Congress of the Communist Party of China into theories and guidelines of our safety work, and has maintained a stable safety record throughout the year. In 2017, the Company kept real time monitoring over those key risks and important sources of risk, proceeded safety inspections in orderly manners, and timely rectified the problems and hidden dangers identified with zero-tolerance attitude, thereby effectively preventing safety risk. In addition, we strictly controlled training quality and accelerated training progress, increased monitoring and troubleshooting efforts for common and recurrent failures, offered training and education to improved working style and service capability of our professional teams, and improved our emergency response capacity and organization and coordination ability to further consolidate our safety fundamentals. We earnestly performed our safety supervision duties, with security audit, special guidance, technical inspection and job conference in place to ensure that our investment enterprises had improved their safety management. We made sure that safety management has full coverage and good coordination between different business units, and no omission and ambiguity occurred in this respect.

EMPLOYEE SELF-ACHIEVEMENT

The Company respected and provided equality to each staff, safeguarded their legitimate rights and interests, expanded their growth channels and cared for their occupational health and personal life, wishing that all our employees could equally share our development fruits, and cohesive force of our Group and sense of belonging of our staffs could be strengthened. Specifically, we had built up a position management system, which provides unique career development channels for staffs to management, business and technical posts; we had formed a unique training system, which provides diversified training programs and training methods; we conducted comprehensive appraisal on our youth backbone and key talents at key positions through our self-developed "Assessment-oriented Method"; we continuously implemented "Happiness • Heart Program" to improve our employee's attention and knowledge on psychological health, and devoted efforts to improve their physical and psychological health; we spared no efforts to construct services sites outside Beijing to enlarge the service coverage for our staffs and facilitate their business processing; and we organized vocational skills competition, art festival and other recreational and sports activities to promote the communication between employees, hence raising their cohesion and sense of belonging.

CUSTOMER SERVICE

Adhering to its "Four Cs" service philosophy of "Credibility, Convenience, Comfort and Choice", the Company strived to continuously optimize its passenger service management system, and leveraging internet information technology, to further improve the software and hardware facilities in relation to the services of the whole process so as to improve the passengers' self-service experience. The Company took efforts to supplement and upgrade its service management system in accordance with the standards under ISO9001: 2015. The Company has further improved the flight punctuality rate by lowering the percentage of delayed flights caused by the Company, and would provide proof to passengers in respect of delay, cancellation and adjustment of flights through self-service channels including official website and mobile phone application so as to protect passengers' interest in the event of flight irregularity. Efforts have also been made to optimise the customer complaint responding mechanism and to promote on-line compensation channel so as

to make it more convenient for travelers to get due compensation. The Company also paid attention to the needs of special passengers and provide preferential tickets or discounted tickets to soldiers and disabled soldiers (including police officers) through on-line channel. Information encryption technologies have been adopted for personal data transmission to prevent the leakage of and safeguard the security of such data. In 2017, no mass event has occurred for reasons of the Company and the overall satisfaction level of passengers has improved.

SUPPLIER MANAGEMENT

The Company formulated "Integrated Implementation Plan for Centralized Procurement", based on which a centralized, efficient and transparent procurement management system and a system for regular publication of supplier information data base have been established; the Company has also enhanced suppliers' annual performance assessment, created a new mechanism of performance review and optimized its performance assessment system. In 2017, the Company admitted 551 suppliers and the number of total suppliers admitted reached 3,261, of which 3,150 are domestic suppliers and 111 are foreign suppliers.

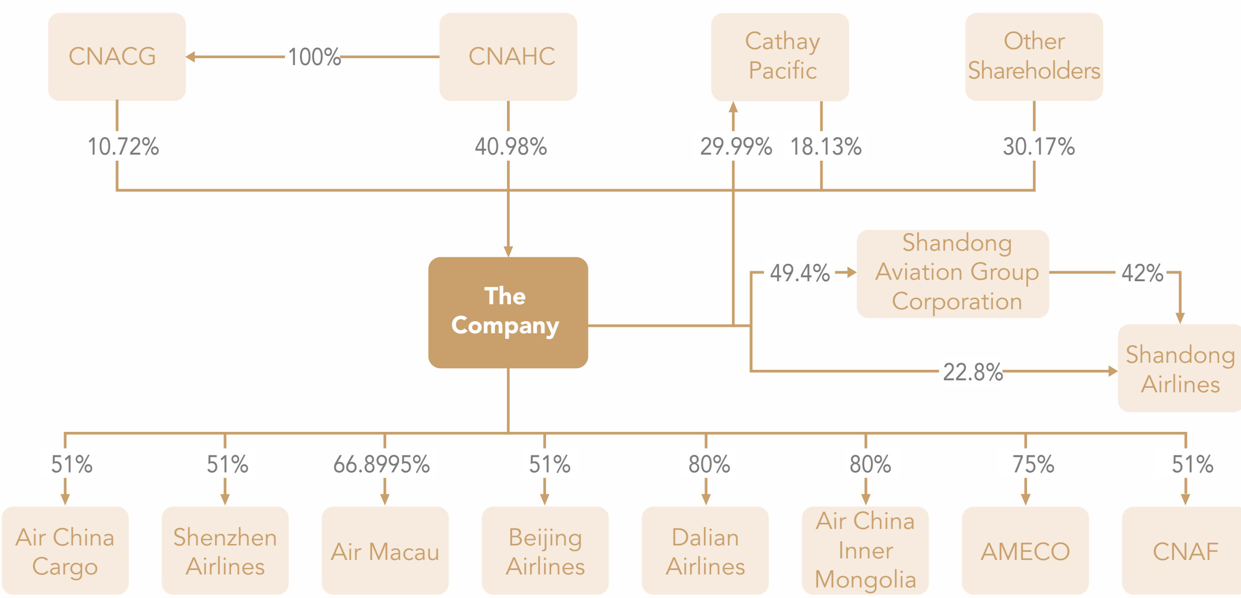
ENVIRONMENTAL PROTECTION

The Company adhered to the philosophy of "Green Operation for Sustainable Development" and continued to further implement the energy conservation and environmental protection policies of China. In accordance with the relevant requirements of the nation's environment-related laws and regulations, the Company has established systems covering the organization and mechanism of environment management. Based on the characteristics of the industry, the Company strengthened the construction of its energy management system and push forward the energy conservation and emission reduction work. Focusing on fuel saving management in its operation and the application of new technologies, the Company continuously reduced the energy consumption in fields which used to be deemed as trivial, through air route optimization, APU fuel saving and the improvement of ground facilities. The Company has paid significant attention to the development of new types of fuel, participated in relevant promotional activities and reduced emissions and pollution through implementation and research of projects such as "replace oil with electricity", solar power and low NOx transformation. The Company has also held environmental protection themed training courses and various promotional activities to elevate the environmental protection awareness of employees, passengers and the public. In 2017, the fuel efficiency of passenger aircraft was 0.2642 kilogram/tonne kilometer.

SOCIAL WELFARE

The Company has integrated the performance of social responsibility into its overall development planning for the purpose of making contribution to the community. In response to the Belt and Road Initiative, in 2017, the Company launched a number of new routes such as Beijing to Astana and Beijing to Zurich in order to promote international political, economic and cultural communication; and has successfully accomplished the transportation missions for the 19th Nation Congress of the Communist Party, the 13th National Games, "rescue operations in Sri Lanka" and "rescue operations in Jiuzhaigou". The Company contributed its efforts to precise poverty alleviation by fully utilising its own resource advantages and the characteristic resources in Sonid Right Banner, Xilingol League, the Inner Mongolia Autonomous Region and Zhaoping County, Guangxi Zhuang Autonomous Region, to help to enhance the independent development capability of the local communities and promote the rapid development of relevant industries so as to relieve the local communities from poverty sustainably. Caring for the growth of children, the Company conducted the "Star Route" teenager caring and supporting activities. In addition, the Company enhanced its communication with the community and promoted advanced culture with an aim to build a stable and harmonious social environment.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



1. Air China Cargo

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

As at 31 December 2017, Air China Cargo operated a fleet of 15 aircraft with an average age of 10.54 years.

In 2017, the AFTKs of Air China Cargo reached 12,176 million, representing a year-on-year increase of 3.66%. Its RFTKs reached 6,950 million, representing a year-on-year increase of 8.97%. The volume of cargo and mail carried was 1.4694 million tonnes, representing a year-on-year increase of 6.00%. The cargo and mail load factor was 57.08%, representing a year-on-year increase of 2.79 ppt.

In 2017, Air China Cargo recorded consolidated revenue of RMB11,264 million, representing an increase of 24.84%, of which cargo and mail transportation revenue amounted to RMB9,903 million, representing a year-on-year increase of 24.52%. The profit attributable to the equity shareholders was RMB1,104 million as compared to RMB11 million in the same period last year.

2. Shenzhen Airlines

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

As at 31 December 2017, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 203 aircraft with an average age of 6.20 years. During the year, 19 aircraft were introduced and 4 aircraft were phased out.

In 2017, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 59,792 million, representing a year-on-year increase of 3.39%. Its RPKs reached 49,346 million, representing a year-on-year increase of 3.23%. Shenzhen Airlines (including Kunming Airlines) carried 32.7086 million passengers, representing a year-on-year increase of 3.98%. The average passenger load factor was 82.53%, representing a year-on-year decrease of 0.13 ppt.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 981 million, representing a year-on-year increase of 17.06%. Its RFTKs reached 542 million, representing a year-on-year decrease of 3.39%. The volume of cargo and mail carried by Shenzhen Airlines was 0.3271 million tonnes, representing a year-on-year decrease of 4.02%, while the cargo and mail load factor was 55.24%, representing a year-on-year decrease of 11.72 ppt.

In 2017, Shenzhen Airlines recorded consolidated revenue of RMB28,052 million, representing a year-on-year increase of 6.58%, of which, air traffic revenue amounted to RMB26,778 million, representing a year-on-year increase of 6.63%. The profit attributable to equity shareholders was RMB1,439 million, representing a year-on-year decrease of 8.54%.

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 31 December 2017, Air Macau operated a fleet of 17 aircraft with an average age of 7.68 years. During the year, 1 new aircraft was introduced and 1 was phased out.

In 2017, the ASKs of Air Macau reached 6,161 million, representing a year-on-year decrease of 4.34%. Its RPKs reached 4,618 million, representing a year-on-year decrease of 2.12%. It carried a total of 2.7839 million passengers during the year, representing a year-on-year decrease of 0.74%, with an average passenger load factor of 74.96%, representing a year-on-year of increase of 1.71 ppt.

In terms of air cargo, the AFTKs of Air Macau reached 98.18 million, representing a year-on-year decrease of 4.70%. Its RFTKs reached 33.44 million, representing a year-on-year increase of 13.74%. 21,220 tonnes of cargo and mail were carried, representing a year-on-year increase of 10.80%; the cargo and mail load factor was 34.06%, representing a year-on-year increase of 5.52 ppt.

In 2017, Air Macau recorded a revenue of RMB2,872 million, representing a year-on-year increase of 6.56%, of which, air traffic revenue amounted to RMB2,602 million, representing a year-on-year increase of 8.49%. Profit after taxation was RMB66 million, representing a year-on-year increase of 173.45%.

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 31 December 2017, Beijing Airlines operated a fleet of 5 entrusted business jets and one self-owned business jet with an average age of 5.28 years. And 1 aircraft was phased out during the year.

In 2017, Beijing Airlines completed 477 flights, representing a year-on-year increase of 11.44%. It completed 1,676 flying hours, representing a year-on-year increase of 10.26%. It carried a total of 2,980 passengers, representing a year-on-year decrease of 5.64%.

In 2017, Beijing Airlines recorded a revenue of RMB125 million, representing a year-on-year decrease of 7.92%, of which, charter service revenue amounted to RMB28 million, representing a year-on-year decrease of 36.29%. The loss for the year was RMB37 million, as compared to profit after taxation of RMB0.7 million in 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 31 December 2017, Dalian Airlines operated a fleet of 11 aircraft with an average age of 4.57 years. 2 aircraft was introduced during the year.

In 2017, the ASKs of Dalian Airlines reached 2,767 million, representing a year-on-year increase of 14.62%. Its RPKs reached 2,334 million, representing a year-on-year increase of 13.96%. It carried a total of 2.1948 million passengers during the year, representing a year-on-year increase of 8.92%, with an average passenger load factor of 84.36%, representing a year-on-year decrease of 0.47 ppt.

In terms of air cargo, the AFTKs of Dalian Airlines reached 34.9309 million, representing a year-on-year increase of 12.01%. Its RFTKs reached 15.3284 million, representing a year-on-year decrease of 0.99%. It carried a total of 13,704.87 tonnes of cargo and mail during the year, representing a year-on-year increase of 0.38%. Its cargo and mail load factor was 43.88%, representing a year-on-year decrease of 5.77 ppt.

In 2017, Dalian Airlines recorded revenue of RMB1,483 million, representing a year-on-year increase of 12.62%, of which, air traffic revenue amounted to RMB1,478 million, representing a year-on-year increase of 12.28%. Profit after taxation was RMB133 million, representing a year-on-year increase of 17.29%.

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 31 December 2017, Air China Inner Mongolia operated a fleet of 7 aircraft with an average age of 6.44 years.1 aircraft was introduced during the year.

In 2017, the ASKs of Air China Inner Mongolia reached 1,728 million, representing a year-on-year increase of 22.64%. Its RPKs reached 1,400 million, representing a year-on-year increase of 22.48%. It carried a total of 1.4243 million passengers during the year, representing a year-on-year increase of 23.29%, with an average passenger load factor of 81.03%, representing a year-on-year decrease of 0.04 ppt.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 28.5941 million, representing a year-on-year increase of 59.11%. Its RFTKs reached 11.4196 million, representing a year-on-year increase of 2.40%. The amount of cargo and mail carried by Air China Inner Mongolia was 10,257.53 tonnes, representing a year-on-year increase of 10.08%, with a cargo and mail load factor of 39.94%, representing a year-on-year decrease of 22.12 ppt.

In 2017, Air China Inner Mongolia recorded a revenue of RMB1,122 million, representing a year-on-year increase of 20.63%, of which, air traffic revenue amounted to RMB1,097 million, representing a year-on-year increase of 21.24%. Profit after taxation was RMB97 million, representing a year-on-year decrease of 22.15%.

7. AMECO

AMECO was established in 1989 and principally engages in maintenance services of aircraft, engine and and components. The registered capital of AMECO is US300,052,800, and Air China holds 75% of its equity interest.

In 2017, AMECO recorded a revenue of RMB7,287 million, representing a year-on-year increase of 6.75% and profit after taxation amounted to RMB165 million, representing a year-on-year increase of 79.63%.

8. CNAF

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

In 2017, CNAF recorded a revenue of RMB228 million, representing a year-on-year increase of 26.75%, and profit after taxation of RMB77 million, representing a year-on-year increase of 31.83%.

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 31 December 2017, Cathay Pacific operated a fleet of 208 aircraft with an average age of 9.3 years. 12 aircraft were introduced and 6 were phased out during the year.

In 2017, the ASKs of Cathay Pacific reached 150.14 billion, representing a year-on-year increase of 2.8%. Its RPKs reached 126.66 billion, representing a year-on-year increase of 2.6%. A total of 34.820 million passengers were carried, representing a year-on-year increase of 1.4%, with an average passenger load factor of 84.4%, representing a year-on-year decrease of 0.1 ppt.

In terms of air cargo, the AFTKs of Cathay Pacific reached 17.16 billion, representing a year-on-year increase of 3.6%. Its RFTKs reached 11.63 billion, representing a year-on-year increase of 8.9%; it carried a total of 2.056 million tonnes of cargo and mail during the year, representing a year-on year increase of 10.9%; the cargo and mail load factor was 67.8%, representing a year-on year increase of 3.4 ppt.

In 2017, Cathay Pacific recorded consolidated revenue of RMB84,171 million, representing a year-on-year increase of 4.77%, of which, air traffic revenue amounted to RMB78,138 million, representing a year-on-year increase of 3.71%. The loss attributable to equity shareholders for the year was RMB1,089 million, representing a year-on-year increase of 118.72% as compared to the loss attributable to equity shareholders of RMB498 million in the same period last year.

10. Shandong Airlines

Shandong Airlines was established in 1999 with a registered capital of RMB400 million. Shandong Airlines was owned as to 22.8% and 42% by Air China and Shandong Aviation Group Corporation, while Shandong Aviation Group Corporation was owned as to 49.4% by Air China.

As at 31 December 2017, Shandong Airlines operated a fleet of 113 aircraft with an average age of 4.91 years. 15 aircraft were introduced during the year.

In 2017, the ASKs of Shandong Airlines reached 39,665 million, representing a year-on-year increase of 16.71%. Its RPKs reached 32,984 million, representing a year-on-year increase of 24.7%. It carried a total of 23.1734 million passengers during the year, representing a year-on-year increase of 24.36%, with an average passenger load factor of 83.16%, representing an increase of 5.35 ppt compared to the year of 2016.

In terms of air cargo, the AFTKs of Shandong Airlines reached 661 million, representing a year-on-year increase of 11.12%. Its RFTKs reached 270 million, representing a year-on-year increase of 10.72%. It carried a total of 0.1623 million tonnes of cargo and mail during the year, representing a year-on-year increase 7.92%. The cargo and mail load factor was 40.76%, representing a decrease of 0.15 ppt compared to the year of 2016.

In 2017, Shandong Airlines recorded a revenue of RMB16,485 million, representing a year-on-year increase of 19.96%, of which, air traffic revenue amounted to RMB15,988 million, representing a year-on-year increase of 20.19%. The profit attributable to equity shareholders was RMB490 million, representing a year-on-year decrease of 7.97%.

OUTLOOK FOR FUTURE

Further development of consumption upgrade and continuous increase of demand

With China's economy maintaining a middle-to-high speed growth and the residents' income increasing rapidly, the middle-income population and consumption capacity has been continuously expanding. Due to the rapid growth of the needs for personal travel such as tours and vacations, family visits and study abroad, the travel trend tends to be high-end, quality, convenient and customized, and it is expected more and more residents will take airplane as their prior choice of travelling means for self-funded tours and family visits. As a result, air travel will gain increasing popularity.

Due to supply-side reform, the punctuality of flights is expected to improve

The Civil Aviation Administration of China has issued "Several Policies and Measures on Controlling the Total Traffic and Adjusting Flight Structure to Improve the Punctuality Rate of Flights" which is designed to further improve flight punctuality through strictly controlling airport capacity and optimizing the allocation of flight slots resources. The Group, with an objective of constructing aviation hubs, will substantially benefit from the flight punctuality since flight punctuality is crucial for the transferring and connecting functions of these hubs. In the future, with the improvement of flight punctuality of the industry as a whole, the importance of these hubs will be further elevated.

With the implementation of pricing reform, marketisation of aviation industry will be further enhanced

The Civil Aviation Administration of China and National Development and Reform Commission have promulgated new

pricing policies for civil aviation, in the light of which marketized ticket price shall be applied to routes between first-tier cities and most of other routes with huge traffic. Thus, aviation companies will be able to develop different products and services according to their respective advantages and development models, which will be beneficial for the differentiated development of various aviation companies in the industry.

Intense competition will continue in the industry, and the impacts of high-speed rail as alternative will come to a stable level

The further implementation of the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt and the Belt and Road Initiative, together with the construction of Guangdong-Hong Kong-Macao Bay Area, has provided opportunities for aviation companies to further explore market potentials. However, as a result of the relatively low market access barrier and the rapid development of low cost airlines in China, at the present, a number of major airports have been under almost full operation and the competition for traffic rights and flight slots resources is getting even more intense. Under such background, the Group has constructed a rhombus shape network with Beijing, Chengdu, Shanghai and Shenzhen as the four vertexes and has established strong competitive advantages in major airports across China. The Group will continue to push forward the development of its four hubs/portals in order to enhance the transferring capability, expand the coverage of the airline routes and optimise the network structure for the purpose of providing passengers with quality products and services.

The development of high-speed rail in China has entered a stable stage and a relatively mature route network has been established. Although leveraging the advantages in price and punctuality rate, highspeed rail has caused obvious diversion impacts on routes within the range of 800-1,000 kilometres, aviation companies has mitigated such impacts by adjusting route network and layout. In the medium-to-long term, the diversion pressure imposed on aviation companies by the competition from high-speed rail will gradually weaken. The Group has achieved a balance between domestic and overseas routes while the average distance for domestic routes is relatively longer compared with other airlines, and through continuous route network structure adjustment, the diversion impacts of high-speed rail will be further reduced.

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

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

PROFIT ANALYSIS

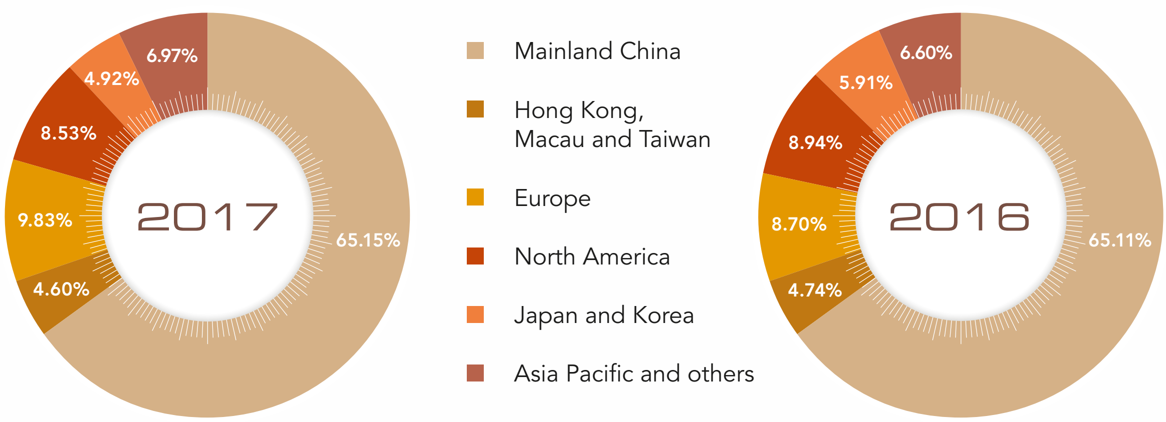
In 2017, the Group proactively grasped market opportunities, and further strengthened the advantages of our core air traffic business by adopting measures such as expanding the scale of production, optimising operational arrangement, stabilising the yield level and refining cost control. During the reporting period, despite of influences of unfavorable factors such as the oil price rebound, the Group still achieved satisfactory results. During the reporting period, the Group recorded a profit after tax of RMB8,641 million, representing a year-on-year increase of 11.38%.

REVENUE

In 2017, the Group's revenue was RMB124,026 million, representing an increase of RMB8,882 million or 7.71% as compared with last year. Among which, air traffic revenue was RMB115,380 million, representing an increase of RMB8,082 million or 7.53% as compared with last year; other operating revenue was RMB8,646 million, representing a year-on-year increase of RMB800 million or 10.19%.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**80,800,286**	**65.15%**	74,968,688	65.11%	7.78%
Hong Kong, Macau and Taiwan	**5,710,565**	**4.60%**	5,460,001	4.74%	4.59%
Europe	**12,187,864**	**9.83%**	10,015,695	8.70%	21.69%
North America	**10,576,506**	**8.53%**	10,294,873	8.94%	2.74%
Japan and Korea	**6,108,205**	**4.92%**	6,800,675	5.91%	(10.18%)
Asia Pacific and others	**8,642,776**	**6.97%**	7,604,760	6.60%	13.65%
Total	**124,026,202**	**100.00%**	115,144,692	100.00%	7.71%



AIR PASSENGER REVENUE

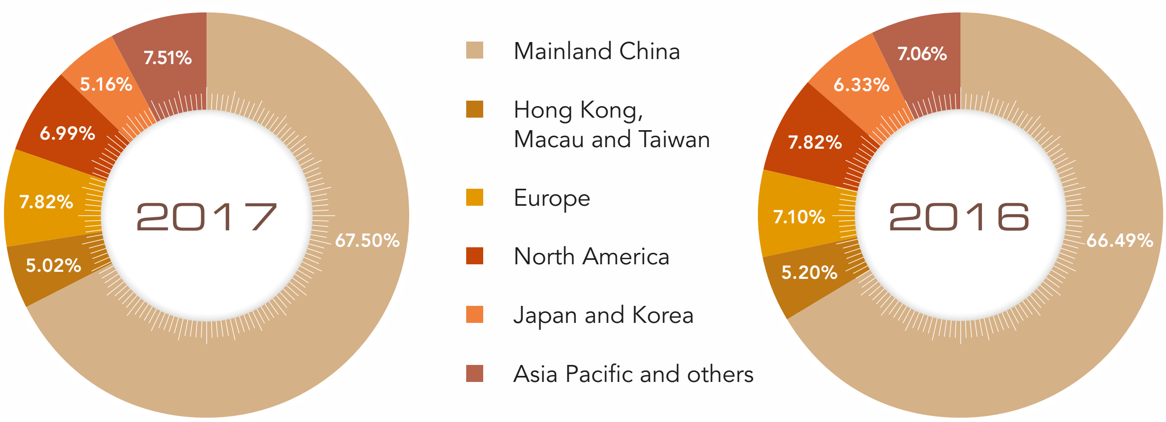
In 2017, the Group recorded an air passenger revenue of RMB105,125 million, representing an increase of RMB6,132 million over that of 2016. Among the air passenger revenue, the increase of capacity contributed an increase of RMB6,195 million to the revenue, and the increase of passenger load factor brought an increase of RMB602 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB665 million.

The Group's capacity, passenger load factor and yield per RPK in 2017 are as follows:

	2017	2016	Change
Available seat kilometres (million)	**247,815.03**	233,218.05	6.26%
Passenger load factor (%)	**81.14**	80.68	0.46ppt
Yield per RPK (RMB)	**0.5227**	0.5259	(0.61%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**70,953,284**	**67.50%**	65,815,143	66.49%	7.81%
Hong Kong, Macau and Taiwan	**5,280,870**	**5.02%**	5,151,510	5.20%	2.51%
Europe	**8,218,696**	**7.82%**	7,031,555	7.10%	16.88%
North America	**7,350,972**	**6.99%**	7,740,515	7.82%	(5.03%)
Japan and Korea	**5,428,488**	**5.16%**	6,269,045	6.33%	(13.41%)
Asia Pacific and others	**7,892,974**	**7.51%**	6,985,124	7.06%	13.00%
Total	**105,125,284**	**100.00%**	98,992,892	100.00%	6.19%



AIR CARGO AND MAIL REVENUE

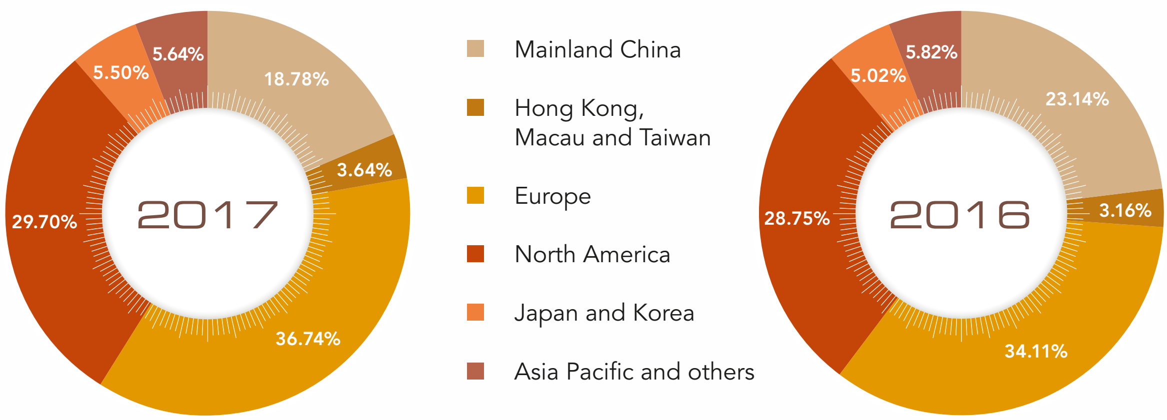
In 2017, the Group's air cargo and mail revenue was RMB10,255 million, representing an increase of RMB1,950 million as compared with last year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB380 million to the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB282 million, and the increase of yield of cargo and mail resulted in an increase of RMB1,288 million to the revenue.

The capacity, cargo and mail load factor and yield per RFTK in 2017 are as follows:

	2017	2016	Change
Available freight tonne kilometres (million)	**13,319.36**	12,736.96	4.57%
Cargo and mail load factor (%)	**56.70**	54.92	1.78ppt
Yield per RFTK (RMB)	**1.3578**	1.1873	14.36%

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,926,312**	**18.78%**	1,920,904	23.14%	0.28%
Hong Kong, Macau and Taiwan	**373,174**	**3.64%**	262,788	3.16%	42.01%
Europe	**3,767,678**	**36.74%**	2,832,908	34.11%	33.00%
North America	**3,045,317**	**29.70%**	2,387,878	28.75%	27.53%
Japan and Korea	**563,990**	**5.50%**	416,940	5.02%	35.27%
Asia Pacific and others	**578,170**	**5.64%**	483,610	5.82%	19.55%
Total	**10,254,641**	**100.00%**	8,305,028	100.00%	23.48%



OPERATING EXPENSES

In 2017, the Group's operating expenses were RMB112,270 million, representing an increase of 15.02% from RMB97,612 million in 2016. The breakdown of the operating expenses is set out below:

(RMB'000)	2017 Amount	2017 Percentage	2016 Amount	2016 Percentage	Change
Jet fuel costs	**28,409,213**	**25.30%**	21,981,934	22.52%	29.24%
Take-off, landing and depot charges	**13,863,338**	**12.35%**	12,774,220	13.09%	8.53%
Depreciation and amortisation	**13,596,319**	**12.11%**	13,473,720	13.80%	0.91%
Aircraft maintenance, repair and overhaul costs	**6,213,096**	**5.53%**	4,654,964	4.77%	33.47%
Employee compensation costs	**22,392,361**	**19.95%**	20,075,602	20.57%	11.54%
Air catering charges	**3,462,347**	**3.08%**	3,270,726	3.35%	5.86%
Selling and marketing expenses	**4,496,533**	**4.01%**	3,893,265	3.99%	15.50%
General and administrative expenses	**1,727,042**	**1.54%**	1,401,882	1.44%	23.19%
Others	**18,110,241**	**16.13%**	16,085,804	16.47%	12.59%
Total	**112,270,490**	**100.00%**	97,612,117	100.00%	15.02%

- Jet fuel costs increased by RMB6,427 million or 29.24% on a year-on-year basis, mainly due to the increase in the consumption and the prices of jet fuel.

- Take-off, landing and depot charges increased by RMB1,089 million on a year-on-year basis, primarily due to an increase in the number of take-offs and landings.

- Aircraft maintenance, repair and overhaul costs increased by RMB1,558 million on a year-on-year basis, mainly due to the expansion of fleet size.

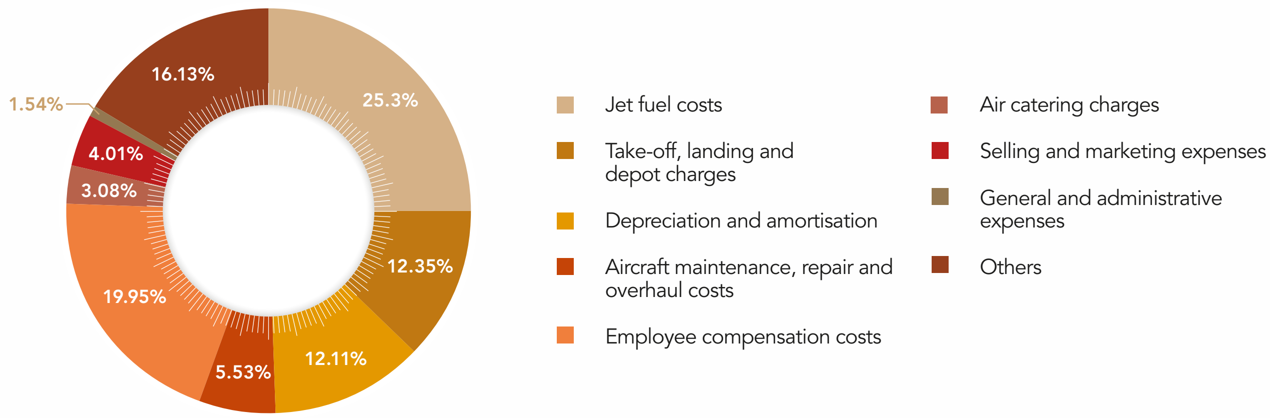
- Employee compensation costs increased by RMB2,317 million, mainly due to the increase in number of employees and the impact of the adjustment of employee compensation level.

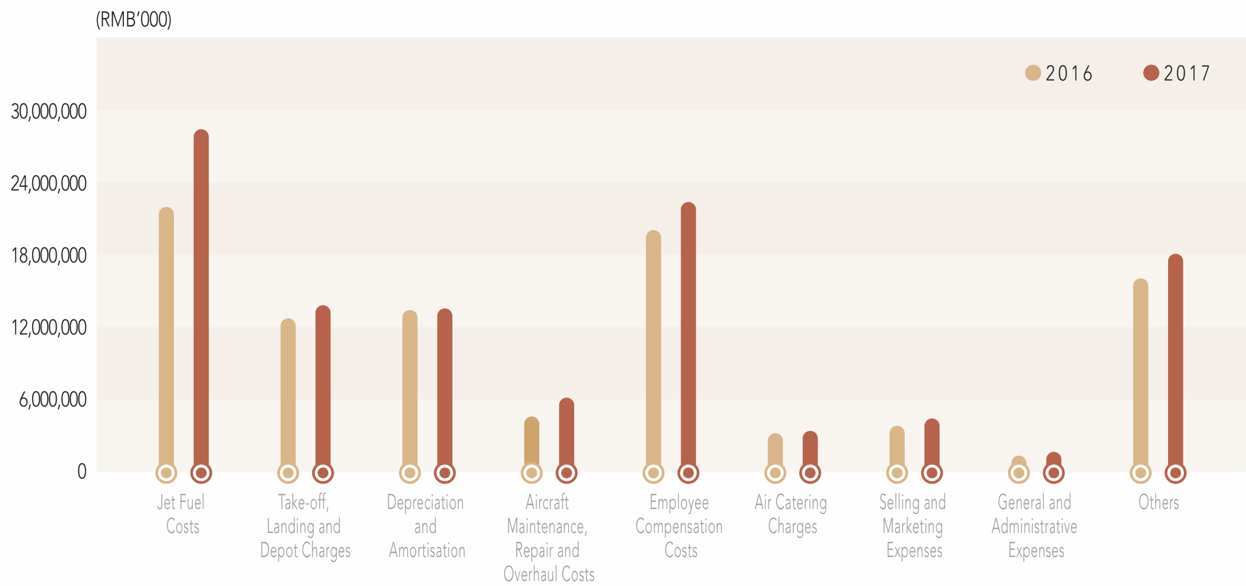
- Air catering charges increased by RMB192 million, mainly due to the increase in the number of passengers.

- Sales and marketing expenses increased by RMB603 million on a year-on-year basis, mainly due to the increase in agency fees and fees charged for computer reservation services.

- General and administrative expenses increased by RMB325 million on a year-on-year basis, mainly due to the increase in provision for impairment of accounts receivable.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from our core air traffic business. Other operating expenses increased by 12.59% as compared to the previous year, mainly due to, among others, the year-on-year increase in the operating lease expenses of aircraft, engines and premises, etc. and the increase in the contributions to the civil aviation development fund during the year.





OTHER INCOME AND GAINS AND FINANCE COSTS

In 2017, the Group recorded an interest income of RMB224 million, representing a year-on-year increase of RMB97 million or 76.07%; and incurred an interest expense (excluding the capitalised portion) of RMB3,055 million, representing a year-on-year decrease of RMB180 million. In 2017, the Group recorded a net exchange gain of RMB2,938 million, as compared to the net exchange loss of RMB4,234 million for the same period of 2016, which was mainly due to the depreciation in the exchange rate of US dollars against RMB during the reporting period.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

In 2017, the Group's share of results of its associates and joint ventures was a loss of RMB376 million, as compared to the share of results of its associates and joint ventures as a profit of RMB22 million for the same period of 2016, mainly due to the decrease in the profits of Cathay Pacific (an associate of the Group) this year. The Group recorded a loss on investment of Cathay Pacific of RMB986 million during the reporting period, representing a year-on-year increase of RMB327 million.

MATERIAL ACQUISITIONS AND DISPOSALS

In 2017, the Company did not make any material acquisitions and disposals of subsidiaries, associates or joint ventures.

ASSETS STRUCTURE ANALYSIS

As at 31 December 2017, the total assets of the Group amounted to RMB235,645 million, representing a year-on-year increase of 5.17%, among which current assets accounted for RMB20,760 million or 8.81% of the total assets, while non-current assets accounted for RMB214,885 million or 91.19% of the total assets.

Among the current assets, cash and cash equivalents were RMB5,563 million, accounting for 26.80% of the current assets and representing a decrease of 18.77% from the beginning of 2017. The decrease was mainly due to the improvement of the Group in utilisation efficiency of financial funds.

Among the non-current assets, the net book value of property, plant and equipment amounted to RMB168,536 million, accounting for 78.43% of the non-current assets and representing a year-on-year increase of 6.66%, which was primarily due to the increase in the number of self-owned and financing leased aircraft during the year.

ASSET MORTGAGE

As at 31 December 2017, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated net book value of approximately RMB81,064 million (RMB84,030 million as at 31 December 2016) and land use rights with net book value of approximately RMB34 million (RMB35 million as at 31 December 2016). In addition, as at 31 December 2017, the Group had restricted bank deposits of approximately RMB697 million (approximately RMB474 million as at 31 December 2016), which were mainly reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

In 2017, the Company's capital expenditure amounted to a total of RMB19,617 million, of which the total investment in aircraft and engines was RMB18,493 million. Other capital expenditure investment amounted to RMB1,124 million, mainly including investments in aircraft modifications, flight simulators, infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2017, the Group's equity investment in its associates amounted to RMB14,200 million, representing an increase of 0.13% from the beginning of 2017. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB11,469 million, RMB1,301 million and RMB888 million, respectively, with such companies recording profits of RMB-768 million, RMB604 million and RMB490 million, respectively for the year of 2017.

As at 31 December 2017, the Group's equity investment in its joint ventures was RMB1,239 million, representing an increase of 9.97% from the beginning of 2017, mainly due to the impact of the recognition of investment income from the joint ventures during the year.

DEBT STRUCTURE ANALYSIS

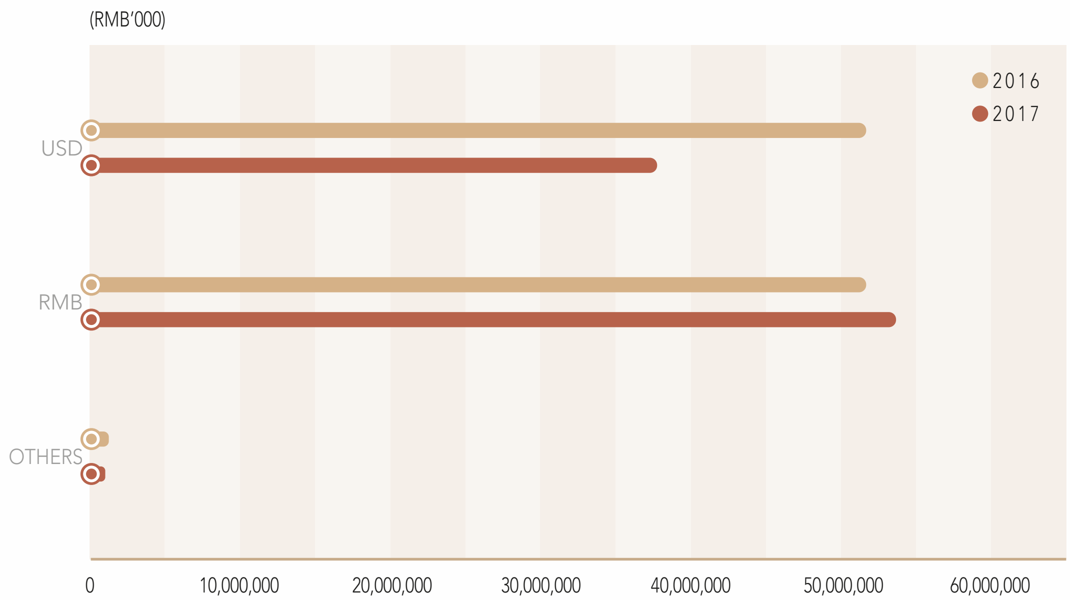
As at 31 December 2017, the Group's total liabilities were RMB140,786 million, representing a year-on-year decrease of 4.65%. Among which, current liabilities amounted to RMB72,132 million, accounting for 51.24% of the total liabilities; and non-current liabilities amounted to RMB68,654 million, accounting for 48.76% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings and obligations under finance leases) amounted to RMB34,892 million, representing an increase of 8.78% from the beginning of 2017.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and obligations under finance leases) amounted to RMB59,907 million, representing a decrease of 19.19% from the beginning of 2017.

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

(RMB'000)	2017 Amount	2017 Percentage	2016 Amount	2016 Percentage	Change
US dollars	**38,719,435**	**40.84%**	52,170,383	49.12%	(25.78%)
RMB	**54,830,969**	**57.84%**	52,434,834	49.37%	4.57%
Others	**1,248,538**	**1.32%**	1,598,669	1.51%	(21.90%)
Total	**94,798,942**	**100.00%**	106,203,886	100.00%	(10.74%)



COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 8.69% from RMB85,143 million as at 31 December 2016 to RMB77,742 million as at 31 December 2017. The Group's commitments under operating leases, which mainly consisted of the payments in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB51,391 million as at 31 December 2017, representing a year-on-year decrease of 1.49%. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB58 million as at 31 December 2017, representing a decrease of RMB1 million from RMB59 million as at 31 December 2016.

Details of the Group's contingent liabilities are set out in Note 43 to the financial statements of the Group for 2017.

CAPITAL EXPENDITURE PLAN AND RELEVANT FINANCING PLAN FOR AIRCRAFT AND RELATED EQUIPMENT FOR THE COMING THREE YEARS

The Group has set the total budgeted capital expenditure for aircraft and related equipment at RMB97,973 million, of which RMB29,553 million, RMB37,143 million and RMB31,277 million have been allocated to the years of 2018, 2019 and 2020 respectively. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or debt financing.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio (total liabilities divided by total assets) was 59.75%, representing a decrease of 6.15 percentage points from 65.90% as at 31 December 2016, such decrease was mainly due to the non-public issuance of A Shares during the reporting period. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2017, the Group's net current liabilities (current liabilities minus current assets) were RMB51,372 million, representing an increase of RMB7,178 million as compared to the previous year. The increase in net current liabilities was mainly due to the increase in short-term interest-bearing bank loans and other borrowings. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.29, representing a decrease from 0.31 as at 31 December 2016.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2017, the Group's net cash inflow from operating activities was RMB22,837 million, representing a decrease of 16.55% from RMB27,366 million in 2016, which is mainly due to the increase of jet fuel costs. Net cash outflow from investment activities was RMB14,653 million, representing a decrease of 22.93% from RMB19,013 million in 2016, mainly due to the year-on-year decrease in the cash payment of advances and remaining balances for aircraft during the reporting period. Net cash outflow from financing activities amounted to RMB9,302 million, representing an increase of 5.92% from RMB8,781 million in 2016, mainly due to the increase in debt repayment during the reporting period. The Company has obtained bank facilities of up to RMB171,567 million granted by several banks in the PRC, among which approximately RMB23,004 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

RISK FACTORS

Risks of Market Fluctuation

The demand in the air transport market is closely linked to the economic growth and the level of disposable national income. China's economy has managed to maintain its speedy growth. Accompanied by the continuously deepening of economic restructuring, the pressure of prospective economic deterioration has eased. And while, with the interlaced impact of the structural and cyclical factors, coupled with international political turmoil and such other external uncertainties, the pressure of economic slowdown and risk of market volatility still exist.

Risks of Competition

Risks of industry competition

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

Risks of alternative competition

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

Operating Risks

De-hubbing risks

The international reach from the airports of China's second-tier cities has been developing rapidly, with an obvious de-hubbing trend. Taking international long-distance routes above the range of 5,000 kilometres as example, in 2009, there were only three second-tier cities in China which operated international long-distance routes, and as of December 2017 the number has increased to 21. Long-distance route operations by the airports in the second-tier cities have been growing rapidly, which now covers Europe, America, Australia and Africa. With the gradual expansion of the routes, airlines with wide-body aircraft have been actively involved in the development of long-distance market in the second-tier cities. Such development will have certain impact on the Company's hubbed operations.

Risks of Oil Price Fluctuation

Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group is subject to the fluctuation of jet fuel price. In the future, with uncertainties in crude oil supply, the US dollar interest rate increase cycle and geopolitics, it is expected there still exist some risks of oil price fluctuation. In 2017, with the other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel cost will rise or fall by about RMB1,420 million. In view of this, the Group will closely monitor the trend of oil price and actively work on appropriate measures to control the risks that might be brought by oil price fluctuation with an aim to mitigate the potential impacts of such fluctuation on the Group.

Risks of Exchange Rate Fluctuation

Currently, with the positive prospects of global economy, the US and Europe are phasing out quantitative easing and monetary policies have been tightened. In addition, as the US further pushes forward its tax reform, the economic growth of the US will gain more driving force and more dollars will flow back to its domestic market, which in turn will promote the increase of US Dollar Index and create conditions for the increase of US dollar interest rate. As of March 2018, the Federal Reserve System has announced the first-round interest rate increase in 2018 with a total of 2 to 3 times of interest rate increase to be expected for the year. At the same time, with the further deepening of supply-side reform and the implementation of the Belt and Road Initiative of China, the high-quality growth of China's economy has established the foundation for the stability of RMB exchange rate. The trend of the exchange rate of RMB against USD is still unclear in 2018.

Some of the Group's foreign currency liabilities are denominated in US dollar and some of the Group's expenses are also denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's total profit and equity for the year of 2017 by RMB279 million. In response to this, taking into account its own income denominated in USD, the Group will flexibly adjust its debt structure on the basis of maintaining a relatively reasonable percentage of external debts, so as to minimize the exchange exposure to be brought by USD interest-bearing debts.

Details of the financial risk management objectives and policies of the Group are set out in note 45 to the financial statements of the Group for 2017.

The Company has been committed to maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency of the Group and deliver long-term return to its shareholders. The Company has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Code") during the year ended 31 December 2017 with the exception of Code Provision A.5.1. The Company's corporate governance practices are summarised and discussed below.

GOVERNANCE STRUCTURE

As at the date of this annual report, the governance structure of the Company is set out as follows:

Board of Directors
(comprising 1 executive Director, 3 non-executive Directors and 4 independent non-executive Directors)

Audit and Risk Control Committee
(comprising 3 independent non-executive Directors)

Nomination and Remuneration Committee
(comprising 2 independent non-executive Directors and 1 non-executive Director)

Strategy and Investment Committee
(comprising 1 independent non-executive Director, 1 non-executive Director and 1 executive Director)

Aviation Safety Committee
(comprising 1 independent non-executive Director, 1 non-executive Director and 1 executive Director)

MEMBERS OF THE FIFTH SESSION OF THE BOARD


Mr. Cai Jianjiang


Mr. Song Zhiyong


Mr. John Robert Slosar


Mr. Xue Yasong

All of the Directors have actively participated in the activities of the Company. The attendance records of all the Directors present in person at general meetings, Board meetings and meetings of each special committee in 2017 are as follows:

	General Meeting	Board	Nomination and Remuneration Committee	Audit and Risk Control Committee	Strategy and Investment Committee	Aviation Safety Committee
Number of Meetings	**4**	**12**	**6**	**8**	**2**	**1**
Non-executive Directors						
Cai Jianjiang *(Chairman)*	4/4	12/12	6/6		2/2	1/1
Cao Jianxiong *(ceased to act on 27 October 2017)*	3/4	10/10		6/7	1/1	
Feng Gang *(ceased to act on 27 October 2017)*	2/4	10/10			1/1	
John Robert Slosar	4/4	10/12				
Ian Sai Cheung Shiu *(ceased to act on 27 October 2017)*	4/4	10/10				
Executive Director						
Song Zhiyong *(President)*	3/4	12/12			2/2	1/1
Independent Non-executive Directors						
Pan Xiaojiang *(ceased to act on 25 May 2017)*	3/3	7/7	2/2	4/4		
Simon To Chi Keung *(ceased to act on 25 May 2017)*	3/3	7/7	2/2			
Wang Xiaokang *(elected on 25 May 2017)*	1/1	5/5	3/3			
Liu Deheng *(elected on 25 May 2017)*	1/1	5/5		4/4	1/1	
Stanley Hui Hon-chung	4/4	12/12		1/1		1/1
Li Dajin	4/4	12/12	6/6	8/8		


Mr. Wang Xiaokang


Mr. Liu Deheng


Mr. Stanley Hui Hon-chung


Mr. Li Dajin

Notes:

(1) For the year ended 31 December 2017, the number of Board meetings held, the convening procedures, minutes and records, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

(2) Mr. Pan Xiaojiang and Mr. Simon To Chi Keung ceased to act as independent non-executive Directors and members of the Nomination and Remuneration Committee on 25 May 2017. On 9 August 2017, Mr. Wang Xiaokang was appointed as a member of the Nomination and Remuneration Committee. As at 31 December 2017, the Nomination and Remuneration Committee comprised two independent non-executive Directors, namely Mr. Li Dajin and Mr. Wang Xiaokang and one non-executive Director, namely Mr. Cai Jianjiang, with Mr. Li Dajin serving as the Chairman of the committee.

(3) Mr. Pan Xiaojiang ceased to act as independent non-executive Director and the Chairman of the Audit and Risk Control Committee on 25 May 2017. On 9 August 2017, Mr. Liu Deheng was elected as the Chairman of the Audit and Risk Control Committee. Mr. Cao Jianxiong ceased to be non-executive Director and a member of the Audit and Risk Control Committee with effect from 27 October 2017 and Mr. Stanley Hui Hon-chung was appointed as a member of the Audit and Risk Control Committee on the same day. As at 31 December 2017, the Audit and Risk Control Committee comprised three independent non-executive Directors, namely Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, with Mr. Liu Deheng serving as the Chairman of the committee.

(4) Mr. Cao Jianxiong and Mr. Feng Gang ceased to act as non-executive Directors and members of the Strategy and Investment Committee on 27 October 2017. Mr. Liu Deheng was appointed as a member of the Strategy and Investment Committee on 27 October 2017. As at 31 December 2017, the Strategy and Investment Committee comprised one non-executive Director, namely Mr. Cai Jianjiang, one executive Director, namely Mr. Song Zhiyong and one independent non-executive Director, namely Mr. Liu Deheng, with Mr. Song Zhiyong serving as the Chairman of the committee.

(5) Mr. Feng Gang ceased to act as non-executive Director and a member of the Aviation Safety Committee on 27 October 2017, and Mr. Stanley Hui Hon-chung was appointed as a member of the Aviation Safety Committee on the same day. As at 31 December 2017, the Aviation Safety Committee comprised one non-executive Director, namely Mr. Cai Jianjiang, one executive Director, namely Mr. Song Zhiyong and one independent non-executive Director, namely Mr. Stanley Hui Hon-chung, with Mr. Song Zhiyong serving as the Chairman of the committee.

(6) Mr. Xue Yasong was elected as employee representative Director in 2018 and therefore did not attend the above meetings held in 2017.

MEMBERS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE


Mr. Wang Zhengang


Mr. He Chaofan


Ms. Xiao Yanjun


Ms. Li Guixia

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

Independent non-executive Directors shall comprise one third of the Board.

- As at 31 December 2017, the Board comprised 7 Directors, out of which four were independent non-executive Directors. The Directors are elected at the shareholders' general meeting for a three-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the four independent non-executive Directors, namely, Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, has confirmed their independence with the Hong Kong Stock Exchange when they were elected.

- The Company had already received from all independent non-executive Directors the annual statements concerning their independence in which each of the independent non-executive Directors re-confirmed their independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

The Directors shall have adequate skills and experience for the business of the Company.

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

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

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

The Independent Non-executive Directors of the 5th Session of the Board

Distinguished roles of the Chairman and President

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

- The Chairman shall be elected and dismissed by a simple majority of the Directors. The term of office of the Chairman shall be three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term. Mr. Cai Jianjiang was elected as the Chairman on 21 February 2014, and was re-elected on 27 October 2017.

- The Company has a President who shall be appointed or dismissed by the Board. Mr. Song Zhiyong was appointed as the President on 28 January 2014.

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

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

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

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

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

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

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

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

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

- The management shall be accountable to the Board and its main responsibilities include: to formulate the strategic development plans and determine the establishment of the Company's internal bodies; to formulate and implement annual business plans, investment proposals, preliminary and final annual financial budgets; to establish general management systems regarding employment, remuneration and other fundamental internal rules and regulations; to make decisions on major issues such as operation safety and business management; to make decision on transactions relating to the Company's main business involving a value within a monetary threshold or within a specific proportion of the Company's latest audited net asset value; to implement board resolutions and exercise such other authorities as authorised by the Board.

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

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

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

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

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

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

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

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

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

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

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

Training for Directors in 2017	**Category (notes)**
Non-executive Directors	
Cai Jianjiang *(Chairman)*	a, b
Cao Jianxiong *(ceased to act on 27 October 2017)*	a, b
Feng Gang *(ceased to act on 27 October 2017)*	a, b
John Robert Slosar	a, b
Ian Sai Cheung Shiu *(ceased to act on 27 October 2017)*	a, b
Executive Director	
Song Zhiyong *(President)*	a, b
Independent non-executive Directors	
Pan Xiaojiang *(ceased to act on 25 May 2017)*	a, b
Simon To Chi Keung *(ceased to act on 25 May 2017)*	a, b
Wang Xiaokang *(elected on 25 May 2017)*	a, b
Liu Deheng *(elected on 25 May 2017)*	a, b
Stanley Hui Hon-chung	a, b
Li Dajin	a, b

Notes: a. Trainings on the responsibilities of the directors provided by the Company's legal advisers and the information about the latest laws and regulations and regulatory developments in the domestic and foreign capital markets prepared by the Company on a regular basis, for the Directors to study by themselves.

b. Special trainings provided by the regulatory authorities.

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

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

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

- After making specific enquiries, the Company confirmed that each Director and each Supervisor has complied with the required standards under the Model Code as set out in Appendix 10 of the Listing Rules throughout 2017.

- The Model Code contained in Appendix 10 to the Listing Rules provides that the listed issuer may adopt a code of conduct which is higher in level than the Model Code. On 5 September 2005, the Company formulated and adopted the Model Code for Securities Transactions, which was subsequently amended on 19 March 2007 and 4 December 2009, respectively, on terms no less exacting than the required standards of the Model Code. The Model Code for Securities Transactions of the Company also applies to the Supervisors and the relevant employees.

Corporate Governance Functions

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

B. Remuneration of Directors and Senior Management

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

- The Company has established the Nomination and Remuneration Committee to advise the Board on the compensation of the Directors as well as to nominate candidates to fill vacancies on the Board of the Company. In addition, the Nomination and Remuneration Committee reviews the performance of and determines the compensation structure of the senior management of the Company.

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

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

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

  – The Nomination and Remuneration Committee shall monitor the implementation of the Board Diversity Policy on an ongoing basis, and review this policy as appropriate.

- A shareholder holding 3% or more of the shares of the Company is entitled to nominate a Director to the Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the Board Diversity Policy and submit a report to the Board.

- During the reporting period, the Nomination and Remuneration Committee considered the nomination of candidates for independent non-executive Directors and candidates for Directors of the fifth session of the Board; advised the Board on the appointment of senior management of the Company; recommended the remuneration of Directors of the fifth session of the Board; and re-elected the Chairman of the Nomination and Remuneration Committee of the fifth session of the Board.

- The remuneration of the independent non-executive Directors shall be determined according to the average level of the listed companies in the industry with the actual situation of the Company taken into account. The remuneration of the executive Directors and senior management shall be determined in accordance with the relevant laws and regulations of PRC and the provisions of the "Interim Measures for Remuneration Administration of Enterprise Leaders" of the Company. The Nomination and Remuneration Committee made recommendations to the Board on the remuneration packages of individual Directors and senior management based on the above-mentioned standards. The remuneration of the Directors and Supervisors of the Company shall be determined by the shareholders' meeting, and that of the senior management shall be determined by the Board of Directors after being considered by the Nomination and Remuneration Committee.

- Details of the remuneration for the Directors and senior management are disclosed in note 13 to the financial statements of this annual report. Mr. Pan Xiaojiang, a former independent non-executive Director, waived his emolument as an independent non-executive Director of the Company for personal reasons.

C. Accountability and Audit

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

- The Company has established the Audit and Risk Control Committee to review the financial information of the Company and the relevant disclosure, to review the risk management and internal control systems of the Company as well as to review and supervise the effectiveness of the internal audit department.

- The Company has published its annual and interim reports in accordance with the requirements of the Listing Rules and other relevant laws and regulations in a timely manner, within three months and two months, respectively, after the end of the relevant periods, and published its quarterly reports within 30 days after the end of the first and third quarter, and the information disclosed is adequate for the shareholders to evaluate the performance, financial position and prospects of the Company.

- Key operating data of the Company are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

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

The Board is responsible for assessing and determining the nature and extent of the risks that the Company is willing to take in order to achieve its strategic objectives and ensuring that the Company has established and maintained appropriate and effective risk management and internal control system. The Board shall supervise the design, implementation and monitoring of the risk management and internal control system by the management, while the management should confirm with the Board if the relevant system is effective.

- The Board bears the ultimate responsibility for the Group's risk management and internal control system and for reviewing the effectiveness of the system. The risk management and internal control system is designed to manage rather than eliminate the risk of failing to achieve business objectives and to make reasonable, but not absolute, assurances that there will be no material misstatement or loss. The Board monitors the risk level with the assistance of the Audit and Risk Control Committee and the management of the Company.

- The Company conducts at least one review of the soundness and effectiveness of the risk management and internal control system every year. The Board will publish the self-assessment report on the annual internal control after it is reviewed by the Audit and Risk Control Committee.

- In 2017, the Board reviewed the Group's risk management and internal control system for the year through the Audit and Risk Control Committee and considered that the system was adequate and effective. The review of the Audit and Risk Control Committee covered such key aspects of as financial monitoring, operational monitoring and compliance monitoring. The Audit and Risk Control Committee also reviewed the Group's resources, qualifications and experience of the responsible staff, training courses and budget in respect of the accounting, internal audit and financial reporting functions and expressed satisfaction with the adequacy of such measures. The Board also confirmed that the Company has established effective systems and procedures to ensure the control and management of the strategic risks, financial risks, operational risks, legal risks, contingent risks etc..

- The basic procedures of the Group's risk management include: (1) collection of risk information; (2) identification and assessment of risks; (3) formulation and implementation of risk reduction measures; and (4) monitoring of risk management.

- The Company has established a clear organizational structure to allocate responsibilities for formulation, implementation and monitoring as required. An information reporting mechanism has been initially formed for risk management, which covers the Company's main business units to ensure that significant risks are effectively monitored and coped with within the Group.

- The Group ranks the risks based on priority so as to pay special attention to critical risks. It sets risk indicators for critical risks, and monitors and judges the key indicators on a regular basis so that the risks are always under control. All the business units are required to compile a summary of the risks and report to the Risk Management Working Group Office on a regular basis. The Risk Management Working Group Office has initially set up a monthly reporting procedure to regularly report the risks and tracking to the management and regulatory authorities.

- According to the risk assessment in 2017, the Group is mainly facing market fluctuation risk, industry competition and alternative competition risk, oil price fluctuation and exchange rate fluctuation risk and de-hubbing risk, which will affect the profitability and development of the Company.

- The Company has established an internal audit department to assist the Audit and Risk Control Committee and to analyze and evaluate the adequacy and effectiveness of the Group's internal control and risk management system and to supervise and evaluate the risk management and internal control of the Group. The internal audit department regularly reports the annual, interim work reports and annual audit plans to the Audit and Risk Control Committee for review of risk management and internal control system. The Audit and Risk Control Committee reviews the reporting compliance, reviews and monitors the effectiveness of the internal audit department, keeps tracks of the corrective actions for the problems spotted and guides the internal audit department to operate efficiently.

- The Company has implemented a registration and filing system for the insiders and established the profiles of the insiders, who should bear the responsibility of confidentiality for the insider information they know. The Board should guarantee the truthfulness, accuracy and completeness of the insider information. The Company will conduct regular or occasional inquiries on the trading of shares and derivatives of the Company by the insiders. If insiders are found to have been involved in insider transaction or have breached the laws and regulations due to dereliction of duty, the Company will ensure that the relevant personnel are held accountable in accordance with relevant laws and regulations and the Company's policies. The Company is also aware of the Company's obligations under the SFO and the Listing Rules for the handling and disclosure of insider information, and unless the information is in the category of "Safe Harbour Provisions", the Company will disclose such insider information to the public as soon as practicable.

The Board shall establish formal and transparent arrangements in relation to the application of financial reporting, risk management and internal control principles and the maintenance of an appropriate relationship with the issuer's auditors. The Audit Committee established as per the Listing Rules must have clear Terms of Reference.

- Through the Audit and Risk Control Committee, the Board reviews and supervises the Company's financial reporting process and risk management and internal control system, and reviews and monitors the effectiveness of the internal control functions, communicates with the auditors and reviews periodic financial reports so as to make sure the financial reporting and internal control principles are formal and transparent.

- During the reporting period, the Audit and Risk Control Committee mainly performed the following duties:

  reviewing the annual reports for the year of 2016 and the semi-annual reports for the year of 2017 prepared in accordance with CASs and IFRSs respectively, and the first and third quarterly reports for the year of 2017 prepared in accordance with CASs; reviewing the profit distribution plan for 2016; reviewing "Special Explanations for Non-operating Fund Utilization and Other Related Fund Transactions in 2016" and the "Statement of the Implementation of Connected Transactions for the year of 2016"; reviewing the assessment report on internal control and the audit report on internal control for the year of 2016; reviewing the performance report by the Audit and Risk Control Committee for the year of 2016; reviewing the financial plan and investment plan for the year of 2017; reviewing matters relating to the change of international and domestic auditors and internal control auditor for the year of 2017; approving the "Administrative Regulations regarding the Related/Connected Transactions of Air China Limited"; reviewing the replacement of self-raised funds by funds raised through non-public offering; reviewing the special report regarding the deposit and actual use of raised funds of A Shares for the first half of 2017; reviewing matters relating to the acquisition of properties from China National Aviation Construction and Development Company; determining the list of related parties of A share as of 31 December 2016; approving the renewal of trademark license framework agreement between the Company and CNAHC; approving the new financial services framework agreement between the Company and CNAF and the annual caps for the continuing connected transactions contemplated thereunder; approving the new financial services framework agreement between CNAF and CNAHC and the annual caps for the continuing connected transactions contemplated thereunder; and electing the Chairman of the Audit and Risk Control Committee.

  In addition to the above, the Audit and Risk Control Committee also heard the following reports:

  the summary report on internal audit work for the year 2016 and the internal audit plan for the year 2017; summary report on audit work for the year 2016 from KPMG; self-assessment report on internal control of the Company for the year 2017 and the audit plan on internal control of Deloitte Touche Tohmatsu CPA LLP.

- The annual results and annual report of the Company for the year 2017 had been reviewed by the Audit and Risk Control Committee.

The responsibility of the Directors in relation to the financial statements

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

- *Annual reports and accounts*

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

- *Accounting policies*

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

- *Accounting records*

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

- *Ongoing operation*

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

  The statement of reporting responsibility of the auditors is set out in the section headed "Independent Auditor's Report" set out in this annual report.

Auditors' remuneration

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP respectively. Breakdown of the remuneration to the Company's external auditors for providing audit and non-audit services for the year ended 31 December 2017 is as follows:

RMB9,522,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2017 and for the audit of the Group's financial statements for the year ended 31 December 2017; an aggregate amount of RMB6,623,000 (including value-added tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2017; RMB1,000,000 (including value-added tax) was charged for providing internal control audit services to the Group; and RMB70,000 (including value-added tax) was charged for the rendering of tax advisory related services to the Group.

D. Delegation by the Board

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

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

- The primary duties of the Audit and Risk Control committee are: to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as give opinion in writing to the Board, in connection with the appointment of new accounting firms or re-appointment of the existing accounting firms; to review and supervise our internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and receive and consider the work report prepared by the responsible person of the audit department; to be responsible for the communications between the internal auditors and external auditors; to review and verify the Company's financial information and its disclosure; to review the Company's financial control, internal control and risk control system, and evaluate the effectiveness of the system; to monitor the implementation and self-assessment of the Company's internal control system, review the risk control and internal control system with the management, ensuring that they have performed their duties properly and established an effective internal control system; to study the results of the investigation on the internal control and the feedback of the management on the results; to assess the effectiveness of the control rules and the operational standards relating to risk investments, including but not limited to financial derivative instruments, and consider the strategies and proposals of the Company's risk investment; to be responsible for the control and daily management of the related/connected transactions of the Company, and to review the Company's relevant significant related/connected transactions; to receive reports from the Company relating to fraudulent acts and discovery and complaints; and to fulfil other duties authorised by the Board.

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

- The primary duties of the Strategy and Investment Committee are: to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; to make decisions on the establishment, merger and dissolution of branches of the Company; and to fulfil other duties authorised by the Board. During the reporting period, the Strategy and Investment Committee approved the investment plan of the Company for 2017 and re-elected the Chairman of the Strategy and Investment Committee of the fifth session of the Board.

- The primary duties of the Aviation Safety Committee are: to receive the safety report of the Company on a regular basis and report to the Board; to study and deal with significant problems in relation to aviation safety work of the Company; to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, facilities and materials to fulfil the needs of safety operation of the Company; and to fulfil other duties authorised by the Board. During the reporting period, the Aviation Safety Committee held one meeting on which the Chairman of the Aviation Safety Committee of the fifth session of the Board was re-elected.

E. Communication with Shareholders

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

- The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the websites of the Company and the stock exchanges (if applicable), results presentations, roadshows, briefings on dividend distribution, etc.

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

- The annual general meeting represents an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective Chairmen of the Audit and Risk Control Committee, Nomination and Remuneration Committee, Strategy and Investment Committee and Aviation Safety Committee will answer queries raised by shareholders at general meetings.

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

- Other than the annual general meeting, the Company would also hold the extraordinary general meeting (the "EGM") as required. In accordance with articles 66 and 92 of the Articles of Association, shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company may request the Board to convene an EGM by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an EGM, it shall within five days of the Board resolution resolving to hold an EGM issue a notice of EGM convening an EGM within two months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within ten days of the receipt of such written request(s), such shareholder(s) shall request the Supervisory Committee to convene an EGM by written request(s). If the Supervisory Committee fails to issue a notice for convening a meeting within five days of the receipt of such written request(s), shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

- For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in article 68 of the Articles of Association which provides that shareholder(s), individually or in the aggregate, holding more than 3% of the shares of the Company may put forward proposal(s) by providing a written request to the convener of the meeting not less than ten days before the meeting. The convener of the meeting shall, within two days of the receipt of such written request, give supplemental meeting notice to each shareholder which specifies information on such proposal(s).

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

Address:	Air China Headquarter, 30 Tian Zhu Road, Tianzhu Airport Economic Development Zone, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61462799
Fax number:	86-10-61462805

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

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

F. Joint Company Secretaries

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

- Joint company secretaries (Mr. Zhou Feng and Ms. Tam Shuit Mui) are responsible for facilitating the rules of procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the joint company secretaries are set out in the section headed "Profile of Directors, Supervisor and Senior Management" of this annual report. In 2017, each joint company secretary attended more than 15 hours of professional training to update his/her skill and knowledge.

G. Articles of Association

- In 2017, the Company made amendments to its Articles of Association, the amendments had been approved by considering at the second EGM and third EGM for 2017, respectively. The Company also made amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board in 2017, which were passed at the third EGM for 2017. The details about the above amendments set out in the circular of the Company dated 10 February 2017 and 7 September 2017.

H. Compliance with the Code Provision A.5.1 and the Requirements of the Listing Rules on Audit Committee and Remuneration Committee

Code provision A.5.1 requires that the nomination committee shall be chaired by the chairman of the Board or an independent non-executive director, and comprise a majority of independent non-executive directors. Rule 3.21 of the Listing Rules requires that the audit committee shall comprise at least three members and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, and the chairman of the audit committee must also be an independent non-executive director. Rule 3.25 of the Listing Rules requires that the remuneration committee must comprise a majority of independent non-executive directors.

Mr. Pan Xiaojiang and Mr. Simon To Chi Keung resigned as independent non-executive Directors on 8 May 2017, and the resignation became effective from the date of the annual general meeting of the Company held on 25 May 2017, where Mr. Wang Xiaokang and Mr. Liu Deheng were elected as independent non-executive Directors. After the resignation became effective, Mr. Pan Xiaojiang was no longer the chairman of the Audit and Risk Control Committee of the Board and a member of the Nomination and Remuneration Committee of the Board, and Mr. Simon To Chi Keung was no longer a member of the nomination and remuneration committee of the Board. Therefore, the Company failed to meet the composition requirements of audit committee, remuneration committee and nomination committee under the aforesaid rules of the Listing Rules and code provision. On 9 August 2017, Mr. Wang Xiaokang was appointed as a member of the nomination and remuneration committee of the Board and Mr. Liu Deheng was elected as the chairman of the Audit and Risk Control Committee of the Board. The aforementioned requirements of the Listing Rules and code provision have been fulfilled since then.

REPORT OF THE DIRECTORS

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing security management, continue to advance the implementation of its strategies, improve global network coverage to increase the commercial value of hub network; optimise the allocation of its core resources to improve the efficiency of resource utilisation; reasonably deploy transport capacity to grasp opportunities in the market, take multiple measures to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience with an aim to seize market opportunities to ensure sound operation and bring better returns to its shareholders and investors.

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2017 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements on pages 99 to 202 of this annual report.

REVIEW OF BUSINESS

Description of the fair review of the Company's business and the analysis using the financial key performance indicators, description of the principal risks and uncertainties facing the Group, future prospects of the Company's business, environmental policy and performance and the important relations statement with employee, customer and supplier of the Group are set out in the sections headed "Business Overview" and "Management's Discussion and Analysis of Financial Position and Operating Results" of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and financial position prepared in accordance with IFRSs for the five years ended 31 December 2017 are summarised and set out on pages 6 and 7 of this annual report.

SHARE CAPITAL STRUCTURE

As at 31 December 2017, the Company had a total share capital of RMB14,524,815,185, dividing into 14,524,815,185 shares of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2017:

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

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

As at 31 December 2017, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests or short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO are as follows:

1. Total long positions in the shares and underlying shares of the Company

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

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2017:

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 directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 55.06% equity interest and 63.88% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2017, 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 directly held by Cathay Pacific.

2. Total short positions in the shares and underlying shares of the Company

As at 31 December 2017, the Company was not aware of any substantial shareholders holding short positions in the shares or underlying shares of the Company.

Save as disclosed above, as at 31 December 2017, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person had an interest or short position in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

INFORMATION OF SHAREHOLDERS

1. Total number of shareholders

Total number of holders of ordinary shares as at the end of the reporting period (account)	138,366 accounts, of which 3,577 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at 28 February 2018 (account)	137,165 accounts, of which 3,384 accounts are registered holders of H Shares

2. Shareholdings of the top 10 shareholders and the top 10 holders of tradable shares (or shares not subject to selling restrictions) as at the end of the reporting period

Unit: Share

Shareholdings of the top 10 shareholders							
Name of shareholder (full name)	Change(s) during the Reporting Period	Number of shares held as at the end of the reporting period	Shareholding percentage (%)	Number of shares held subject to selling restrictions	Shares pledged or frozen Status	Shares pledged or frozen Number	Nature of shareholder
China National Aviation Holding Company	513,478,818	5,952,236,697	40.98	513,478,818	frozen	127,445,536	State
Cathay Pacific Airways Limited	0	2,633,725,455	18.13	0	Nil	0	Foreign legal person
HKSCC NOMINEES LIMITED	1,801,999	1,684,774,519	11.60	0	Nil	0	Foreign legal person
China National Aviation Corporation (Group) Limited	0	1,556,334,920	10.72	0	frozen	36,454,464	Foreign legal person
China Securities Finance Corporation Limited	258,136,087	502,119,147	3.46	0	Nil	0	State-owned legal person
China National Aviation Fuel Group Corporation	382,845,502	469,145,502	3.23	385,109,114	Nil	0	State-owned legal person
Zhongyuan Equity Investment Management Co., Ltd	262,569,509	262,569,509	1.81	256,739,409	Unknown	262,569,405	State-owned legal person
China Structural Reform Fund Co., Ltd	231,065,468	231,065,468	1.59	231,065,468	Nil	0	State-owned legal person
National Social Security Fund 118	22,588,959	71,034,895	0.49	0	Nil	0	State-owned legal person
China Construction Bank Corporation – Boshi Industry Mixed Securities Investment Fund (LOF)	45,999,714	45,999,714	0.32	0	Nil	0	Unknown

Unit: Share

Shareholdings of the top 10 shareholders not subject to selling restrictions			
Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares: Class	Number
China National Aviation Holding Company	5,438,757,879	RMB ordinary shares	5,438,757,879
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,684,774,519	Overseas listed foreign shares	1,684,774,519
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares	1,332,482,920
		Overseas listed foreign shares	223,852,000
China Securities Finance Corporation Limited	502,119,147	RMB ordinary shares	502,119,147
China National Aviation Fuel Group Corporation	84,036,388	RMB ordinary shares	84,036,388
National Social Security Fund 118	71,034,895	RMB ordinary shares	71,034,895
China Construction Bank Corporation – Boshi Industry Mixed Securities Investment Fund (LOF)	45,999,714	RMB ordinary shares	45,999,714
Jiang Hongye	23,000,000	RMB ordinary shares	23,000,000
China Merchants Securities Co., Ltd.	19,825,571	RMB ordinary shares	19,825,571
Explanation on connected relationship or action in concert among the above shareholders	China National Aviation Corporation (Group) Limited is a wholly-owned subsidiary of China National Aviation Holding Company. Accordingly, China National Aviation Holding Company is directly and indirectly interested in 51.70% of the shares of the Company.		

1. HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,684,774,519 H shares held by it in the Company do not include the 166,852,000 H shares held by it as nominee of China National Aviation Corporation (Group) Limited.

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

Unit: Share

Shareholdings of the top 10 shareholders subject to selling restrictions and conditions of selling restrictions					
			Listing and trading of shares subject to selling restrictions		
No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Date of being permitted for listing and trading	Number of shares to be listed and traded	Selling restrictions
1	China National Aviation Holding Company Limited	513,478,818	2020-03-10	513,478,818	Non-public offering of A shares subject to selling restrictions
2	China National Aviation Fuel Group Corporation	385,109,114	2018-03-10	385,109,114	Non-public offering of A shares subject to selling restrictions
3	Zhongyuan Equity Investment Management Co., Ltd.	256,739,409	2018-03-10	256,739,409	Non-public offering of A shares subject to selling restrictions
4	China Structural Reform Fund Co., Ltd.	231,065,468	2018-03-10	231,065,468	Non-public offering of A shares subject to selling restrictions
5	Caitong Fund Management Co., Ltd.	15,147,625	2018-03-10	15,147,625	Non-public offering of A shares subject to selling restrictions
6	CIB Asset Management Co., Ltd.	12,849,807	2018-03-10	12,849,807	Non-public offering of A shares subject to selling restrictions
7	Horizon Asset Management Co., Ltd.	12,836,970	2018-03-10	12,836,970	Non-public offering of A shares subject to selling restrictions
8	E Fund Management Co., Ltd.	12,836,970	2018-03-10	12,836,970	Non-public offering of A shares subject to selling restrictions
Descriptions on relationships of the above shareholders as related parties or concerted parties					Nil

PUBLIC FLOAT

Pursuant to public information available to the Company and to the knowledge of the Directors of Company, the Company has maintained a public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange as at the date of this annual report.

DIVIDEND

Based on the 2017 profit distribution plan of the Company, the Board recommends the appropriation of 10% and 10% of profit after tax to statuary surplus reserve and discretionary surplus reserve respectively and the payment of a cash dividend of RMB1.1497 (including tax) for every ten shares for the year 2017, totalling approximately RMB1,670 million based on the current total issued shares of 14,524,815,185 shares of the Company.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on 25 May 2018. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A Shares and the holders of H Shares who are mainland investors investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect shall be paid in RMB while dividends payable to the other holders of H Shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle price of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the AGM.

The Company proposed to pay the aforesaid final dividends on 4 July 2018. For H Shares, the dividends shall be paid to shareholders whose names appear on the register of members of the Company on 5 June 2018. Accordingly, the register of members of the H Shares will be closed from 31 May 2018 to 5 June 2018. For A Shares, the dividends will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 3 July 2018, and the ex-dividend date of A Shares will be 4 July 2018.

As of 31 December 2017, no arrangement was reached pursuant to which a shareholder of the Company waived or agreed to waive any dividends.

The register of members of H Shares will be closed from Wednesday, 25 April 2018 to Friday, 25 May 2018, both days inclusive, during which no transfer of H Shares will be effected. In order to be entitled to attend and vote at the AGM, the holders of the H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 April 2018. The members of the H Shares whose names appear on the register of shareholders of the Company on Wednesday, 25 April 2018 will be entitled to attend the AGM.

The register of members of H Shares of the Company will be closed from Thursday, 31 May 2018 to Tuesday, 5 June 2018, both days inclusive, during which no transfer of H Shares will be effected. In order to qualify for the final dividend, the holders of the H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 May 2018. The members of the H Shares whose names appear on the register of shareholders of the Company on Tuesday, 5 June 2018 will be qualified for the final dividend.

TAXATION ON DIVIDEND

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

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994] No. 020) promulgated by the Ministry of Finance of the PRC and the State Administration of Taxation on 13 May 1994, overseas individuals are, as an interim measure, exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the final dividends for the year 2017 to individual shareholders whose names appear on the register of members of H Shares.

Pursuant to the Circular on Tax Policies Concerning the Pilot Programme of the Shanghai and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2014] No. 81) promulgated on 17 November 2014 and the Circular on the Tax Policies Concerning the Pilot Programme of the Shenzhen and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2016] No. 127) promulgated on 5 November 2016 by the Ministry of Finance of the PRC, the State Administration of Taxation and the CSRC:

The Company is obliged to withhold PRC individual income tax on behalf of individual shareholders at a tax rate of 20% when the Company distributes the 2017 final dividends to individual investors who invest in the H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Where individual investors have already paid foreign withholding taxes for such income, investors may apply to the competent tax authorities of China Securities Depository and Clearing Corporation Limited for foreign tax credit with valid tax withholding certificates. The Company is obliged to withhold PRC individual income tax on behalf of Mainland securities investment funds investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2017 final dividends; and the Company will not withhold income tax on behalf of Mainland enterprise investors investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2017 final dividends. The Mainland enterprise investors shall report the income and make tax payment by themselves.

Shareholders are recommended to consult their tax advisors regarding the ownership and disposal of H Shares in Mainland China and Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules) of the Company.

PRE-EMPTIVE RIGHTS

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

Non-Public Issue of A Shares

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to CNAHC, China Structural Reform Fund Co., Ltd., Zhongyuan Equity Investment Management Co., Ltd., China National Aviation Fuel Group Corporation, Caitong Fund Management Co., Ltd., CIB Asset Management Co., Ltd., Horizon Asset Management Co., Ltd. and E Fund Management Co., Ltd., at an issue price of RMB7.79 per share with an aim to enhance the capital structure and improve the financial position of the Company, satisfy the funding need for business development, maintain the competitive advantages and ensure the continuous and healthy development. The net proceeds raised is RMB11,200,418,471.06 after deducting underwriting fees and other issuance costs (including taxes). As of 31 December 2017, the aforesaid funds have been used by RMB11,050,000,000.00 in accordance with the purpose of fund raising, with the unused amounting to RMB193,402,559.97 (including interest income generated from the raised funds of RMB42,984,088.91). For details, please refer to the 2017 Special Report Regarding the Deposit and Actual Use of Raised Funds of A Shares of Air China Limited (《中國國際航空股份有限公司關於二零一七年度 A 股募集資金存放與實際使用情況的專項報告》) set out in the overseas regulatory announcement dated 27 March 2018 issued by the Company on the website of Hong Kong Stock Exchange.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Set out below is the list of Directors during the reporting period and as at the date of this annual report (unless otherwise stated).

Name	Date of election and if applicable, leaving office as Director
Cai Jianjiang (Chairman and non-executive Director)	Elected as non-executive Director on 28 January 2014 and as Chairman on 21 February 2014
Song Zhiyong (Vice Chairman and executive Director)	Elected as executive Director on 22 May 2014 and as Vice Chairman on 6 June 2016
Cao Jianxiong (Non-executive Director)	Elected on 10 June 2009 and ceased to act on 27 October 2017
Feng Gang (Non-executive Director)	Elected on 26 August 2014 and ceased to act on 27 October 2017
John Robert Slosar (Non-executive Director)	Elected on 22 May 2014
Ian Sai Cheung Shiu (Non-executive Director)	Elected on 28 October 2010 and ceased to act on 27 October 2017
Xue Yasong (Non-executive Director and employee representative Director)	Elected on 29 March 2018
Pan Xiaojiang (Independent non-executive Director)	Elected on 29 October 2013 and ceased to act on 25 May 2017
Simon To Chi Keung (Independent non-executive Director)	Elected on 29 October 2013 and ceased to act on 25 May 2017
Wang Xiaokang (Independent non-executive Director)	Elected on 25 May 2017
Liu Deheng (Independent non-executive Director)	Elected on 25 May 2017
Stanley Hui Hon-chung (Independent non-executive Director)	Elected on 22 May 2015
Li Dajin (Independent non-executive Director)	Elected on 22 December 2015

Supervisors

Set out below is the list of Supervisors during the reporting period and as at the date of this annual report (unless otherwise stated).

Name	Date of election and if applicable, leaving office as Supervisor
Wang Zhengang (Chairman of the Supervisory Committee)	Elected on 30 August 2016
He Chaofan (Supervisor)	Elected on 22 December 2008
Zhou Feng (Supervisor)	Elected on 25 November 2011 and ceased to act on 2 August 2017
Xiao Yanjun (Supervisor)	Elected on 16 June 2011
Shen Zhen (Supervisor)	Elected on 29 October 2013 and ceased to act on 27 October 2017
Li Guixia (Supervisor)	Election took effect on 27 October 2017

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the reporting period or as of the end of the reporting period, none of the Company, its holding company, any of the Company's subsidiaries or fellow subsidiaries was a party to any agreement or arrangement which enables the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in, or debentures, of the Company or any other body corporate.

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

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

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

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

Save as disclosed in the section headed "Connected Transactions" set out in this Report of the Directors, none of the Company, its holding company, or any of the Company's subsidiaries or fellow subsidiaries has entered into any significant transactions, arrangements or contracts relating to the Group's business, in which a Director or Supervisor or his or her connected entity directly or indirectly had any material interest, and which subsisted at the end of the reporting period or at any time during the reporting period.

During the reporting period, Mr. Cai Jianjiang (Chairman and non-executive Director), Mr. Song Zhiyong (executive Director) and Mr. John Robert Slosar (non-executive Director) also served as directors of Cathay Pacific. Cathay Pacific and its wholly-owned Cathay Dragon compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

PERMITTED INDEMNITY PROVISION

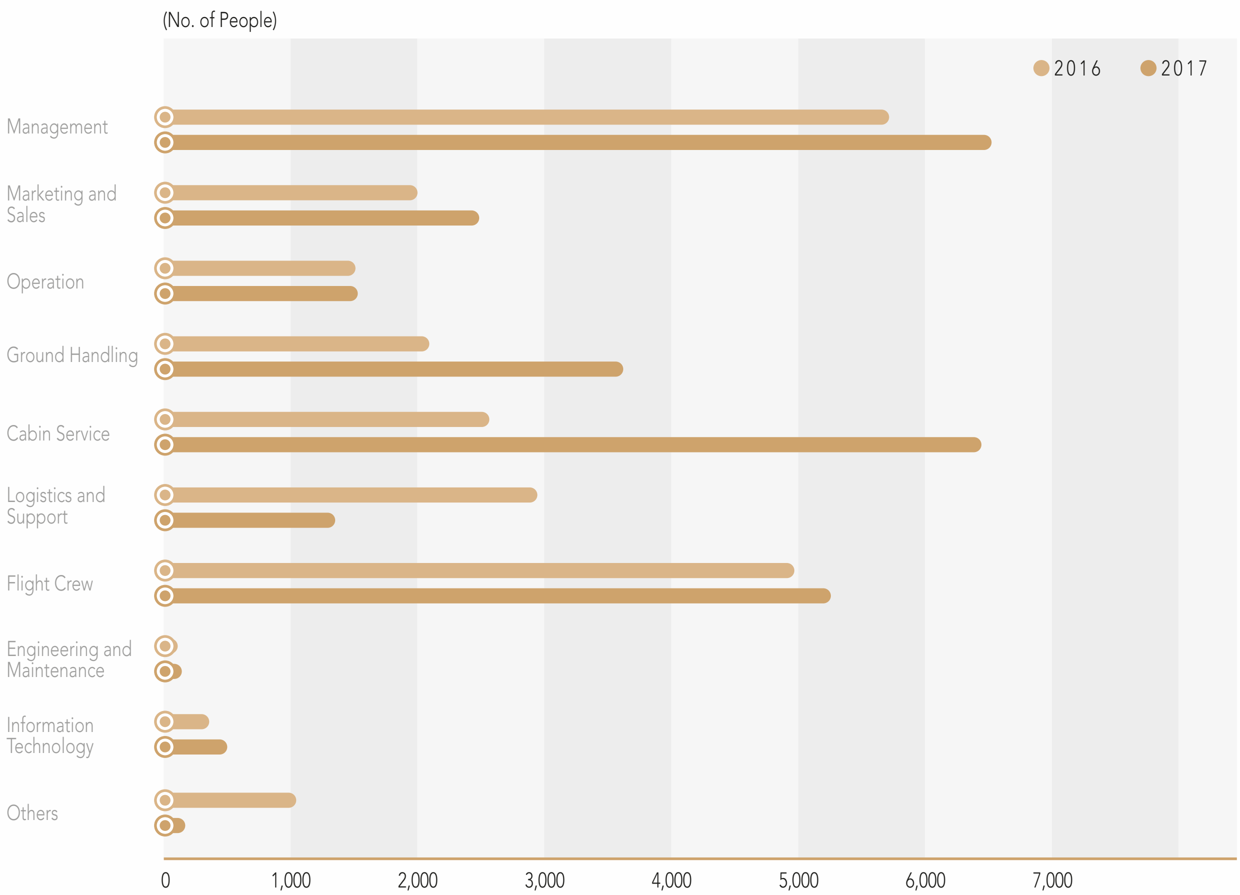
Appropriate directors' liability insurance cover has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities.

EMPLOYEES

As at the end of the reporting period, the Company had 27,858 employees and its subsidiaries had 55,648 employees. The categories of employees of the Company are as follows:

Professional Categories	As at 31 December 2017	As at 31 December 2016	Increase/ (decrease)
Management	**6,526**	5,719	807
Marketing and Sales	**2,481**	1,947	534
Operation	**1,529**	1,427	102
Ground Handling	**3,622**	2,093	1,529
Cabin Service	**6,446**	2,684	3,762
Logistics and Support	**1,351**	2,914	(1,563)
Flight Crew	**5,259**	4,952	307
Engineering and Maintenance	**103**	45	58
Information Technology	**411**	389	22
Others	**130**	1,088	(958)
Total	**27,858**	23,258	4,600

A total of 444 employees of the Company retired in the reporting period.



REMUNERATION POLICY

The Company adheres to the principles of combining incentives with control and aligning the improvement in performance with the increase in wages, and upholds a remuneration concept of "paying salary with reference to the value of job, personal ability as well as performance appraisal" in developing and implementing the remuneration policies primarily based on the value of job. In order to develop a sustainable incentive mechanism for talent and stimulate the enthusiasm and creativity of its employees, in 2017, the Company conducted a wage adjustment covering all posts of the Group.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 4 to the financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

STOCK APPRECIATION RIGHTS

On 6 June 2013, the resolution regarding the Proposal of Second Grant of the Stock Appreciation Rights was passed at the 14th meeting of the Nomination and Remuneration Committee of the 3rd session of the Board to grant a total of 26.20 million shares under the second grant of stock appreciation rights (SARs) to 160 incentive recipients and to confirm the grant date with respect to the second grant of SARs (i.e. 6 June 2013) and the exercise price (i.e. grant price) with respect to the second grant of SARs of HK$6.46. The grant of SARs shall be valid for five years from the date of grant. 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. As at 31 December 2017, the carrying amount of the liabilities related to the SARs was nil.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Company as at 31 December 2017 are set out respectively in notes 22, 23 and 24 to the financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 37 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2017 are set out in note 17 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2017 are set out in note 12 to the financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 41 to the financial statements and the consolidated statement of changes in equity of this annual report.

DONATIONS

For the year ended 31 December 2017, the Group made donations for charitable and other purposes amounting to RMB5.542 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the purchases of the Group from the largest supplier accounted for 17.52% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 38.12% of the total purchases of the Group. None of the Directors or Supervisors, their associates, nor any shareholder of the Company, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

For the year ended 31 December 2017, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

COMPLIANCE OPERATIONS

As a Chinese company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Company shall comply with the Company Laws of the People's Republic of China, the Securities Law of the People's Republic of China, the Securities and Futures Ordinance, the Hong Kong Companies Ordinance, the Stock Listing Rules of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited regarding relevant regulations in relation to listed companies' securities issue and trading. CNAF, a non-wholly owned subsidiary of the Company, as a non-bank financial institution established in Mainland China, shall comply with rules in respect of financial regulation in Mainland China. The Group, with civil aviation transportation and related services as its principal businesses, shall comply with requirements in relation to civil aviation safety regulations of locations where the Group operates, and laws and regulations in respect of consumer rights protection, environmental protection, anti-monopoly, anti-unfair competition and tax, etc.

The Group has the procedure of compliance in place to ensure compliance with applicable laws, regulations and normative legal documents, and in particular those having a significant impact on its principal businesses. The Group will notify the relevant employees and operating teams of any change in applicable laws, regulations and normative legal documents relating to its principal businesses from time to time.

During the reporting period, so far as the Directors were aware, the Group did not commit any violations of laws and regulations in all material aspects that would have a significant impact on the Group.

Save as disclosed in note 43 to the financial statements of this annual report, as at 31 December 2017, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into several connected transaction agreements with certain connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

For the purpose of this section "Connected Transactions" in this Report of the Directors, "CNAHC Group" refers to CNAHC, its subsidiaries and associates (as defined under the Listing Rules) excluding the Group.

I. Connected Transactions Between the Group and CNAHC Group

Continuing Connected Transactions

As CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between the Group and CNAHC Group described in paragraphs (a) to (f) below constitute continuing connection transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

a. *Property Leasing*

The Company (for itself and on behalf of its subsidiaries) entered into a properties leasing framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 (the "Properties Leasing Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Properties Leasing Framework Agreement, the Company agreed to lease from CNAHC a number of properties for various uses including as business premises, offices and storage facilities. The Company also agreed to lease to CNAHC a number of properties. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policy: The rent payable by the Company under the Properties Leasing Framework Agreement will be determined after consultation based on the quotation for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including quotation, property service quality, location and district of properties and specific needs of the parties, and specific property leasing agreements will be entered into.

b. *Sales Agency Services of Air Tickets and Cargo Space*

The Company (for itself and on behalf of its subsidiaries) entered into a sales agency services framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 (the "Sales Agency Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents (the "Sales Agency Companies") will: (i) procure purchasers for the Company's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Company and resell such air tickets and cargo spaces to end customers. The details are set out the announcement of the Company dated 29 October 2015.

Pricing Policies:

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

- As for the air cargo agency services, the Sales Agency Companies and the Company will discuss and determine the applicable transportation prices, which shall be no less favourable than the prices offered by independent third parties in the PRC air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type, as well as the specific product types and required delivery priority. The Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to their customers) based on the aforesaid transportation prices, with the differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

c. *Comprehensive Services*

The Company (for itself and on behalf of its subsidiaries) entered into a comprehensive services framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 (the "Comprehensive Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Comprehensive Services Framework Agreement, (i) certain wholly-owned or controlled companies of CNAHC which are engaged in ancillary services in relation to air transportation business (the "Specialised Companies") will be appointed as suppliers of ancillary services in relation to air transportation business to the Company; and (ii) the Company is commissioned by CNAHC to provide welfare-logistics services for CNAHC's retired employees. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policies:

- The prices of airline catering services to be provided by the Specialised Companies to the Company will be determined by the parties based on the quotation for the same type of catering services available from independent third parties with reference to other factors including cost of raw materials and labour costs.

- The prices of property management services to be provided by the Specialised Companies to the Company will be determined by the parties based on the quotation for the same type of property management services available from independent third parties with reference to other factors including quotation, quality, scope and type of property management services, and specific needs of the parties.

- The prices of hotel accommodation and staff recuperation services to be provided by the Specialised Companies to the Company shall be no less favourable than the quotation for the same type of guest room products or services available from independent third parties of the same level in the area of the hotel, with reference to other factors including quotation, quality of products and services, seasonal demand in the hotel industry, location of hotel and specific needs of the parties.

- For in-flight supply offering, publications and other services to be provided by the Specialised Companies to the Company, the Specialised Companies as supplier of the Company shall provide such services in accordance with the bidding management requirements of the Company. The prices of such services shall be no less favourable than the quotation of similar products or services available from independent third parties.

- The management charges payable by CNAHC to the Company for the welfare-logistics services provided by the Company for retired employees of CNAHC shall be settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

d. *Government Charter Flight Services*

The Company entered into a government charter flight service framework agreement with CNAHC on 29 October 2015 (the "Government Charter Flight Service Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Government Charter Flight Service Framework Agreement, CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policy: the Company's hourly rate of the charter flight service fee will be calculated on the basis of the following formula: Hourly rate = Total cost per flight hour x (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs.

e. *Media and Advertising Services*

CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company. The Company entered into a media services framework agreement with CNAMC on 29 October 2015 (the "Media Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Media Services Framework Agreement, CNAMC will have the following rights: (i) an exclusive right to distribute the in-flight reading materials of the Company; (ii) an exclusive operation right of certain media of the Company, including the boarding passes, in-flight entertainment programmes and flight schedules; (iii) a right to be commissioned to purchase inflight entertainment programmes (which may include advertising contents) from independent third parties or produce such programmes on its own; (iv) a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements; and (v) the right to act as operator of the Company's media business to provide the Company with certain services. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policies:

- CNAMC agreed to pay the Company RMB13.8915 million as media usage fee for each of the two years ended 31 December 2016 and 2017 and for the year ending 31 December 2018 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes and flight schedules that meet the Company's requirements.

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

- The Company agreed to pay the purchase price to CNAMC for the in-flight entertainment programmes purchased by CNAMC for the Company. In the event that the relevant entertainment programmes are produced by CNAMC at the request of the Company, the Company will pay the corresponding production costs to CNAMC.

The Company further agreed to pay advertising fees and service fees at market price to CNAMC in respect of advertising design, image promotion and other services conducted by CNAMC for the Company, which will be determined taking into consideration certain factors including quotation, service quality and specific needs of the parties.

f. *Financial Services*

CNAF, a non-wholly owned subsidiary of the Company and CNAHC (for itself and on behalf of CNAHC Group) entered into a financial services agreement on 29 April 2015 (the "CNAHC Financial Services Agreement") with a term from the date of completion of registration of State Administration for Industry and Commerce of CNAF to 31 December 2017.

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide CNAHC Group with a range of financial services including deposit services, loan and other credit services and other financial services. The details are set out in the announcement of the Company dated 29 April 2015.

Pricing Policies:

- The interest rate applicable to CNAHC Group's deposits with CNAF shall be determined based on arm's length negotiation by the parties subject to compliance with the requirements on the range of interest rates prescribed by the Peoples' Bank of China (the "PBOC") from time to time and published on the PBOC's website for the same type of deposits.

- The interest rate applicable to loans (including other credit services) granted to CNAHC Group by CNAF shall be determined based on arm's length negotiation by the parties by making reference to the benchmark interest rate and the range prescribed by the PBOC from time to time and published on the PBOC's website for the same type of loans.

- The fees charged by CNAF to CNAHC Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be determined based on arm's length negotiation by the parties subject to the relevant standards (if any) prescribed by the PBOC or the China Banking Regulatory Commission (the "CBRC") from time to time in respect of the same type of financial services.

- If CNAF charges fees for the unpaid services or new financial services during the term of the CNAHC Financial Services Agreement, such fees charged by CNAF to CNAHC Group shall be determined based on arm's length negotiation by the parties according to the relevant fee standards prescribed by the PBOC or the CBRC from time to time for services of the same type.

On 30 August 2017, CNAF and CNAHC renewed and amended the CNAHC Financial Services Agreement for a period of 3 years effective from 1 January 2018 up to 31 December 2020. The details are set out in the announcement of the Company dated 30 August 2017.

Acquisition of Properties

On 24 August 2017, the Company entered into the Assets Transfer Agreement and the Commodity House Purchase and Sale Contract with Chengdu Southwest Real Estate Development Co., Ltd. (an indirect wholly-owned subsidiary of CNAHC, and therefore a connected person with the Company, afterwards referred as Chengdu Real Estate), respectively. Pursuant to the Assets Transfer Agreement, the Company agreed to acquire and Chengdu Real Estate agreed to sell the Club and the Parking Space for a cash consideration of RMB67,876,935.00 (tax inclusive), and the Company agreed to pay a renovation and transformation fee in the estimated amount of RMB40,303,868.00 (tax inclusive) to Chengdu Real Estate. Pursuant to the Commodity House Purchase and Sale Contract, the Company agreed to acquire and Chengdu Real Estate agreed to sell the Houses for a cash consideration of RMB24,682,500.06 (tax inclusive), and the Company agreed to pay a renovation and transformation fee in the estimated amount of RMB5,643,261.20 (tax inclusive) to Chengdu Real Estate. The details are set out in the announcement of the Company dated 24 August 2017.

II. Continuing Connected Transactions between the Group and CNACG Group

The Company entered into a framework agreement with CNACG on 26 August 2008 (the "CNACG Framework Agreement") which was renewed on 26 September 2013 for a term of three years. On 30 August 2016, the Company and CNACG entered into a framework agreement to renew and amend the CNACG Framework Agreement (the "New CNACG Framework Agreement"). The New CNACG Framework Agreement has a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

As CNACG is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between CNAGG Group and the Group constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

Pursuant to the New CNACG Framework Agreement, CNACG Group will provide ground support services, aircraft repair and maintenance services, administrative management services, as well as finance lease and operating lease services to the Group. The details are set out in the announcement of the Company dated 30 August 2016.

Pricing Policies:

- The prices for the ground support services will be negotiated and determined by both parties on an arm's length basis, after taking into account various factors, including the guidance from the Civil Aviation Administration of the PRC and the International Air Transport Association on the service prices and other terms for ground support services, the prevailing market prices, the costs of human resources and the quality of services.

- The prices for aircraft repair and maintenance services, and administrative management services will be negotiated and determined by both parties on an arm's length basis with reference to comparable market prices for the same or similar type of services provided by independent third parties after taking into account other relevant factors, including the quality of services and the special needs of the parties.

- For finance lease and operating lease services, the amount payable by the Group to the CNACG Group will be subject to the procurement prices of the leased items, the financing costs, the term of leases, the nature and availability of the lease items and comparable lease arrangement fees, as applicable.

III. Continuing Connected Transactions between the Group and Cathay Pacific Group

The Company entered into a framework agreement with Cathay Pacific on 26 June 2008, which was renewed on 1 October 2013 and 1 October 2016 (the "Cathay Pacific Framework Agreement"), currently with a term commencing on 1 January 2017 and ending on 31 December 2019.

As Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between Cathay Pacific Group (Cathay Pacific and its subsidiaries, including Cathay Dragon) and the Group constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

The Cathay Pacific Framework Agreement provides a framework for the transactions between the Group and Cathay Pacific Group arising from interline arrangements, code sharing arrangements, joint operating arrangements, aircraft leasing, frequent flier programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement. The details are set out in the joint announcement of the Company and Cathay Pacific dated 30 August 2016.

Pricing Policies: for interline arrangements and code share arrangements, revenue is apportioned between the parties in accordance with bilateral prorate agreements which follow the principles in the Multi-lateral Prorate Agreement of International Air Transport Association. For joint operating arrangements, revenue is apportioned between the parties having regard to the fleet capacity of both parties and the values of seats sold by each party. For aircraft leasing, rentals payable under aircraft leases are determined after negotiations at arm's length between the parties having regard to rentals payable under comparable leases between unconnected parties for comparable aircraft and comparable periods and prevailing long term interest rates. For frequent flyer programmes, frequent flyers of either party can earn mileage credits by taking the other party's flights. Payments by each party to the other for mileage values are determined by the parties on an arm's length basis having regard to comparable mileage values payable by unconnected airlines to each other. For airline catering, the parties determine the pricing of airline catering having regard to quotations provided by unconnected caterers, taking due account of material and labour costs, quality, assurance of supply, safety and innovation (including changes in the foregoing matters). For ground support and engineering services, the pricing of ground support and engineering services charged by one party to the other party is required to be no less favourable than that offered for comparable services to unconnected parties taking due account of the quality of services. For other products and services, the pricing of other products and services (including for leasing premises and handling customs clearance) is determined having regard to relevant market information (including independent third party quotations for comparable products and services), costs incurred by the relevant party and the quality of products and services (including changes in any of the foregoing).

IV. Continuing Connected Transactions between the Group and ACC Group

The Company entered into a framework agreement with Air China Cargo on 27 October 2011, which was renewed on 26 September 2013 for a term of three years (the "ACC Framework Agreement"). On 30 August 2016, the Company and Air China Cargo entered into a framework agreement to renew and amend the ACC Framework Agreement (the "New ACC Framework Agreement"), and the New ACC Framework Agreement has a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

Air China Cargo is a connected person of the Company by virtue of being a non-wholly owned subsidiary of the Company in which Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the equity interest through Cathay Pacific China Cargo Holdings, a wholly-owned subsidiary of Cathay Pacific. As such, transactions between ACC Group and the Group constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

Pursuant to the New ACC Framework Agreement, the Group (other than ACC Group) will provide the following services to ACC Group: (i) the provision of bellyhold space of the passenger aircraft operated by the Company; (ii) ground support services, such as airport apron services and aircraft cabin cleansing services; and (iii) other services, including aircraft maintenance engineering services, engine and other aircraft related materials lease services, property lease services (including the lease of certain GAC Regulated Property) and labour management services. The ACC Group will provide the following services to the Group (other than ACC Group): (i) marketing and sales services of bellyhold space provided by the Company; (ii) ground support services, such as cargo and mail ground loading and unloading and security inspection services; and (iii) other services, including engine and other aircraft related material lease services and property lease services. The details are set out in the announcement of the Company dated 30 August 2016.

Pricing Policies:

- The prices for bellyhold space provided to the ACC Group will be determined by the Company based on the following formula: total annual sales amount = the average sales price of bellyhold space of the Company in the past three years x (1+adjustment rate) x the total volume of bellyhold space provided by the Company. The adjustment rate generally ranges from -7% to +7%, which is determined by the Company with reference to the average annual revenue growth rate for air cargo services of other major aircraft operators in the PRC and the operating costs of the Company in connection with air transportation.

- The prices for the ground support services/other services provided by the Group will be negotiated and agreed by both parties primarily on a "cost-plus" basis, which will be determined based on the costs and expenses of the Company, plus a margin generally ranging from 5% to 10%.

- With respect to ACC Group's provision of marketing and sales services of bellyhold space to end customers, the Company will pay commission fees to Air China Cargo primarily based on the costs and expenses in connection with the sales and marketing of bellyhold space to end customers by the ACC Group and the sales performance of the ACC Group on meeting the relevant sales targets, after taking into account the overall market conditions.

- The prices for the ground support services provided by the ACC Group will be negotiated and determined by both parties on an arm's length basis, after taking into account various factors, including the guidance from the Civil Aviation Administration of the PRC and the International Air Transport Association on the service prices and other terms for ground support services, the market prices for comparable services available from other service providers and the quality of services.

- The prices for other services provided by the ACC Group will be negotiated and determined by both parties on an arm's length basis, after taking into account comparable market prices for the same or similar type of services by independent third parties and the specific needs of the Group.

V. Continuing Connected Transactions between the Group and CNAF

CNAF is a non-wholly owned subsidiary of the Company. Since CNAHC is interested in more than 10% of the equity interest in CNAF, CNAF became a connected subsidiary of the Company as defined under the Listing Rules, and the transactions between the Group and CNAF constitute continuing connection transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

On 29 April 2015, the Company (for itself and on behalf of its subsidiaries) and CNAF entered into a financial services agreement (the "Air China Financial Services Agreement") with a term from the date of completion of registration of State Administration for Industry and Commerce of CNAF to 31 December 2017. Pursuant to the Air China Financial Services Agreement, CNAF agreed to provide the Group with a range of financial services including deposit services, loan and other credit services and other financial services.

Pricing Policies:

- The interest rate applicable to the Group for deposits with CNAF shall not be lower than the minimum interest rate prescribed by the PBOC from time to time and published on the PBOC's website for the same type of deposits, and such interest rate shall not be lower than the interest rate for the same type of deposits placed by the members of CNAHC Group with CNAF, and shall not be lower than the interest rate for the same type of deposit services provided by state-owned commercial banks to the Group.

- The interest rate applicable to loans (including other credit services) granted to the Group by CNAF shall be set with reference to the benchmark interest rate prescribed by the PBOC from time to time and published on the PBOC's website for the same type of loans, and such interest rate shall not be higher than the interest rate for the same type of loans granted by CNAF to the members of CNAHC Group, and shall not be higher than those for the same type of loans granted by state-owned commercial banks to the Group.

- The fees charged by CNAF to the Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be determined in accordance with the relevant standards (if any) prescribed by the PBOC or CBRC in respect of the same type of financial services. In addition, such fees shall not be higher than those generally charged to the Group by state-owned commercial banks and those charged by CNAF to the members of CNAHC Group for the same type of financial services.

- If CNAF charges fees for the unpaid services or new financial services during the term of the Air China Financial Services Agreement, such fees charged by CNAF to the Group shall comply with the standards stipulated by the PBOC or the CBRC for services of the same type and shall not be higher than those charged by state-owned commercial banks to the Group and those charged by CNAF to the members of CNAHC Group for the same type of financial services.

The Air China Financial Services Agreement was renewed and revised by CNAF and the Company on 30 August 2017 for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. The details are set out in the announcement of the Company dated 30 August 2017.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set out above for the year ended 31 December 2017 has followed the pricing policies of such continuing connected transactions.

VI. Transaction Caps and Actual Transaction Amounts in 2017

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2017 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2017 Cap (in millions)	Actual Amount (in millions)
Transactions with CNAHC Group:			
Subcontracting of charter flight services	RMB	900	441
Aggregate sales of airline tickets and cargo space to CNAHC Group	RMB	152	65
Comprehensive services	RMB	1,513	1,285
Properties leasing	RMB	178	107
Media and advertising services	RMB	297	158
Financial services			
Maximum daily outstanding loans and other credit services granted by CNAF to CNAHC Group	RMB	10,000	3,125
Transactions with CNACG Group:			
Ground handling and other services (other than leasing business)	RMB	450	241
Operating lease of aircraft engines	RMB	1,000	22
Operating lease of equipment	RMB	500	0
Finance leases of aircraft simulators and new aircraft engines	RMB	500	115
Transactions with Cathay Pacific Group:			
Aggregate amount paid/payable by the Group to Cathy Pacific Group	HKD	900	390
Aggregate amount paid/payable by Cathay Pacific Group to the Group	HKD	900	302
Transactions with ACC Group:			
Aggregate sales commission of bellyhold space paid by the Group to ACC Group	RMB	519	385
Aggregate amount of ground handling paid by the Group to ACC Group	RMB	932	576
Aggregate amount of other services paid by the Group to ACC Group	RMB	174	32
Aggregate sales of bellyhold space paid by ACC Group to the Group	RMB	5,182	5,104
Aggregate amount of ground handling paid by ACC Group to the Group	RMB	143	62
Aggregate amount of other services paid by ACC Group to the Group	RMB	529	470
Transactions with CNAF:			
Maximum daily outstanding deposits placed by the Group with CNAF	RMB	15,000	8,943

VII. CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2017 to which the Company was a party have been entered into:

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

on normal commercial terms or better; and

according to the agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

VIII. CONFIRMATION FROM THE AUDITOR

For the purpose of Rule 14A.56 of the Listing Rules, the Company's auditor, Deloitte Touche Tohmatsu has performed the procedural work on the connected transactions for the year ended 31 December 2017 in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported on the above connected transactions as follows:

nothing has come to its attention that causes it to believe that the disclosed continuing connected transactions have not been approved by the Company's board of Directors;

for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

nothing has come to its attention that causes it to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

with respect to the aggregate amount of the continuing connected transactions, nothing has come to its attention that causes it to believe that the continuing connected transactions disclosed in chart above have exceeded the annual cap made by the Company.

IX. RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2017 are set out in note 48 to the financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

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

AUDITOR

CNAHC, the controlling shareholder of the Company, is a central state-owned enterprise regulated by the SASAC. Pursuant to the relevant requirements issued by SASAC and the Ministry of Finance of the PRC, if the service term of an external accounting firm to continuously undertake financial auditing work for a central state-owned enterprise exceeds the prescribed time limit, the enterprise should consider changing or per request change such accounting firm. As KPMG and KPMG Huazhen LLP (collectively, the "KPMG") have been providing audit services to the Company as the international auditor, domestic auditor and the internal control auditor of the Company (collectively, the "Auditor") respectively for four years since 2013, after being considered and approved by the 44th meeting of the 4th session of the Board and approved by the 2016 Annual General Meeting, the Company appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's international auditor and domestic auditor respectively for the year 2017, and KPMG ceased to be the Auditor of the Company.

SUBSEQUENT EVENTS

On 27 March 2018, the Company and CNACG entered into the 2018-2019 aircraft finance lease service framework agreement in relation to aircraft finance lease services provided by the CNACG Group to the Group. The 2018-2019 aircraft finance lease service framework agreement, the transactions contemplated thereunder as well as the proposed maximum transaction amounts thereunder are subject to the approval by the independent shareholders of the Company at the 2017 Annual General Meeting. For details, please refer to the announcement of the Company dated 27 March 2018 published on the websites of the Company and the Hong Kong Stock Exchange.

The sections, reports or notes of this annual report mentioned above constitute a part of this Report of the Directors.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. DIRECTORS

Mr. Cai Jianjiang, aged 54, is the Chairman and a non-executive Director of the Company. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC from January 2007 to January 2014. He has been serving as the non-executive director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of the Communist Party Group of CNAHC from January 2014 to December 2016. Mr. Cai has been serving as a Director of the Company since September 2004 and Chairman of the Company since February 2014. He has been serving as Chairman and Secretary of the Communist Party Group of CNAHC since December 2016. He has been serving as Secretary of the Communist Party Committee of the Company since May 2017.

Mr. Song Zhiyong, aged 52, is the Vice Chairman, executive Director and President of the Company. Mr. Song is a first class pilot. He graduated from the Second Flying Academy of China Air Force with a bachelor's degree in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Deputy Team Captain, Flight Director, and Deputy Group Captain of the Third Group of the Chief Flight Team, Deputy Captain of the Chief Flight Team and Director of the Training Department of Air China International Corporation. He served as Captain of the Chief Flight Team and Deputy Secretary of the Communist Party Committee of the Company from November 2002 to June 2008. Mr. Song held the post of Assistant to President from September 2004 to October 2006. He was the Vice President, a member and a standing member of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of CNAHC from December 2010 to April 2014. He has been a Member of the Communist Party Group of CNAHC since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company since January 2014 as well as an executive Director of the Company since May 2014 and the Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He has been serving as Vice Chairman of the Company since June 2016 and Director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC since December 2016.

Mr. Cao Jianxiong, aged 58, is a former non-executive Director of the Company. Mr. Cao holds a master degree in economics from the Eastern China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the General Manager and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC. Mr. Cao served as a non-executive Director of the Company from June 2009 to October 2017. He has been serving as Deputy Secretary of the Communist Party Group and Deputy General Manager of CNAHC since November 2016. He has been serving as the Deputy Secretary of the Communist Party Committee and Vice President of the Company since May 2017.

Mr. Feng Gang, aged 54, is a former non-executive Director of the Company. Mr. Feng graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. Mr. Feng became the Deputy General Manager of China Southwest Airlines in October 1995, and was the Assistant to President of Air China International Corporation since October 2002. He also served as General Manager and Party Secretary of China National Aviation Holding Assets Management Company since February 2003, and was appointed as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Co., Ltd. in May 2007. He served as Vice President of the Company from April 2010 to August 2014, and concurrently served as a director, President and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines from May 2010 to May 2014. He has also been serving as Deputy General Manager and Member of the Communist Party Group of CNAHC since April 2014. He served as non-executive Director from August 2014 to October 2017. He has been served as Vice President and Member of the Standing Committee of the CPC of the Company since May 2017.

Mr. John Robert Slosar, aged 61, is a non-executive Director of the Company. Mr. Slosar holds degrees in Economics from Columbia University and Cambridge University. He joined the Swire group in 1980 and worked with the group in Hong Kong, the United States and Thailand. Mr. Slosar has been a director of Cathay Pacific since July 2007 and served as Chief Operating Officer from July 2007 to March 2011 and as Chief Executive from March 2011 to March 2014, and has become Chairman of Cathay Pacific, John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited since March 2014. Mr. Slosar has been serving as a non-executive Director of the Company since May 2014.

Mr. Ian Sai Cheung Shiu, aged 63, is a former non-executive Director of the Company. Mr. Shiu holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from the University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He was a director of Cathay Pacific and Cathay Dragon from October 2008 to December 2016, a director of John Swire & Sons (H.K.) Limited from July 2010 to December 2016 and a director of Swire Pacific Limited from August 2010 to December 2016. Mr. Shiu served as a non-executive Director of the Company from October 2010 to October 2017.

Mr. Xue Yasong, aged 56, is a non-executive Director (employee representative Director) of the Company. He is an economist and lecturer who graduated from the Institute of Financial Science under the Ministry of Finance with a master degree in Economics. From September 1978 to July 1982, Mr. Xue studied in the Department of Mathematics, Henan Normal University. From July 1982 to July 1986, he taught in the Zhumadian Normal School, Henan Province. From August 1986 to August 1991, he taught in the training centre of the Regional Taxation Bureau of Zhumadian, Henan Province. From September 1991 to July 1994, Mr. Xue studied his master course in the Postgraduate Department of the Institute of Financial Science under the Ministry of Finance. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as a project manager of the Investment Department, Manager of Trading Department of Guangdong Property Rights Trading Centre, Assistant to the General Manager of the International Finance Department, Head of the Asset Reorganization Group and Head of Preparatory Group for the Securities Company. He has been a director, Executive Deputy General Manager and Secretary of the Board of Directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999. He served as the Deputy General Manager of CNAHC from November 2004 to August 2009, during which he served concurrently as Chairman of China National Aviation Travel Co., Ltd. from January 2005 to November 2006 and Secretary of the Party Committee of China National Aviation Construction and Development Co., Ltd. under temporary assignment from November 2006 to August 2009. He was elected Chairman of the Labour Union of CNAHC in August 2009, and served as Secretary of the Party Committee of CNAHC from January 2016 to June 2017. He was elected Chairman of the Labour Union of the Company in October 2016, responsible for overseeing the daily operation of the Labour Union of the Company. He has been serving as an employee representative director of CNAHC since December 2017, and was elected as employee representative Director of the Company in March 2018.

Mr. Pan Xiaojiang, aged 65, is a former independent non-executive Director of the Company. Mr. Pan holds a doctoral degree in Management from Tsinghua University and is a senior economist and China Certified Public Accountant. He served as Deputy Director of the Accounting Management Department of the Ministry of Finance ("MOF"); Deputy Director of Chinese Institute of Certified Public Accountants; Deputy Director, Director and Deputy Director-general of the World Bank Department of the MOF; and Deputy Director-general of the International Department of the MOF. Mr. Pan was appointed as professional supervisor and deputy office director of the board of supervisors of Bank of China Limited in July 2000; professional supervisor and office director of the board of supervisors of Bank of China Limited in November 2001; professional supervisor and office director of the board of supervisors of Agricultural Bank of China Limited in July 2003; shareholder representative supervisor and office director of the board of supervisors of Agricultural Bank of China Limited from January 2009 to January 2012; leader of the fifth patrol team of the Communist Party Committee of Agricultural Bank of China Limited from March 2012 to January 2013. From May 2013 to May 2015, Mr. Pan served as an independent director of Tsinghua Tongfang Limited. Mr. Pan served as an independent non-executive Director of the Company from October 2013 to May 2017.

Mr. Simon To Chi Keung, aged 66, is a former independent non-executive Director of the Company. Mr. To holds a First Class Bachelor's Honours Degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and an MBA degree from Stanford University's Graduate School of Business. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of the Industrial Project Division and was appointed managing director in 1981. From 1999 to 2005, he served as an independent non-executive director of China Southern Airlines. From 2000 to 2011, he served as a non-executive director of Shenzhen International Holdings Limited. He is currently the managing director of Hutchison Whampoa (China) Limited and chairman of Hutchison China MediTech Limited. He is concurrently the vice chairman of Guangzhou Aircraft Maintenance & Engineering Co. Ltd, director of China Aircraft Services Limited, chairman of Beijing Greatwall Hotel, chairman of Hutchison Whampoa (China) Commerce Limited, chairman of Guangzhou Hutchison Logistics Services Company Limited, chairman of Hutchison Whampoa Baiyunshan Chinese Medicine Company Limited, vice chairman of Shanghai Hutchison Pharmaceuticals Limited and chairman of Shanghai Hutchison Whitecat Co., Ltd. Mr. To served as an independent non-executive Director of the Company from October 2013 to May 2017.

Mr. Wang Xiaokang, aged 62, is an independent non-executive Director of the Company. He graduated from Peking University majoring in law. He served as Chairman and Deputy Secretary of the Communist Party Committee of China Energy Conservation and Environmental Protection Group from May 2010 to December 2016. Since December 2011, he has been serving as the President of China Industrial Energy Conservation and Clean Production Association. He is also currently a Member of the Twelfth National Committee of the Chinese People's Political Consultative Conference and a Member of the Committee of Population, Resources and Environment under the Twelfth National Committee the Chinese People's Political Consultative Conference, a member of National Manufacturing Strategy Advisory Committee, a member of the Sixth China Council for International Cooperation on Environment and Development and a member of the Expert Advisory Committee for Inter-Ministerial Joint Meeting for Circular Economy Development. He has been serving as an independent non-executive Director of Company since May 2017.

Mr. Liu Deheng, aged 61, is an independent non-executive Director of the Company. He graduated from the School of Management of Xi'an Jiaotong University with a master's degree in industrial management engineering. He served as Deputy Director General of Statistics and Assessment Bureau (Asset and Capital Verification Office), Deputy Director General and Director General of Revenue Management Bureau of the SASAC from May 2003 to October 2016, and served as Professional External Director for Central State-owned Enterprises from October 2016 to April 2017. Since May 2017, he has been serving as Professional External Director of Commercial Aircraft Corporation of China, Ltd. and serving as an independent non-executive Director of the Company.

Mr. Stanley Hui Hon-chung, aged 67, is an independent non-executive Director of the Company. Mr. Hui holds the bachelor degree of Science from the Chinese University of Hong Kong. He joined Cathay Pacific in 1975 and had held a range of management positions in Hong Kong and overseas. From 1990 to 1992, Mr. Hui served in Cathy Dragon as General Manager-Planning and International Affairs and was appointed the Chief Representative of John Swire & Sons (China) Limited in Beijing in 1992. He later returned to Hong Kong in 1994 to assume the position of Chief Operating Officer of AHK Air Hong Kong Limited until 1997. Mr. Hui joined Cathy Dragon as its Chief Executive Officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the Chief Executive Officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 13th session of National Committee of Chinese People's Political Consultative Conference ("CPPCC") and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui has been serving as an independent non-executive Director of the Company since May 2015. Mr. Hui was appointed executive director and Vice CEO of NWS Holdings Limited in September 2015 and independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. in December 2016.

Mr. Li Dajin, aged 59, is an independent non-executive Director of the Company. Mr. Li graduated from Peking University majoring in law. He is a director, partner and lawyer of East & Concord Partners. He has practiced law in the PRC since 1982 and was one of the first lawyers who obtained the qualifications to engage in securities law business in 1994. He was the vice president of the sixth All China Lawyers Association, the president of the seventh Beijing Lawyers Association, member of the 13th standing committee of Beijing Municipal People's congress, member of Internal and Judicial Affairs Committee and the deputy to the 12th National People's Congress. Mr. Li currently also serves as a member of the 13th Chinese People's Political Consultative Conference, legislative consultant to the Standing Committee of Beijing Municipal People's Congress, invited supervisor to the PRC Supreme People's Court, invited supervisor to the Ministry of Public Security of the PRC, visiting professor to Lawyer College Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. Since December 2015, he has been serving as an independent non-executive Director of the Company.

2. Supervisors

Mr. Wang Zhengang, aged 59, is Chairman of the Supervisory Committee of the Company. He is a senior accountant who graduated from the Anti Chemical Command and Engineering Institute of the Chinese People's Liberation Army with a bachelor's degree in economics and management. He has been serving as a director, the president and a member of the Communist Party Committee of CNACG since July 2011 and the chairman of the board of directors of Zhongyi Aviation Investment Co., Ltd. since September 2011. Mr. Wang has been an assistant general manager of CNAHC since September 2014. Mr. Wang is currently a member of the Committee of the 13th session of the CPPCC of Beijing Municipality. He was elected as Chairman of the Supervisory Committee of the Company in August 2016.

Mr. He Chaofan, aged 55, is a Supervisor of the Company. Mr. He graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of Civil Aviation Administration of China (CAAC), and served various positions in Air China International Corporation, including the section chief, deputy director and director of the finance department and general manager of the revenue accounting centre of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager and the Deputy Secretary of CPC of CNAF. He served as the General Manager of the finance department of CNAHC and a Supervisor of the Company concurrently from October 2008 to April 2011. He was appointed as vice president of CNACG in May 2011, and has been concurrently served as a director, general manager, party committee member and the Deputy Secretary of the CPC Committee of Zhongyi Aviation Investment Co., Ltd. since July 2013. Mr. He has been serving as a Supervisor of the Company since October 2013.

Mr. Zhou Feng, a former Supervisor of the Company, the biography of whom is set out in the section headed "Senior Management".

Ms. Xiao Yanjun, aged 53, is a Supervisor of the Company. Ms. Xiao obtained a Juris Master from Renmin University of China and an EMBA degree from Tsinghua University and is an advanced professional of political work. From July 1988 to April 2002, Ms. Xiao held various positions in Air China International Corporation, including an Instructor at the Training Department, the Secretary of the Communist Party Committee, an Organiser at division level, Secretary of the Party Branch and Head of Officer Training. She served as the Training Manager of the Human Resource Department of the Company from April 2002 to March 2008 and Deputy Director of the Labour Union of the Company from March 2008 to November 2012. She has been Director of the Labour Union of the Company since November 2012. Ms. Xiao has been serving as a Supervisor of the Company since June 2011. She has been serving as the head of the office to the Labour Union of CNAHC since May 2017.

Mr. Shen Zhen, aged 51, is a former Supervisor of the Company. Mr. Shen graduated from Party School of the Central Committee of CPC majoring in economics and management. He started his career in China's civil aviation industry since October 1985 and held various positions in Vehicle Administrative Office and Chief Flight Team at Beijing Ad-ministration of CAAC. From August 2003 to November 2012, Mr. Shen served as the Deputy Captain of the Fourth Group (1st team) of Chief Flight Team of the Company. He has been serving as the Party branch secretary of the First Group (5th team) of Chief Flight Team of the Company since November 2012. Mr. Shen served as a Supervisor of the Company from October 2013 to October 2017.

Ms. Li Guixia, aged 41, is a Supervisor of the Company. Ms. Li graduated from Xi'an Shiyou University majoring in accounting. Ms. Li started her career in August 1998 and served various positions in the Company, including an Assistant at the Domestic Passenger Center of the Ground Services Department, the Commissioner of the Budget Management Division of the Finance Department and the Project Manager of the Planning Financial Office of the Business Council. She has been serving as a Senior Deputy Manager of the Planning Financial Office of the Business Council of the Company since 2014. Since October 2017, she has been serving as a Supervisor of the Company.

3. Senior Management

Mr. Song Zhiyong, is the President of the Company. Mr. Song's biography is set out in the section headed "Directors".

Mr. Cao Jianxiong, is the Vice President of the Company. Mr. Cao's biography is set out in the section headed "Directors".

Mr. Feng Gang, is the Vice President of the Company. Mr. Feng's biography is set out in the section headed "Directors".

Mr. Hou Xulun, aged 50, is the Secretary of Committee for Discipline Inspection of the Company. He graduated from the School of Government of Peking University, majoring in administration management. He was a division-level inspector of the Organization Department of Jinan City, Shandong Province, a division-level investigator of the Office of Publication of the Research Office, the Organization Department of the Central Committee, a Director of Office, a deputy-bureau-level investigator, a deputy inspector, the Deputy Director of Bureau of the Bureau of Cadre Supervision, the Organization Department of the Central Committee. Since September 2011, he was an inspector of the Bureau of Cadre Supervision and the Director of Liaison Office for Inspection Work of the Organization Department of the CPC. Since August 2014, he was an inspector and the Deputy Director of the Bureau of Cadre Supervision, the Organization Department of the Central Committee. Since July 2015, he was a member of the Leading Party Member Group and Team Leader of the Discipline Inspection Group of CPC Leading Group of CNAHC. Since May 2017, he has been a member of the Leading Party Member Group and Team Leader of the Discipline Inspection Group of CPC Leading Group of CNAHC and a member and a standing member of the CPC Committee and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Ma Chongxian, aged 52, is the Vice Chairman of the Company. He graduated from Inner Mongolia University majoring in planning and statistics and holds a degree of Executive Master in Business Administration in Tsinghua University. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China, including Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia branch, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President and a standing member of the CPC Committee of the Company since April 2010, responsible for air and ground services. From April 2010 to November 2016, he served as Chairman and President of Shandong Aviation Group Corporation and Vice Chairman of Shandong Airlines. He has been a member of the Communist Party Group of CNAHC since August 2016 and Vice General Manager since December 2016.

Mr. Zhao Xiaohang, aged 56, is the Vice President of the Company. He graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration of CAAC, Assistant, Section Chief and Deputy Division Chief of the Planning Department, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China International Corporation. He served as director and Vice President of CNACG from September 2003 to May 2004, director, Vice President and Secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as director of China National Aviation Company Limited from July 2005 to November 2015 and General Manager of China National Aviation Company Limited from July 2005 to May 2016, and director and General Manager of China National Aviation Corporation (Macau) Company Limited from April 2007 to February 2016. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President and a member of the Standing Committee of CPC of the Company since February 2011. He is also a director of Shandong Aviation Group Corporation since April 2011 and Chairman of Dalian Airlines since August 2011. Mr. Zhao was appointed as the Chairman of Air Macau in March 2016, a member of the Communist Party Group of CNAHC in August 2016, Vice General Manager and a member of the Communist Party Group of CNAHC as well as Director and Vice Chairman of CNACG and Chairman of CNAMC in December 2016.

Mr. Wang Mingyuan, aged 52, is the Vice President of the Company, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in July 1988 and served various positions in China Southwest Airlines, including Assistant of the planning department, Manager of the Production Plan Office of the Sales & Marketing Department, Deputy Manager of the Sales & Marketing Department, Deputy Manager and Manager of the Market Department, and served various positions in Air China International Corporation, including Deputy General Manager of the Marketing Department, Member of the Commerce Commission, Member of the Communist Party Committee and General Manager of Network Revenue Department. Mr. Wang was appointed as the director of the Commerce Commission and Deputy Secretary of the Communist Party Committee of the Company from July 2008 to March 2012. Mr. Wang was appointed as the Vice President and a member of the Standing Committee of CPC of the Company in February 2011.

Ms. Feng Run'e, aged 55, is the former Vice President of the Company, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an Instructor of Science & Education Division of Inner Mongolia Administration of CAAC, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Inner Mongolia branch of Air China International Corporation; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. From January 2009 to March 2011, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company from February 2011 to May 2017 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company from March 2011 to July 2017. She served as president of the Labour Union of the Company from June 2011 to October 2013. Ms. Feng was appointed as the Vice President and a member of the Standing Committee of CPC of the Company from May 2017 to September 2017.

Mr. Chai Weixi, aged 55, is the Vice President of the Company, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including Engineer and Manager of airframe team of Engineering Department of AMECO, Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China International Corporation, Manager of Aircraft Maintenance Subdivision and Manager of Aircraft Overhaul Division, General Manager of Aircraft Engineering Department of of AMECO and Deputy General Manager of the Engineering Technology Branch of the Company. From October 2005 to March 2009, he was appointed as General Manager and Member of the Communist Party Committee of AMECO as well as the Member of the Communist Party Committee of the Engineering Technology Branch of the Company. He served as General Manager and Deputy Secretary of the Communist Party Committee of the Engineering Technology Branch of the Company from March 2009 to June 2015. And he was appointed as the director of AMECO in October 2005, the Vice President and a member of the Standing Committee of CPC of the Company in March 2012. He also served as the Chief Executive of AMECO from June 2015 to September 2017.

Mr. Chen Zhiyong, aged 54, is the Vice President of the Company, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class pilot. Mr. Chen started his career in October 1982 and served various positions, including squadron leader of the Third Squadron of the Seventh Flight Team of CAAC, squadron leader and head of Chengdu Flight Department of China Southwest Airlines and manager of Flight Technology Management Department of China Southwest Airlines, head of Chengdu Flight Department of Southwest Branch of Air China International Corporation, and Deputy General Manager and Chief Pilot of Southwest Branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Southwest Branch of the Company from December 2009 to December 2012. Mr. Chen has been serving as Vice President and a standing member of the CPC Committee of the Company since December 2012 till now. Mr. Chen has also been serving as director and president of Shenzhen Airlines since May 2014.

Mr. Liu Tiexiang, aged 51, is the Vice President of the Company, graduated from No. 2 Aviation College of the PLA Air Force majoring in pilot and is a first-class pilot. He started his career in June 1983 and has previously served various positions in Air China International Corporation, including pilot, squadron leader of the Third Team of the General Flight Group, deputy director and deputy manager of Flight Training Centre, deputy general manager of Aviation Security Technology Department, deputy general manager and general manager of Flight Technical Management Department and vice captain of the Chief Flight Team. He served as captain of the Chief Flight Team of and Deputy Secretary of the Communist Party Committee of the Company from June 2008 to April 2011. He served as Chief Pilot of the Company from April 2011 to November 2014, and has been serving as the Vice President and a member of the Standing Committee of CPC of the Company since August 2014 and the Chief Operating Officer of the Company since April 2015.

Mr. Xue Yasong, is the Chairman of the Labour Union of the Company. Mr. Xue's biography is set out in the section headed "Directors".

Mr. Xu Chuanyu, aged 53, is the Chief Safety Officer of the Company, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team, an Inspector in the Safety Supervisory Office and Captain of the Third Group of the Chief Flight Team. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as Deputy Operation Executive Officer of the Company and General Manager of Operation Control Centre of the Company as well as a Member and Deputy Secretary of the Communist Party Committee from January 2009 to March 2011. He served as the Chief Pilot from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as the Chief Pilot of CNAHC and Chief Safety Officer of the Company since December 2012. Mr. Xu was appointed as Chairman, President, deputy secretary of the CPC committee of Shandong Aviation Group Corporation in November 2016.

Mr. Zhang Hua, aged 52, is the General Counsel of the Company. He graduated from Zhongnan University of Finance and Economics majoring in industrial economics and is a on-job postgraduate of the Party School of the Central Committee of the Communist Party of China majoring in economics and management. He started his career in 1986 and served various positions, including the director of the China Factory Director (Manager) Work Research Association, an officer at vice-director level of China Enterprise Management Association, the project manager of China Business Consulting Company, an officer at director level, deputy director and director of Division of Economic Law and Regulations of State Economic and Trade Commission as well as the director and deputy Legal director of Bureau of Policies, Laws and Regulations of the SASAC. He was appointed as the General Legal Counsel of CNAHC and of the Company in August 2016 and August 2017, respectively.

Mr. Xiao Feng, aged 49, is the Chief Accountant of the Company. He graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He started his career in July 1990, and served as an accountant of the Infrastructure Office, Deputy Section Chief and Section Chief of the Finance Office, Treasury Manager of the Finance Department and Deputy General Manager of the Finance Department of the Company and the Chief Accountant and Deputy General Manager of Shandong Airlines. Mr. Xiao served as the General Manager of the Finance Department of the Company from December 2009 to July 2014. He has been serving as the Chief Accountant of the Company since July 2014.

Mr. Meng Xianbin, aged 60, is the former Chief Economic Officer of the Company. He graduated from Air Force and Missile Institute majoring in management engineering and holds an undergraduate degree. Mr. Meng started his career in December 1974 and served as a machinist of the Mechanics Team of a certain division of the Air Force, an officer and the head of the Political Department of a certain force of the Air Force and the deputy head of the Political Department of the Air Force in Beijing. He joined the Company in July 2001. He worked as the Secretary of the Communist Party Committee of the Fifth Group of the Chief Flight Team, Deputy Director of the President Office and Deputy General Manager and General Manager of the Human Resource Department of the Company. Mr. Meng served as the Secretary of the Communist Party Committee and Deputy General Manager of the Engineering Technology Branch of the Company from December 2009 to August 2015. Mr. Meng served as the Chief Economic Officer of the Company from July 2014 to January 2018, and served as the secretary of the Communist Party Committee and the convener of the labour union of AMECO from August 2015 to December 2017.

Mr. Wang Yingnian, aged 54, is the Chief Pilot of the Company. He graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a first-class pilot. Mr. Wang started his career in China's civil aviation industry in August 1984 and has been engaged in work related to piloting. He was the deputy chief of Flying Corps, member and standing member of the CPC Committee of the Company from August 2007 to April 2011. Mr. Wang served as the Flying Corps captain and Deputy Secretary of Communist Party Committee of the Company from April 2011 to December 2014. He has been serving as Chief Pilot of the Company since November 2014 and has been serving as General Manager and Deputy Secretary of Communist Party Committee of the Training Department of the Company since February 2017.

Ms. Rao Xinyu, aged 51, is the former Secretary to the Board of the Company. She graduated from Beijing Foreign Studies University with a postgraduate diploma. Ms. Rao started her career in July 1990 and served as an officer at vice-director level and an officer at director level of the International Department of the CAAC, Deputy Manager of the General Office, Deputy Director of the Administration Office and Deputy General Manager of the Planning and Investment Department of China National Aviation Corporation, respectively. From December 2002, Ms. Rao was appointed as Deputy General Manager of the Planning and Investment Department of CNAHC. From October 2003, she served as Deputy General Manager of the Planning and Development Department of CNAHC. Ms. Rao has been Deputy Director of the Secretariat of the Board and General Manager of Investor Relation Department of the Company since April 2005. She served as the Secretary to the Board and the Director of the Secretariat of the Board of the Company from December 2011 to August 2017. She was appointed as the deputy director of the Business Committee of the Company in August 2017.

Mr. Zhou Feng, aged 56, is the Secretary to the Board of the Company. He obtained a master's degree in economics from Shanghai University of Finance and Economics and a master's degree of business administration from China Europe International Business School, and is a senior accountant. He served as the director of the financial planning and audit department of Zhejiang Administration of CAAC in 1992; the Chief Accountant of CNAC Zhejiang Airlines in 1997; assistant to the General Manager of China National Aviation Corporation (Macau) Company Limited and an executive director of Air Macau in 2001; the Deputy General Manager of CNAF in 2003; Director and Executive Vice President of Samsung Air China Life Insurance Co., Ltd. in 2005; Secretary of the Communist Party Committee of CNAF in 2010. Mr. Zhou served as the General Manager of the finance department of CNAHC from April 2011 to May 2017 and as a Supervisor of the Company from November 2011 to August 2017. He has been serving as the head of the Secretariat of the Board of the Company since June 2017 and was appointed as Secretary to the Board of the Company in August 2017.

Mr. Shao Bin, aged 52, is the Assistant to the President of the Company. He Graduated from Tsinghua University School of Economics and Management majoring in EMBA, and is a first-class pilot. He started his career in July 1987 and had hold various positions in Tianjin branch of Air China, including Deputy Captain and Caption of First Squadron of the Flight Team, Deputy Captain and Captain of the Flight Team, Manager of the Flight Department, Deputy General Manager and member of the Communist Party Committee; he was appointed as the General Manager of Aviation Safety Monitoring Department in December 2006 and as the General Manager of the Aviation Safety Management Department in August 2008. Mr. Shao served as assistant to the President and the General Manager of the Flight Department of Shenzhen Airlines since April 2010; as assistant to the President and the General Manager of the Aviation Safety Management Department since March 2012. He has been serving as assistant to the President of the Company and the Deputy President of Shenzhen Airlines since November 2014.

Mr. Zhu Songyan, aged 47, is the Assistant to the President of the Company. Mr. Zhu graduated from China Civil Aviation Institute's Department of Economics majoring in transportation. Mr. Zhu started his career in July 1991 and served various positions in Air China International Corporation, including Assistant of the Passenger Department, Head of Business Office of Seat Reservation Centre, Deputy General Manager of the Marketing Department, and General Manager and Party General Branch Deputy Secretary of the Information Technology Center. Mr. Zhu served as the Deputy Director of Commerce Commission and Member of the Communist Party Committee of the Company since July 2008, the Deputy Director of Commerce Commission, Member of the Communist Party Committee, General Manager of the Network Revenue Department and Party General Branch Secretary of the Company since January 2009, the Director, Executive Director and General Manager of Air Macau since April 2011. He has been serving as the Assistant to the President and General Manager of the Planning and Development Department of the Company since July 2014.

Mr. Zhao Yang, aged 50, is the Assistant to the President of the Company. Mr. Zhao graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Zhao started his career in August 1988 and served various positions in Southwest Branch of Air China International Corporation, including squadron leader of the Seventh Squadron, Captain of the First Group of the Flight Department, Deputy General Manager, General Manager and Deputy Secretary of the Communist Party Committee of the Flight Department. Mr. Zhao served as the Deputy General Manager and Chief Pilot, Member and Executive Member of the Communist Party Committee of the Southwest Branch of the Company since November 2014. He served as the Deputy Operation Executive Officer and General Manager of Operation Control Centre, and Deputy Secretary of the Communist Party Committee of the Company since October 2017. Mr. Zhao has been serving as the Assistant to the President of the Company since October 2017.

4. Joint Company Secretaries

Mr. Zhou Feng. Mr. Zhou's biography is set out in the section headed "Senior Management".

Ms. Tam Shuit Mui, aged 46, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of International Business Settlement Holdings Limited (formerly known as Chaoyue Group Limited/Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as one of the Joint Company Secretaries of the Company since October 2008.

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 202, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA'S Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
Provision for major overhauls	
As at 31 December 2017, provision for major overhauls of RMB5,005 million were recorded in the consolidated statement of financial position. We identified provision for major overhauls to fulfil the return condition of aircraft under operating leases as a key audit matter because of the significant management estimation and judgement required in assessing the variable factors and assumptions in order to quantify the amount of provision required at each reporting date. The Group held certain aircraft under operating leases at 31 December 2017. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Management estimates the maintenance costs of major overhauls for aircraft held under operating leases at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. Details of the related estimation uncertainty are set out in note 4, 5 and 38 to the consolidated financial statements.	Our procedures in relation to provision for major overhauls to fulfil the return condition of aircraft under operating leases included: • Testing the internal controls relevant to the audit of provision for major overhauls to fulfil the return condition of aircraft under operating leases. • Evaluating the methodology and key assumptions adopted by management in estimating the provision for these major overhauls. This evaluation included reviewing the terms of the operating leases and comparing assumptions to contract terms and the Group's maintenance cost experience. • Discussing with managers in the engineering department responsible for aircraft engineering about the Utilisation pattern of aircraft, obtaining relevant operating data, performing recalculation and checking the mathematical accuracy of the calculation of provision for major overhauls by the management for those aircraft under operating leases. • Performing a retrospective review of aircraft maintenance provisions to evaluate the assumptions adopted by management by comparing past assumptions adopted by management in prior years with actual events as well as the current year's assumptions.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
Revenue Recognition	
The Group's revenue primarily consists of air traffic revenue amounting to RMB115,380 million for the year ended 31 December 2017. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex information technology ("IT") systems to capture and recognise sales data and information and an estimation of the unit fair value and redemption rate of frequent-flyer programme, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to management manipulation. Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of passenger and cargo sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as air traffic liabilities in the consolidated statement of financial position. The fair value of programme awards under the Group's frequent-flyer programme, is deferred and included in deferred income in the consolidated statement of financial position. The Group maintains complex IT systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme. The Group estimates the unit fair value of frequent-flyer programme which are initially deferred when earned by members of the programme. Details of revenue are set out in notes 4, 5, 7 and 40 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Testing the internal controls, including IT controls, relevant to our audit of revenue recognition. • Performing analytical procedures on passenger revenue by developing an expectation for each type of revenue using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue. Investigating the reason of any significant unusualness. • Evaluating the management's estimate of the unit fair value and redemption rate of frequent-flyer programme. • Checking underlying documentation for journal entries which were considered to be material or met other specified risk-based criteria. • Challenging the reasonableness of the Group's assumptions relating to the redemption rate for mileage by comparison with historical experience and planned changes to the programme that may impact future redemption activities.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue			
Air traffic revenue	7	**115,379,925**	107,297,920
Other operating revenue	8	**8,646,277**	7,846,772
		124,026,202	115,144,692
Operating expenses			
Jet fuel costs		**(28,409,213)**	(21,981,934)
Employee compensation costs	9	**(22,392,361)**	(20,075,602)
Depreciation and amortisation		**(13,596,319)**	(13,473,720)
Take-off, landing and depot charges		**(13,863,338)**	(12,774,220)
Aircraft and engine operating lease expenses		**(7,310,649)**	(6,252,783)
Aircraft maintenance, repair and overhaul costs		**(6,213,096)**	(4,654,964)
Air catering charges		**(3,462,347)**	(3,270,726)
Other operating lease expenses		**(1,078,057)**	(1,002,788)
Other flight operation expenses		**(9,721,535)**	(8,830,233)
Selling and marketing expenses		**(4,496,533)**	(3,893,265)
General and administrative expenses		**(1,727,042)**	(1,401,882)
		(112,270,490)	(97,612,117)
Profit from operations	10	**11,755,712**	17,532,575
Other income and gains	11	**3,161,847**	127,077
Finance costs	12	**(3,055,064)**	(7,468,985)
Share of results of associates		**(604,671)**	(211,188)
Share of results of joint ventures		**228,408**	233,423
Profit before taxation		**11,486,232**	10,212,902
Income tax expense	14	**(2,844,783)**	(2,454,221)
Profit for the year		**8,641,449**	7,758,681
Attributable to:			
– Equity shareholders of the Company		**7,244,321**	6,809,159
– Non-controlling interests		**1,397,128**	949,522
Profit for the year		**8,641,449**	7,758,681
Earnings per share			
– Basic and diluted	15	**RMB53.79 cents**	RMB55.38 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Profit for the year	**8,641,449**	7,758,681
Other comprehensive (expense) income for the year (after tax adjustments)		
Items that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	**(13,301)**	2,295
– Share of other comprehensive income of associates and joint ventures	**180,538**	162,682
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures	**1,561,413**	2,171,389
– Available-for-sale securities: net change in fair value	**127,474**	39,457
– Exchange realignment	**(1,454,550)**	1,332,354
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(31,869)**	(9,864)
Other comprehensive income for the year	**369,705**	3,698,313
Total comprehensive income for the year	**9,011,154**	11,456,994
Attributable to:		
– Equity shareholders of the Company	**7,613,176**	10,453,622
– Non-controlling interests	**1,397,978**	1,003,372
Total comprehensive income for the year	**9,011,154**	11,456,994

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	17	**168,536,471**	158,012,922
Lease prepayments	18	**3,300,124**	3,057,745
Investment properties	19	**674,738**	695,518
Intangible assets	20	**76,021**	113,367
Goodwill	21	**1,099,975**	1,099,975
Interests in associates	23	**14,199,540**	14,181,687
Interests in joint ventures	24	**1,239,396**	1,126,992
Advance payments for aircraft and flight equipment		**20,480,204**	20,662,867
Deposits for aircraft under operating leases		**567,889**	649,343
Held-to-maturity securities		**–**	10,000
Available-for-sale securities	25	**1,334,953**	1,150,661
Deferred tax assets	26	**2,501,518**	3,054,035
Other non-current assets		**873,813**	249,502
		214,884,642	204,064,614
Current assets			
Non-current assets held for sale	27	**284,169**	913,129
Inventories	28	**1,535,769**	1,680,633
Accounts receivable	29	**3,490,427**	3,286,091
Bills receivable		**348**	837
Prepayments, deposits and other receivables	30	**5,122,517**	3,729,699
Financial assets	31	**19,938**	222
Restricted bank deposits	32	**697,167**	474,338
Cash and cash equivalents	32	**5,562,907**	6,848,018
Held-to-maturity securities		**10,000**	–
Other current assets	33	**4,036,700**	3,053,370
		20,759,942	19,986,337
Total assets		**235,644,584**	224,050,951

At 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Current liabilities			
Air traffic liabilities		**(7,405,757)**	(6,313,936)
Accounts payable	34	**(13,254,188)**	(10,832,292)
Other payables and accruals	35	**(13,336,701)**	(13,094,920)
Current taxation		**(1,825,063)**	(920,508)
Obligations under finance leases	36	**(6,237,472)**	(6,099,453)
Interest-bearing bank loans and other borrowings	37	**(28,654,599)**	(25,975,716)
Provision for major overhauls	38	**(1,418,055)**	(943,609)
		(72,131,835)	(64,180,434)
Net current liabilities		**(51,371,893)**	(44,194,097)
Total assets less current liabilities		**163,512,749**	159,870,517
Non-current liabilities			
Obligations under finance leases	36	**(37,798,582)**	(36,295,471)
Interest-bearing bank loans and other borrowings	37	**(22,108,289)**	(37,833,246)
Provision for major overhauls	38	**(3,586,943)**	(3,523,236)
Provision for early retirement benefit obligations		**(4,869)**	(7,919)
Long-term payables		**(193,712)**	(23,350)
Defined benefit obligations	39	**(263,575)**	(269,742)
Deferred income	40	**(3,568,127)**	(3,092,841)
Deferred tax liabilities	26	**(1,130,054)**	(2,428,313)
		(68,654,151)	(83,474,118)
NET ASSETS		**94,858,598**	76,396,399
CAPITAL AND RESERVES			
Issued capital	41	**14,524,815**	13,084,751
Treasury shares	41	**(3,047,564)**	(3,047,564)
Reserves		**74,570,311**	58,762,068
Total equity attributable to equity shareholders of the Company		**86,047,562**	68,799,255
Non-controlling interests		**8,811,036**	7,597,144
TOTAL EQUITY		**94,858,598**	76,396,399

The consolidated financial statements on pages 99 to 202 were approved and authorised for issue by the board of directors on 27 March 2018 and signed on its behalf by:

Cai Jianjiang
Director

Song Zhiyong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to equity shareholders of the Company									
	Note	Issued capital RMB'000	Treasury shares RMB'00	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
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 2016											
Profit for the year		–	–	–	–	–	–	6,809,159	6,809,159	949,522	7,758,681
Other comprehensive income		–	–	2,351,422	–	–	1,293,041	–	3,644,463	53,850	3,698,313
Total comprehensive income		–	–	2,351,422	–	–	1,293,041	6,809,159	10,453,622	1,003,372	11,456,994
Appropriation of statutory reserve funds		–	–	–	652,457	–	–	(652,457)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	544,081	–	–	(546,391)	(2,310)	(2,152)	(4,462)
Appropriation of general reserve		–	–	–	–	11,758	–	(11,758)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(187,806)	(187,806)
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	(1,400,068)	(1,400,068)	–	(1,400,068)
Others		–	–	–	–	–	–	–	–	8,988	8,988
As at 31 December 2016 and 1 January 2017		13,084,751	(3,047,564)	18,183,216	7,829,643	66,709	(1,300,075)	33,982,575	68,799,255	7,597,144	76,396,399
Changes in equity for 2017											
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**7,244,321**	**7,244,321**	**1,397,128**	**8,641,449**
Other comprehensive income (expense)		**–**	**–**	**1,780,734**	**–**	**–**	**(1,411,879)**	**–**	**368,855**	**850**	**369,705**
Total comprehensive income (expense)		**–**	**–**	**1,780,734**	**–**	**–**	**(1,411,879)**	**7,244,321**	**7,613,176**	**1,397,978**	**9,011,154**
Non-public offering of shares		**1,440,064**	**–**	**9,778,036**	**–**	**–**	**–**	**–**	**11,218,100**	**–**	**11,218,100**
Transaction costs related to non-public offering of shares		**–**	**–**	**(16,726)**	**–**	**–**	**–**	**–**	**(16,726)**	**–**	**(16,726)**
Appropriation of statutory reserve funds		**–**	**–**	**–**	**695,805**	**–**	**–**	**(695,805)**	**–**	**–**	**–**
Appropriation of discretionary reserve funds and others		**–**	**–**	**–**	**652,457**	**–**	**–**	**(654,232)**	**(1,775)**	**(1,628)**	**(3,403)**
Appropriation of general reserve		**–**	**–**	**–**	**–**	**3,033**	**–**	**(3,033)**	**–**	**–**	**–**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(182,458)**	**(182,458)**
Dividends declared in respect of the previous year	16	**–**	**–**	**–**	**–**	**–**	**–**	**(1,564,468)**	**(1,564,468)**	**–**	**(1,564,468)**
As at 31 December 2017		**14,524,815**	**(3,047,564)**	**29,725,260**	**9,177,905**	**69,742**	**(2,711,954)**	**38,309,358**	**86,047,562**	**8,811,036**	**94,858,598**

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit before taxation	**11,486,232**	10,212,902
Adjustments for:		
Share of results of associates and joint ventures	**376,263**	(22,235)
Exchange (gains)/losses, net	**(2,938,101)**	4,233,668
Interest income	**(223,746)**	(127,077)
Finance costs	**3,055,064**	3,235,317
Depreciation of property, plant and equipment	**13,453,155**	13,339,651
Losses on disposal of property, plant and equipment, net	**37,186**	37,628
(Gains)/losses on disposal of non-current assets held for sale	**(46,414)**	4,659
Interest income of available-for-sale securities	**(14,337)**	–
Amortisation of lease prepayments	**71,811**	68,177
Depreciation of investment properties	**32,518**	27,145
Amortisation of intangible assets	**38,835**	38,747
Impairment of property, plant and equipments	**149,160**	–
Impairment of non-current assets held for sale	**–**	219,376
Provision for inventories	**341,802**	71,570
Impairment/(reversal of impairment) of accounts receivable	**90,100**	(9,031)
Impairment/(reversal of impairment)of prepayments, deposits and other receivables	**525**	(3,537)
Impairment of other non-current assets	**3,034**	2,516
Impairment of other current assets	**38,194**	11,546
Operating cash flows before movements in working capital	**25,951,281**	31,341,022
Decrease/(increase) in deposits for aircraft under operating leases	**81,454**	(51,423)
Increase in other non-current assets	**(627,345)**	–
Increase in inventories	**(380,941)**	(21,461)
(Increase)/decrease in accounts receivable	**(294,436)**	384,294
Decrease/(increase) in bills receivable	**489**	(613)
Increase in prepayments, deposits and other receivables	**(1,117,255)**	(90,237)
Increase in other current assets	**(1,021,524)**	(246,397)
Increase in air traffic liabilities	**1,091,821**	554,703
Increase in accounts payable	**2,421,896**	1,561,540
Decrease in bills payable	**–**	(11,646)
Increase/(decrease) in other payables and accruals	**1,848,875**	(255,824)
Increase in provision for major overhauls	**538,153**	52,823
Decrease in provision for early retirement benefit obligations	**(3,050)**	(5,546)
Decrease in defined benefit obligations	**(27,986)**	–
Increase/(decrease) in deferred income	**475,286**	(396,857)
Fair value changes of financial assets at fair value through profit or loss	**60**	–
Increase in long-term payables	**170,362**	13,170
Cash generated from operations	**29,107,140**	32,827,548
Income tax paid	**(2,717,839)**	(2,103,188)
Interest paid	**(3,552,358)**	(3,358,127)
Net cash generated from operating activities	**22,836,943**	27,366,233

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,206,470)**	(9,628,246)
Payment for the purchase of intangible assets		**(1,489)**	(116,240)
Increase in lease prepayments		**(2,361)**	(91,713)
Increase in advance payments for aircraft and flight equipment		**(7,421,245)**	(10,799,254)
Proceeds from sale of property, plant and equipment		**1,628,809**	171,733
Proceeds from sale of held-for-sale assets		**959,543**	479,522
Increase in investment properties		**(11,738)**	–
Decrease in intangible assets		**–**	28
(Increase)/decrease in restricted bank deposits against aircraft operating leases and others		**(3,451)**	194,876
Cash acquired through acquisition of a subsidiary		**–**	28,984
Payment for purchase of available-for-sale securities		**(56,818)**	(2,545)
Payment for purchase of financial assets		**(19,998)**	–
Interest received		**259,903**	122,283
Dividends received from associates, joint ventures and available-for-sale securities		**222,558**	627,535
Net cash used in investing activities		**(14,652,757)**	(19,013,037)
Financing activities			
Proceeds from issuance of shares		**11,218,100**	–
Payment of transaction costs attributable to issuance of shares		**(16,726)**	–
New bank loans and other loans		**27,645,359**	15,270,322
Proceeds from issuance of corporate bonds		**1,200,000**	22,648,240
Repayment of bank loans and other loans		**(29,027,128)**	(26,543,223)
Repayment of principal under finance lease obligations		**(6,178,027)**	(6,468,849)
Repayment of corporate bonds		**(12,396,198)**	(12,100,000)
Dividends paid		**(1,746,926)**	(1,587,874)
Net cash used in financing activities		**(9,301,546)**	(8,781,384)
Net decrease in cash and cash equivalents		**(1,117,360)**	(428,188)
Cash and cash equivalents at 1 January	32	**6,848,018**	7,138,098
Effect of foreign exchange rates changes		**(167,751)**	138,108
Cash and cash equivalents at 31 December	32	**5,562,907**	6,848,018

1. CORPORATE INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB51,372 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 RMB148,563 million as at 31 December 2017, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2017. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 46. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 46, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers and the related Amendements*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Debt instruments classified as held-to-maturity investments carried at amortised cost. These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

- Listed debt instruments classified as available-for-sale investments carried at fair value as disclosed in Note 25: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the capital reserve will continue to be subsequently reclassified to profit or loss when the listed debentures are derecognized or reclassified (except in the case of reclassifications to the amortized cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date).

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement (continued)

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 25: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains or losses accumulated in the capital reserve will no longer be subsequently reclassified to the profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 25: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the capital reserve. Upon initial application of IFRS 9, the fair value gain relating to these securities would be adjusted to capital reserve.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS39 mainly attributable to expected credit losses provision on accounts receivable and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018 slightly.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i. e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosure, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 16 Leases (continued)

Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB51,391 million as disclosed in Note 44. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of assets*.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The associate and joint venture uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to confirm with the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business. The following specific recognition criteria must also be met before revenue is recognised:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

Sale of goods is recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when a group entity's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Deposits and instalments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

The Group's policy for the recognition of revenue from operating leases is described in the accounting policy for leasing below.

Frequent-flyer programme

The Group operates frequent flyer programmes that provide travel services or products to programme members based on accumulated miles. The Group maintains complex IT systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme. The consideration received or receivable from the transportation services provided is allocated between the miles earned by the frequent-flyer programme members and the other components of the sales transactions. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and overhaul costs

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those that are intended to be sold in the ordinary course of business upon completion of the relevant property development project. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture of associate), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs are... directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial periods of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the periods in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line items of administrative expenses and finance costs or finance income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. All short-term employee benefits are recognised as an expense unless another IFRS require or permits the inclusion of the benefits in the cost of an asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Short-term and other long-term employee benefits (continued)

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Cash-settled share-based payment transactions

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

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with interests/investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost or deemed cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of each item of investment property over its estimated useful life and after taking into account its estimated residual value, using straight-line method.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

If an item of investment property becomes owner-occupied property because its use has changed as evidenced by commencement of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to property, plant and equipment for subsequent measurement and disclosure purposes.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less recognised impairment loss, if any. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an owner-occupied property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are recorded at cost on initial acquisition and subsequently stated at cost less accumulated amortisation and impairment. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (other than goodwill) and investments in subsidiaries, associates and joint ventures

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and investments in subsidiaries, associates and joint ventures to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale ("AFSs") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter periods to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method (continued)

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 45.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that are quoted in an active market and that the Group has the positive intention and ability to hold to maturity.

The Group designated a debt instrument as held-to-maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

AFSs

AFSs are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instrument relating to interest income calculated using the effective interest method, are recognised in profit or loss. Fair value is determined in the manner described in Note 45.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFSs financial assets are recognised in other comprehensive income and accumulated under the heading of capital reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the capital reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivable, deposits and other receivables, other loans, restricted bank deposits, cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment at the end of the reporting period.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial asset, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit periods, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent periods, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of capital reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter periods to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including accounts payables, dividend payables, other payables, bank and other borrowings, obligations under finance lease and long-term payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset when only the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key assumptions and uncertainties about accounting estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of the future cash flows, a material impairment loss may rise.

As at 31 December 2017, the carrying amount of goodwill was RMB1,100 million (31 December 2016: RMB1,100 million) (already net of accumulated impairment loss of RMB177 million (31 December 2016: RMB177 million)). Details of the recoverable amount calculation are disclosed in Note 21.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key assumptions and uncertainties about accounting estimates (continued)

Impairment of non-financial assets (other than goodwill)

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

As at 31 December 2017, the aggregate carrying amount of property, plant and equipment, lease prepayments, investment properties and intangible assets (net of impairment), was RMB172,587 million (31 December 2016: RMB161,880 million). Details of these items are set out in Notes 17, 18, 19 and 20.

Overhaul provisions

Overhaul provisions for aircraft under operating leases are accrued using the estimated maintenance costs for aircraft to fulfil these return conditions. Management estimates the maintenance costs of major overhauls for aircraft held under operating leases at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected standard rates of maintenance costs per flying hour/cycle. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

As at 31 December 2017, the Group had overhaul provisions amounting to RMB5,005 million (31 December 2016: RMB4,467 million) and details are disclosed in Note 38.

Deferred income

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

As at 31 December 2017, the deferred income related to frequent-flyer programme was RMB3,530 million (31 December 2016: RMB3,073 million) and details are disclosed in Note 40.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key assumptions and uncertainties about accounting estimates (continued)

Deferred tax asset

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In case where there are actual future profits or the actual future profits generated are more than expected, or effective tax rate is changed, a material recognition or change of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or change takes places.

As at 31 December 2017, a deferred tax assets of RMB2,502 million (31 December 2016: RMB3,054 million) in relation to differences in value of property, plant and equipment, provisions and accruals, unrealised profit of intra-group transactions, impairment of assets and deductible tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the deductible tax losses of RMB584 million (2016: RMB1,650 million) and other temporary differences of RMB792 million (2016: RMB783 million) due to the unpredictability of the future streams and details are disclosed in Note 26.

6. 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.

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

6. SEGMENT INFORMATION (continued)

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2017 and 2016 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2017

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	120,066,345	1,296,554	–	121,362,899
Inter-segment sales	247,297	8,689,539	(8,936,836)	–
Revenue for reportable segments under CASs	120,313,642	9,986,093	(8,936,836)	121,362,899
Other income not included in segment revenue				2,663,303
Revenue for the year under IFRSs				124,026,202
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	11,077,352	453,377	(49,842)	11,480,887
Effect of differences between IFRSs and CASs				5,345
Profit before taxation for the year under IFRSs				11,486,232

6. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2016

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	111,347,956	1,329,124	–	112,677,080
Inter-segment sales	243,209	8,400,147	(8,643,356)	–
Revenue for reportable segments under CASs	111,591,165	9,729,271	(8,643,356)	112,677,080
Other income not included in segment revenue				2,467,612
Revenue for the year under IFRSs				115,144,692
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	10,011,057	328,378	(120,059)	10,219,376
Effect of differences between IFRSs and CASs				(6,474)
Profit before taxation for the year under IFRSs				10,212,902

6. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2017 and 2016 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2017 under CASs	**228,104,759**	**19,166,617**	**(11,553,560)**	**235,717,816**
Effect of differences between IFRSs and CASs				**(73,232)**
Total assets under IFRSs				**235,644,584**
Total assets for reportable segments as at 31 December 2016 under CASs	215,918,569	17,435,746	(9,226,123)	224,128,192
Effect of differences between IFRSs and CASs				(77,241)
Total assets under IFRSs				224,050,951

6. SEGMENT INFORMATION (continued)

Operating segments (continued)

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2017 under CASs	**141,208,964**	**11,026,686**	**(11,449,664)**	**140,785,986**
Effect of differences between IFRSs and CASs				**–**
Total liabilities under IFRSs				**140,785,986**
Total liabilities for reportable segments as at 31 December 2016 under CASs	147,086,337	9,662,575	(9,094,360)	147,654,552
Effect of differences between IFRSs and CASs				–
Total liabilities under IFRSs				147,654,552

6. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2017

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	(651,618)	275,355	–	(376,263)	–	(376,263)
Impairment losses and inventories provision recognised in profit or loss, net	257,792	375,966	(37,750)	596,008	26,807	622,815
Depreciation and amortisation	13,346,813	287,822	(12,082)	13,622,553	(26,234)	13,596,319
Other income and gains	3,134,949	142,889	(115,991)	3,161,847	–	3,161,847
Finance costs	3,310,772	60,855	(156,602)	3,215,025	(159,961)	3,055,064
Income tax expense	2,751,642	109,390	(17,585)	2,843,447	1,336	2,844,783
Interests in associates and joint ventures	13,914,145	1,384,872	–	15,299,017	139,919	15,438,936
Additions to non-current assets	30,458,830	180,937	–	30,639,767	–	30,639,767

6. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2016

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	(258,709)	280,944	–	22,235	–	22,235
Impairment losses and inventories provision recognised in profit or loss, net	244,283	23,059	(13,500)	253,842	38,598	292,440
Depreciation and amortisation	13,222,642	289,906	(3,980)	13,508,568	(34,848)	13,473,720
Other income and gains	147,634	68,200	(88,757)	127,077	–	127,077
Finance costs	7,699,365	69,745	(148,261)	7,620,849	(151,864)	7,468,985
Income tax expense	2,394,383	91,471	(30,015)	2,455,839	(1,618)	2,454,221
Interests in associates and joint ventures	13,911,830	1,256,930	–	15,168,760	139,919	15,308,679
Additions to non-current assets	31,314,344	387,335	–	31,701,679	–	31,701,679

6. SEGMENT INFORMATION (continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2017 and 2016, respectively:

Year ended 31 December 2017

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	80,800,286	5,710,565	12,187,864	10,576,506	6,108,205	8,642,776	124,026,202

Year ended 31 December 2016

	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	74,968,688	5,460,001	10,015,695	10,294,873	6,800,675	7,604,760	115,144,692

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

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year ended 31 December 2017 (2016: Nil).

7. AIR TRAFFIC REVENUE

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

	2017 RMB'000	2016 RMB'000
Passenger	105,125,284	98,992,892
Cargo and mail	10,254,641	8,305,028
	115,379,925	107,297,920

8. OTHER OPERATING REVENUE

	2017 RMB'000	2016 RMB'000
Aircraft engineering income	**1,045,262**	1,058,729
Ground service income	**935,947**	853,586
Government grants:		
– Recognition of deferred income (Note 40(b))	**36,177**	61,107
– Others	**2,479,288**	2,226,052
Service charges on return of unused flight tickets	**1,618,286**	1,359,162
Cargo handling service income	**407,481**	174,251
Training service income	**24,885**	39,606
Rental income	**149,937**	145,077
Sale of materials	**26,311**	20,487
Import and export service income	**74,827**	46,670
Others	**1,847,876**	1,862,045
	8,646,277	7,846,772

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

9. EMPLOYEE COMPENSATION COSTS

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

	2017 RMB'000	2016 RMB'000
Wages, salaries and other benefits	**20,081,647**	18,167,651
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**2,313,802**	1,925,864
– Early retirement benefits	**(1,060)**	(1,589)
Share-based benefits (Note 42)	**(2,028)**	(16,324)
	22,392,361	20,075,602

10. PROFIT FROM OPERATIONS

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

	2017 RMB'000	2016 RMB'000
Depreciation of property, plant and equipment	**13,453,155**	13,339,651
Depreciation of investment properties	**32,518**	27,145
Amortisation of intangible assets	**38,835**	38,747
Amortisation of lease prepayments	**71,811**	68,177
Impairment/(reversal of impairment):		
– Property, plant and equipment	**149,160**	–
– Non-current assets held for sale	**–**	219,376
– Accounts receivable	**90,100**	(9,031)
– Prepayments, deposits and other receivables	**525**	(3,537)
– Other current assets	**38,194**	11,546
– Other non-current assets	**3,034**	2,516
Provision for inventories	**341,802**	71,570
Losses on disposal of property, plant and equipment, net	**37,186**	37,628
(Gains)/losses on disposal of non-current assets held for sale	**(46,414)**	4,659
Minimum lease payments under operating leases:		
– Aircraft and flight equipment	**7,310,649**	6,252,783
– Land and buildings and others	**1,078,057**	1,002,788
Auditors' remuneration:		
– Audit related services	**17,438**	20,080
– Other services	**70**	194

11. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains during the year was as follows:

	2017 RMB'000	2016 RMB'000
Exchange gains, net	**2,938,101**	–
Interest income	**223,746**	127,077
	3,161,847	127,077

12. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on interest-bearing bank loans and other borrowings	**2,488,219**	2,400,304
Interest on finance leases	**1,032,137**	1,058,107
Imputed interest expenses on defined benefit obligations	**8,518**	8,355
Exchange loss, net	**–**	4,233,668
	3,528,874	7,700,434
Less: Interest capitalised	**(473,810)**	(231,449)
	3,055,064	7,468,985

The interest capitalisation rates during the year ranged from 3.09% to 4.38% (2016: 1.03% – 4.62%) per annum relating to the costs of related borrowings during the year.

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, was as follows:

	2017 RMB'000	2016 RMB'000
Directors' fee	**400**	450
Salaries and other allowances	**665**	675
Discretionary bonus	**216**	635
Retirement benefit scheme contributions	**124**	145
Total	**1,405**	1,905

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

2017

	Director's fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	SARs (Note 42) RMB'000	Total RMB'000
Executive director						
Song Zhiyong (Note(a))	–	–	–	–	–	–
Non-executive directors						
Cai Jianjiang (Note(a))	–	–	–	–	–	–
Cao Jianxiong (Note(a))	–	–	–	–	–	–
Feng Gang (Note(a))	–	–	–	–	–	–
John Robert Slosar (Note(b))	–	–	–	–	–	–
Shiu Sai Cheung, Ian (Note(b))	–	–	–	–	–	–
	–	–	–	–	–	–

Mr. Cao Jianxiong, Mr. Feng Gang and Mr. Shiu Sai Cheung, Ian retired upon their office term expiration on 27 October 2017.

Independent non-executive directors						
Wang Xiaokang (Appointed on 25 May 2017)	37	–	–	–	–	37
Liu Deheng (Appointed on 25 May 2017)	–	–	–	–	–	–
Pan Xiaojiang (Resigned on 8 May 2017) (Note(c))	–	–	–	–	–	–
To Chi Keung, Simon (Resigned on 8 May 2017)	63	–	–	–	–	63
Hui Hon-chung, Stanley	150	–	–	–	–	150
Li Dajin	150	–	–	–	–	150
	400	–	–	–	–	400
Supervisors						
Wang Zhengang (Note(a))	–	–	–	–	–	–
He Chaofan (Note(a))	–	–	–	–	–	–
Xiao Yanjun	–	428	151	73	–	652
Zhou Feng (Resigned on 2 August 2017) (Note(a))	–	–	–	–	–	–
Shen Zhen (Resigned on 27 October 2017)	–	189	36	40	–	265
Li Guixia (Appointed on 27 October 2017)	–	48	29	11	–	88
	–	665	216	124	–	1,005
	400	665	216	124	–	1,405

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

2016

	Director's fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	SARs (Note 42) RMB'000	Total RMB'000
Executive directors						
Song Zhiyong (Note(a))	–	–	–	–	–	–
Fan Cheng (Resigned on 14 April 2016)	–	73	465	29	–	567
	–	73	465	29	–	567
Non-executive directors						
Cai Jianjiang (Note(a))	–	–	–	–	–	–
Wang Yinxian (Resigned on 6 June 2016) (Note(a))	–	–	–	–	–	–
Cao Jianxiong (Note(a))	–	–	–	–	–	–
Feng Gang (Note(a))	–	–	–	–	–	–
John Robert Slosar (Note(b))	–	–	–	–	–	–
Shiu Sai Cheung, Ian (Note(b))	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Pan Xiaojiang (Note(c))	–	–	–	–	–	–
To Chi Keung, Simon	150	–	–	–	–	150
Hui Hon-chung, Stanley	150	–	–	–	–	150
Li Dajin	150	–	–	–	–	150
	450	–	–	–	–	450
Supervisors						
Wang Zhengang (Appointed on 30 August 2016) (Note(a))	–	–	–	–	–	–
Li Qinglin (Resigned on 30 August 2016) (Note(a))	–	–	–	–	–	–
He Chaofan (Note(a))	–	–	–	–	–	–
Zhou Feng (Note(a))	–	–	–	–	–	–
Xiao Yanjun	–	395	129	69	–	593
Shen Zhen	–	207	41	47	–	295
	–	602	170	116	–	888
	450	675	635	145	–	1,905

Certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in Note 42.

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

Notes:

(a) These Directors or supervisors did not receive any remuneration for their services in the capacity of the Directors or supervisors of the Company. They also held management positions in CNAHC and salaries were borne by CNAHC.

(b) These two Directors did not receive any remuneration for their services in the capacity of the Directors. They also held management positions in Cathay Pacific Airways Limited (''Cathay Pacific''), the associate of the Group, and salaries were borne by Cathay Pacific.

(c) Mr. Pan Xiaojiang, an independent non-executive director, had waived the remuneration for the year ended 31 December 2017. Except for Mr. Pan Xiaojiang, none of the Directors, supervisors and chief executive has waived any emoluments during the years ended 31 December 2017 and 2016.

(d) For the year ended 31 December 2017, the Group received cash consideration from Cathay Pacific of Hong Kong Dollar (''HKD") 2,480,000 for making available directors' services to Cathay Pacific (2016: HKD2,480,000).

Five highest paid individuals

For both 2017 and 2016, the five highest paid employees were not Directors, supervisors nor chief executive of the Group.

Details of the remuneration of the five highest paid individuals during the year were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other allowances	**13,355**	12,389
Discretionary bonus	**225**	203
Retirement benefit scheme contributions	**167**	149
	13,747	12,741

Discretionary bonuses are calculated based on the Group's or respective member's performance for such financial year.

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

Five highest paid individuals (continued)

The number of the five highest paid individuals whose remuneration fell within the following bands is as follows:

	2017	2016
HKD2,500,001 to HKD3,000,000	1	3
HKD3,000,001 to HKD3,500,000	3	2
HKD3,500,001 to HKD4,000,000	1	–
	5	5

During the year, no emoluments were paid by the Group to any of the Directors, supervisors, chief executive, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: nil).

14. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current income tax:		
– Mainland China	3,615,672	2,200,163
– Hong Kong and Macau	11,939	4,969
Over-provision in respect of prior years	(5,217)	(1,316)
Deferred tax (Note 26)	(777,611)	250,405
	2,844,783	2,454,221

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

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

14. INCOME TAX EXPENSE (continued)

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	**11,486,232**	10,212,902
Tax at the applicable tax rate of 25%	**2,871,558**	2,553,226
Preferential tax rates on income of group entities	**(159,809)**	(126,637)
Tax effect of share of profits less losses of associates and joint ventures	**94,066**	(5,559)
Tax effect of non-deductible expenses	**43,055**	46,800
Tax effect of non-taxable income	**(10,850)**	(1,543)
Deductible temporary differences and tax losses not recognised	**11,530**	105,783
Utilisation of tax losses not recognised in prior years	**(274,684)**	(27,165)
Utilisation of deductible temporary differences not recognised in prior years	**(1,139)**	(89,368)
Over-provision in respect of prior years	**(5,217)**	(1,316)
Withholding tax on undistributed earnings of subsidiaries	**276,273**	–
Taxation for the year	**2,844,783**	2,454,221

15. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**7,244,321**	6,809,159

15. EARNINGS PER SHARE (continued)

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**13,466,675**	12,294,897

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding (Note 23).

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

16. DIVIDENDS

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

	2017 RMB'000	2016 RMB'000
Final dividend in respect of the previous financial year, approved during the current year, of RMB1.0771 per ten shares (including tax) (2016: RMB1.0700 per ten shares (including tax))	**1,564,468**	1,400,068

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of RMB1.1497 per ten ordinary share (approximately RMB1,670 million in aggregate for ordinary shares) has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

17. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2016	206,609,203	11,175,434	9,959,884	6,270,902	234,015,423
Additions	3,415,522	1,433	272,972	12,949,130	16,639,057
Transfer from construction in progress	9,255,096	813,455	493,434	(10,561,985)	–
Reclassification to non-current assets held for sale	(6,193,899)	(19,065)	–	–	(6,212,964)
Disposals	(1,284,481)	(98,790)	(173,932)	–	(1,557,203)
Exchange realignment	104,905	–	8,773	–	113,678
At 31 December 2016 and 1 January 2017	211,906,346	11,872,467	10,561,131	8,658,047	242,997,991
Additions	**3,960,686**	**45,209**	**460,072**	**21,918,661**	**26,384,628**
Transfer from construction in progress	**20,155,320**	**89,205**	**471,495**	**(20,716,020)**	**–**
Reclassification to non-current assets held for sale	**(3,184,739)**	**–**	**–**	**–**	**(3,184,739)**
Disposals	**(6,087,010)**	**(23,398)**	**(314,642)**	**–**	**(6,425,050)**
Exchange realignment	**(107,767)**	**–**	**(9,640)**	**–**	**(117,407)**
At 31 December 2017	**226,642,836**	**11,983,483**	**11,168,416**	**9,860,688**	**259,655,423**
Accumulated depreciation					
At 1 January 2016	(67,684,985)	(3,588,154)	(5,918,488)	–	(77,191,627)
Reclassification to non-current assets held for sale	5,062,845	10,495	–	–	5,073,340
Depreciation charge for the year	(12,111,448)	(472,788)	(755,415)	–	(13,339,651)
Written back on disposals	1,142,242	46,698	153,757	–	1,342,697
Exchange realignment	(42,635)	–	(6,638)	–	(49,273)
At 31 December 2016 and 1 January 2017	(73,633,981)	(4,003,749)	(6,526,784)	–	(84,164,514)
Reclassification to non-current assets held for sale	**2,848,804**	**–**	**–**	**–**	**2,848,804**
Depreciation charge for the year	**(12,245,637)**	**(416,511)**	**(791,007)**	**–**	**(13,453,155)**
Written back on disposals	**4,290,657**	**10,924**	**208,763**	**–**	**4,510,344**
Exchange realignment	**48,118**	**–**	**7,370**	**–**	**55,488**
At 31 December 2017	**(78,692,039)**	**(4,409,336)**	**(7,101,658)**	**–**	**(90,203,033)**
Impairment					
At 1 January 2016	(825,700)	(7,119)	–	–	(832,819)
Reclassification to non-current assets held for sale	–	7,119	–	–	7,119
Written back on disposals	5,145	–	–	–	5,145
At 31 December 2016 and 1 January 2017	(820,555)	–	–	–	(820,555)
Reclassification to non-current assets held for sale	**51,766**	**–**	**–**	**–**	**51,766**
Charge for the year	**(149,160)**	**–**	**–**	**–**	**(149,160)**
Written back on disposals	**2,030**	**–**	**–**	**–**	**2,030**
At 31 December 2017	**(915,919)**	**–**	**–**	**–**	**(915,919)**
Net book value					
At 31 December 2017	**147,034,878**	**7,574,147**	**4,066,758**	**9,860,688**	**168,536,471**
At 31 December 2016	137,451,810	7,868,718	4,034,347	8,658,047	158,012,922

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, less their estimated residual value, if any, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

	Estimated useful life	Residual value	Depreciation rate
Aircraft and flight equipment:			
Core parts of airframe and engine	15 to 30 years	5%	3.17% – 6.33%
Overhaul of airframe and cabin refurbishment	5 to 12 years	Nil	8.33% – 20.00%
Overhaul of engine	3 to 15 years	Nil	6.67% – 33.33%
Rotable	3 to 15 years	Nil	6.67% – 33.33%
Buildings	5 to 50 years	3%-5%	1.90% – 19.40%
Other equipment	3 to 20 years	Nil-5%	4.75% – 33.33%

During the year, the Group recognised an impairment loss of approximately RMB149 million relating to aircraft and flight (2016: Nil). The recoverable amounts of the impaired aircraft and flight equipment are the higher of their fair value less costs of disposal and value in use. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31 December 2017 and 2016. During the year, a number of aircrafts have been transferred to assets held for sale.

As at 31 December 2017, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB13,107 million (31 December 2016: RMB21,922 million) were pledged to secure certain bank loans of the Group (Note 37).

As at 31 December 2017, the aggregate net book value of aircraft and simulator held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB67,957 million (31 December 2016: RMB62,108 million) (Note 36).

As at 31 December 2017, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,143million (31 December 2016: RMB3,177 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

18. LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost		
As at 1 January	**3,627,556**	3,535,843
Additions	**314,190**	91,713
As at 31 December	**3,941,746**	3,627,556
Accumulated amortization		
As at 1 January	**(569,811)**	(501,634)
Amortisation for the year	**(71,811)**	(68,177)
As at 31 December	**(641,622)**	(569,811)
Net carrying amount		
As at 31 December	**3,300,124**	3,057,745

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

As at 31 December 2017, the Group's land use rights with an aggregate net book value of approximately RMB34 million (31 December 2016: RMB35 million) were pledged to secure certain bank loans of the Group (Note 37).

As at 31 December 2017, the Group was in the process of applying for the title certificates of certain land with an aggregate net book value of approximately RMB48 million (31 December 2016: RMB552 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

19. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Cost		
As at 1 January	**903,707**	903,707
Additions	**11,738**	–
As at 31 December	**915,445**	903,707
Accumulated depreciation		
As at 1 January	**(208,189)**	(181,044)
Depreciation for the year	**(32,518)**	(27,145)
As at 31 December	**(240,707)**	(208,189)
Net carrying amount		
As at 31 December	**674,738**	695,518

20. INTANGIBLE ASSETS

	2017 RMB'000	2016 RMB'000
As at 1 January	**113,367**	35,902
Addition	**1,489**	116,240
Amortization for the year	**(38,835)**	(38,747)
Reduction upon admission of new Star Alliance members	**–**	(28)
As at 31 December	**76,021**	113,367

The Group's intangible assets include the right of using given flight slots and the admission rights of the Company and Shenzhen Airlines Company Limited ("Shenzhen Airlines") to Star Alliance (the "Admission Rights"), which are stated at cost less impairment losses. The Admission Rights have an indefinite useful life due to their lasting legal and economic significance.

21. GOODWILL

	2017 RMB'000	2016 RMB'000
As at 31 December:		
– Cost	**1,276,866**	1,276,866
– Impairment	**(176,891)**	(176,891)
Net carrying amount	**1,099,975**	1,099,975

Impairment testing of goodwill

For the purposes of impairment testing, goodwill acquired through business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Air China Cargo Co., Ltd. ("Air China Cargo") cash-generating unit
- Shenzhen Airlines cash-generating unit

Air China Cargo cash-generating unit

Full impairment provision was made for goodwill allocated to the Air China Cargo in 2011.

Shenzhen Airlines cash-generating unit

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and discount rate of 10% (2016: 10%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Shenzhen Airlines' cash flows beyond the three-year period were extrapolated using a 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Shenzhen Airlines cash-generating unit to exceed the aggregate recoverable amount of Shenzhen Airlines cash-generating unit.

22. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2017 were as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of registered capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$331,268,000	69	31	Investment holding
Air China Import and Export Co., Ltd.# (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Aviation Service Co., Ltd.# (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai International Aviation Air Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd.# (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau	Limited liability company	MOP442,042,000	–	66.9	Airline operator
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB5,235,294,118	51	–	Provision of cargo carriage services
Chengdu Falcon Aircraft Engineering Service Co., Ltd.# (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB37,565,216	60	–	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB5,360,000,000	51	–	Airline operator

22. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of registered capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Kunming Airlines Co., Ltd.# (昆明航空有限公司)	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines Co., Ltd.# (北京航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines Co., Ltd.# (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Aircraft Maintenance and Engineering Corporation ("AMECO") (北京飛機維修工程有限公司)	PRC/Mainland China	Limited liability company	US$300,052,800	75	–	Provision of aircraft overhaul and maintenance services
China National Aviation Finance Co., Ltd. ("CNAF") (中國航空集團財務有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	–	Provision of financial services

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

22. INTERESTS IN SUBSIDIARIES (continued)

Information of issued capital and debt securities, representing corporate bonds, issued by subsidiaries of the Group:

As at 31 December 2017, the Group's certain subsidiaries which had outstanding issued debt securities as follows:

Name	Face value of debt securities RMB'000	Carrying value of debt securities RMB'000	Maturity date
Shenzhen Airlines	**1,000,000**	**999,026**	**11/12/2018**
	600,000	**599,644**	**21/04/2018**
	600,000	**599,807**	**24/03/2018**
		2,198,477	

As at 31 December 2016, the Group had outstanding issued debt securities as follows:

Name	Face value of debt securities RMB'000	Carrying value of debt securities RMB'000	Maturity date
Shenzhen Airlines	700,000	699,256	06/11/2017
	100,000	100,000	19/11/2017
	400,000	398,772	19/12/2017
	1,000,000	998,041	11/12/2018
	5,150,000	5,147,083	09/01/2017 – 24/08/2017
		7,343,152	

22. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activity	Place of incorporation/ establishment and operation	Number of principal subsidiaries 2017	2016
Airline operator	PRC/Macau	**6**	6
Investment holding	Hong Kong/BVI	**2**	2
Import and export trading	PRC	**1**	1
Provision of cabin service and airline catering	PRC	**1**	1
Provision of ground service	PRC	**1**	1
Provision of air ticketing service	Hong Kong	**1**	1
Provision of human resources services	PRC	**1**	1
Provision of cargo carriage services	PRC	**1**	1
Provision of aircraft overhaul and maintenance service	PRC	**2**	2
Provision of financial services	PRC	**1**	1
		17	17

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ establishment and principal place of business	Proportion of equity interests and voting rights held by non-controlling interests at 31 December 2017	2016	Profit (loss) allocated to non-controlling interests year ended 31 December 2017 RMB'000	2016 RMB'000	Accumulated non-controlling interests at 31 December 2017 RMB'000	2016 RMB'000
Shenzhen Airlines	PRC	**49%**	49%	**709,439**	804,829	**3,848,030**	3,221,420
Air China Cargo	PRC	**49%**	49%	**540,771**	5,902	**1,939,609**	1,400,208
Others				**146,918**	138,791	**3,023,397**	2,975,516
Total				**1,397,128**	949,522	**8,811,036**	7,597,144

22. INTERESTS IN SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group elimination. The summarised financial information below represents amounts shown in the subsidiary's financial statements prepared in accordance with IFRSs.

	2017		2016	
	Shenzhen Airlines RMB'000	**Air China Cargo RMB'000**	Shenzhen Airlines RMB'000	Air China Cargo RMB'000
Current assets	**3,370,806**	**3,344,189**	2,332,454	3,128,327
Non-current assets	**47,144,256**	**11,003,418**	44,885,787	11,615,443
Current liabilities	**(25,202,668)**	**(4,211,970)**	(19,701,150)	(3,350,084)
Non-current liabilities	**(17,562,511)**	**(6,186,863)**	(21,040,470)	(8,545,805)
Net assets	**7,749,883**	**3,948,774**	6,476,621	2,847,881
– Equity contributed to equity shareholders of the subsidiary	**7,650,692**	**3,939,540**	6,382,748	2,838,575
– Equity contributed to the NCI at the subsidiary level	**99,191**	**9,234**	93,873	9,306
Carrying amount of NCI	**3,848,030**	**1,939,609**	3,221,420	1,400,208
Revenue	**28,051,965**	**11,424,404**	26,471,441	9,241,553
Profit for the year	**1,444,438**	**1,103,112**	1,605,922	10,499
Total comprehensive income	**1,550,819**	**1,100,893**	1,641,664	12,007
Total comprehensive income allocated to NCI	**761,566**	**539,401**	822,343	6,973
Dividend paid to NCI	**(134,955)**	**–**	(111,818)	(1,818)
Cash flows generated from operating activities	**3,234,613**	**2,294,037**	7,626,164	1,445,017
Cash flows used in investing activities	**(3,068,375)**	**(245,739)**	(2,557,435)	(98,595)
Cash flows used in financing activities	**(197,449)**	**(4,626,260)**	(5,483,318)	(1,103,903)

23. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets		
– Listed shares in the PRC	**820,269**	746,275
– Listed shares in Hong Kong	**9,097,056**	9,056,334
– Unlisted investments	**1,743,985**	1,511,568
Goodwill	**2,585,072**	2,914,352
	14,246,382	14,228,529
Less: impairment	**(46,842)**	(46,842)
As at 31 December	**14,199,540**	14,181,687
Market value of listed shares	**13,097,468**	12,115,901

23. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31 December 2017 were as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific* (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Co., Ltd. (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd. (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance & Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Civil aircraft line maintenance
Chongqing Civil Aviation Cares Information Technology Co., Ltd.# (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB14,800,000	24.5	Provision of airline-related information system services
Chengdu Civil Aviation Southwest Cares Co., Ltd.# (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
Tibet Airlines Co., Ltd.# (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator

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

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

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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

23. INTERESTS IN ASSOCIATES (continued)

Cathay Pacific

	2017 RMB'000	2016 RMB'000
Gross amounts of the associate's		
Current assets	**27,447,105**	28,080,458
Non-current assets	**130,019,949**	130,624,401
Current liabilities	**(34,504,693)**	(39,440,735)
Non-current liabilities	**(71,744,483)**	(69,595,562)
Equity	**51,217,878**	49,668,562
– Equity contributed to equity shareholders of the associate	**51,074,937**	49,524,546
– Equity contributed to NCI of the associate	**142,941**	144,016
Revenue	**84,171,090**	80,335,815
Loss for the year	**(768,306)**	(237,324)
Other comprehensive income	**6,052,144**	8,030,896
Total comprehensive income	**5,283,838**	7,793,572
Dividend received from the associate	**–**	337,702
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**51,074,937**	49,524,546
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**15,317,374**	14,852,411
Elimination of reciprocal shareholding	**(6,220,319)**	(5,796,077)
Goodwill	**2,372,287**	2,701,567
Carrying amount in the consolidated financial statements	**11,469,342**	11,757,901

Aggregate information of associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**2,730,198**	2,423,786
Aggregate amounts of the Group's share of those associates'		
– Profit from continuing operations	**380,948**	447,309
– Other comprehensive income for the year	**17,684**	19,137
Total comprehensive income for the year	**398,632**	466,446

24. INTERESTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	**1,232,901**	1,120,497
Goodwill	**6,495**	6,495
	1,239,396	1,126,992

Particulars of the joint ventures of the Group at 31 December 2017 were as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of (%) Ownership interest	Profit sharing	Principal activities
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	Provision of financial services
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	39	Provision of cargo carriage services
Sichuan Services Aero-Engine Maintenance Co., Ltd.# (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$88,000,000	60	60	Provision of engine overhaul and maintenance services
GA Innovation China Co., Ltd.# (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	Wholesale and import of aircraft and components
Shanghai International Airport Ground Service Co., Ltd.# (上海國際機場地面服務有限公司)	PRC/Mainland China	RMB360,000,000	24	24	Provision of airport ground handling services

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

24. INTERESTS IN JOINT VENTURES (continued)

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

	2017 RMB'000	2016 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	**1,239,396**	1,126,992
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**228,408**	233,423
– Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**228,408**	233,423

25. AVAILABLE-FOR-SALE SECURITIES

	2017 RMB'000	2016 RMB'000
Available-for-sale debt securities	**1,034,961**	993,161
Available-for-sale equity securities	**299,992**	157,500
	1,334,953	1,150,661

26. DEFERRED TAXATION

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
As at 1 January	**3,054,035**	3,753,729
Credited/(charged) to profit or loss (Note 14)	**500,847**	(699,694)
Credited to other comprehensive income	**1,286**	–
Gross deferred tax assets as at 31 December	**3,556,168**	3,054,035
Deferred tax liabilities:		
As at 1 January	**2,428,313**	2,867,738
Credited to profit or loss (Note 14)	**(276,764)**	(449,289)
Recognised in other comprehensive income	**33,155**	9,864
Gross deferred tax liabilities as at 31 December	**2,184,704**	2,428,313
Net deferred tax assets as at 31 December	**1,371,464**	625,722

26. DEFERRED TAXATION (continued)

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**69,632**	70,968
Provisions and accruals	**2,906,362**	2,489,095
Unrealised profit of intra-group transactions	**106,020**	84,959
Impairment	**460,743**	396,903
Deductible tax losses	**12,110**	12,110
Changes in fair value of financial instruments	**1,301**	–
Gross deferred tax assets	**3,556,168**	3,054,035
Deferred tax liabilities:		
Unrealised exchange gain	**–**	(781)
Changes in fair value of available-for-sale securities	**(61,917)**	(28,762)
Depreciation allowances in excess of the related depreciation	**(1,846,514)**	(2,386,268)
Withholding tax on undistributed earnings of subsidiaries	**(276,273)**	–
Others	**–**	(12,502)
Gross deferred tax liabilities	**(2,184,704)**	(2,428,313)
Net deferred tax assets	**1,371,464**	625,722

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2017 RMB'000
Net deferred tax assets	**2,501,518**
Net deferred tax liabilities	**(1,130,054)**
	1,371,464

26. DEFERRED TAXATION (continued)

Details of tax losses and other temporary differences not recognised are set out below:

	2017 RMB'000	2016 RMB'000
Deductible tax losses	**584,273**	1,650,342
Other unrecognised temporary differences	**792,153**	783,256
	1,376,426	2,433,598

The Group has no tax losses arising from operations outside Mainland China (2016: Nil). The Group has tax losses and other deductible temporary differences arising from the operation in Mainland China of RMB1,376,426,000 (2016: RMB2,433,598,000). Included in unrecognised tax losses are losses that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

27. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale mainly represent aircraft and the related flight equipment which are planned to be retired in the next 12 months and are measured at the lower of their carrying amounts and fair values less costs of disposal.

	2017 RMB'000	2016 RMB'000
Non-current assets held for sale	**284,169**	913,129

During the year, no impairment losses relating to non-current assets held for sale were recognised (2016: RMB219,376,000). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31 December 2017.

28. INVENTORIES

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

	2017 RMB'000	2016 RMB'000
Spare parts of flight equipment	**881,492**	1,166,544
Catering supplies	**86,365**	84,572
Ordinary equipment	**11,228**	9,869
Others	**556,684**	419,648
	1,535,769	1,680,633

29. ACCOUNTS RECEIVABLE

	2017 RMB'000	2016 RMB'000
Accounts receivable	**3,674,827**	3,414,566
Impairment	**(184,400)**	(128,475)
	3,490,427	3,286,091

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relates 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 enhancement over its accounts receivable balances. Accounts receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000
Within 30 days	**2,743,074**	2,460,470
31 to 60 days	**463,564**	407,875
61 to 90 days	**100,562**	68,167
Over 90 days	**183,227**	349,579
	3,490,427	3,286,091

29. ACCOUNTS RECEIVABLE (continued)

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

	2017 RMB'000	2016 RMB'000
As at 1 January	**128,475**	155,162
Provided/(reversed) for the year, net (Note 10)	**90,100**	(9,031)
Written off	**(33,936)**	(17,878)
Exchange realignment	**(239)**	222
As at 31 December	**184,400**	128,475

As at 31 December 2017, the Group's accounts receivable of RMB181,807,000 (2016: RMB126,028,000) was impaired and fully provided for. The individually impaired accounts receivable related to customers that were in financial difficulties and the probability to recover these receivables is doubtful.

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**2,529,604**	2,292,312
Less than 3 months past due	**515,516**	418,089
More than 3 months past due	**162,012**	333,481
	3,207,132	3,043,882

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

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

30. 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, was as follows:

	2017 RMB'000	2016 RMB'000
Manufacturers' credits	732,563	863,950
Prepayments of aircraft operating lease rentals	611,984	637,427
Prepayments of jet fuel	2,000,376	5,816
Other prepayments	500,902	493,583
	3,845,825	2,000,776
Deposits and other receivables	1,276,692	1,728,923
	5,122,517	3,729,699

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

	2017 RMB'000	2016 RMB'000
As at 1 January	2,400,952	2,410,672
Provided/(reversed) for the year, net (Note 10)	525	(3,537)
Written off	(243)	(6,244)
Exchange realignment	(62)	61
As at 31 December	2,401,172	2,400,952

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 doubtful, full impairment will be provided. Should further information be obtained in subsequent periods indicating the receivables could be collected partially or entirely, the provision would be partially or entirely reversed accordingly.

As at 31 December 2017, the provision for impairment mainly consisted of the full provision for the amounts due from Shenzhen Huirun Investment Co., Ltd. ("Huirun") and Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property") and its subsidiaries of RMB1,075,182,000 (31 December 2016: RMB1,075,182,000) and RMB649,486,000 (31 December 2016: RMB649,486,000), respectively.

31. FINANCIAL ASSETS

	2017 RMB'000	2016 RMB'000
Interest rate swaps	–	222
Money market fund	19,938	–
	19,938	222

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 profit or loss.

32. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Note	2017 RMB'000	2016 RMB'000
Time deposits with banks		1,012,733	1,227,715
Bank and cash		5,247,341	6,094,641
Less: Restricted bank deposits	(i)	(697,167)	(474,338)
Cash and cash equivalents		5,562,907	6,848,018

Note:

(i) Details of restricted bank deposits are as follows:

	2017 RMB'000	2016 RMB'000
Deposits with The People's Bank Of China by CNAF	609,770	386,657
Restricted bank deposits against aircraft operating leases and others	87,397	87,681
	697,167	474,338

33. OTHER CURRENT ASSETS

	2017 RMB'000	2016 RMB'000
The VAT tax credit and others	**1,896,840**	1,010,316
Loans to related parties	**1,189,600**	1,154,600
Others	**1,000,000**	900,000
	4,086,440	3,064,916
Impairment	**(49,740)**	(11,546)
	4,036,700	3,053,370

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at rates ranging from 3.83% to 4.35% (2016: 2.90%-3.92%) per annum.

34. ACCOUNTS PAYABLE

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

	2017 RMB'000	2016 RMB'000
Within 30 days	**5,605,426**	4,288,890
31 to 60 days	**1,880,067**	1,692,454
61 to 90 days	**1,395,745**	1,397,287
Over 90 days	**4,372,950**	3,453,661
	13,254,188	10,832,292

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

35. OTHER PAYABLES AND ACCRUALS

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

	2017 RMB'000	2016 RMB'000
Accrued salaries, wages and benefits	**2,643,064**	2,301,098
Receipts in advance for employee residence	**609,260**	592,397
Accrued operating expenses	**514,850**	565,292
Other tax payables	**536,190**	441,234
Deposits received from sales agents	**887,690**	780,302
Due to a non-controlling shareholder of a subsidiary	**100,000**	100,000
Interest payable	**610,089**	761,913
Current portion of deferred income related to the frequent-flyer programme (Note 40)	**707,106**	652,170
Current portion of deferred income related to government grants (Note 40)	**32,907**	36,158
Current portion of long-term payables	**8,393**	2,721
Deposits received by CNAF from related parties	**3,137,574**	3,845,923
Others	**3,549,578**	3,015,712
	13,336,701	13,094,920

36. OBLIGATIONS UNDER FINANCE LEASES

The Group have obligations under finance lease agreements expiring during the years from 2018 to 2029 (2016: 2017 to 2027) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, is as follows:

	Minimum lease payments 2017 RMB'000	**Present values of minimum lease payments 2017 RMB'000**	Minimum lease payments 2016 RMB'000	Present values of minimum lease payments 2016 RMB'000
Amounts repayable				
– Within 1 year	**7,352,188**	**6,237,472**	7,000,199	6,099,453
– After 1 year but within 2 years	**6,453,959**	**5,543,525**	6,519,323	5,739,351
– After 2 years but within 5 years	**17,297,727**	**15,355,311**	15,562,232	13,957,147
– After 5 years	**18,104,668**	**16,899,746**	17,492,189	16,598,973
Total minimum finance lease payments	**49,208,542**	**44,036,054**	46,573,943	42,394,924
Less: Amounts representing finance costs	**(5,172,488)**		(4,179,019)	
Present values of minimum lease payments	**44,036,054**		42,394,924	
Less: Portion classified as current liabilities	**(6,237,472)**		(6,099,453)	
Non-current portion	**37,798,582**		36,295,471	

The Group's finance leases were secured by the Group's aircraft with net carrying amount of approximately RMB67,957 million (31 December 2016: RMB62,108 million) (Note 17).

At 31 December 2017, the obligations under finance leases of the Group with an aggregate amount of US$279 million (equivalent to RMB1,821 million) (31 December 2016: US$305 million (equivalent to RMB2,118 million)) were guaranteed by Cathay Pacific, an associate of the Group.

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

37. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank loans and other borrowings		
– Secured	**7,649,748**	20,052,374
– Unsecured	**22,963,837**	12,413,453
	30,613,585	32,465,827
Corporate bonds:		
– Secured	**10,000,000**	10,000,000
– Unsecured	**10,149,303**	21,343,135
	20,149,303	31,343,135
	50,762,888	63,808,962

	2017 RMB'000	2016 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year or payable on demand	**23,005,296**	19,630,605
– After 1 year but within 2 years	**3,441,120**	3,371,915
– After 2 years but within 5 years	**3,183,086**	6,169,893
– After 5 years	**984,083**	3,293,414
	30,613,585	32,465,827
Corporate bonds repayable:		
– Within 1 year	**5,649,303**	6,345,111
– After 1 year but within 2 years	**4,000,000**	4,498,024
– After 2 years but within 5 years	**4,000,000**	14,000,000
– After 5 years	**6,500,000**	6,500,000
	20,149,303	31,343,135
Total interest-bearing bank loans and other borrowings	**50,762,888**	63,808,962
Less: Portion classified as current liabilities	**(28,654,599)**	(25,975,716)
Non-current portion	**22,108,289**	37,833,246

37. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Bank and other borrowings denominated in currencies other than the functional currencies of respective entities are set out below:

	2017 **RMB'000**	2016 RMB'000
USD	**9,121,920**	15,251,160
EURO	**120,731**	113,065
Macau Pataca ("MOP")	**–**	207,227
	9,242,651	15,571,452

The carrying amount of the bank and other borrowings and the range of interest rates are as below:

	2017		2016	
	RMB'000	**%**	RMB'000	%
Fixed rate bank and other borrowing	**12,085,000**	**2.39 – 5.40**	9,000,524	2.63 – 5.80
Fixed rate corporate bonds	**20,149,303**	**2.84 – 5.30**	31,343,135	2.84 – 5.60
Floating rate bank	**17,548,585**	**1.21 – 4.90**	22,485,303	1.21 – 5.00
Interest-free borrowings	**980,000**	**0.00**	980,000	0.00
	50,762,888		63,808,962	

The floating rate bank and other borrowings are arranged at the interest rate based on benchmark interest rates of the People's Bank of China or at London Interbank Offered Rate.

The Group's bank loans and corporate bonds of approximately RMB17,650 million as at 31 December 2017 (31 December 2016: RMB30,052 million) were secured or guaranteed by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB13,107 million as at 31 December 2017 (31 December 2016: RMB21,922 million) (Note 17); and land use rights with an aggregate carrying amount of approximately RMB34 million as at 31 December 2017 (31 December 2016: RMB35 million) (Note 18);

(b) As at 31 December 2017, bank loans of the Group with an aggregate amount of US$117 million (equivalent to RMB765 million) (31 December 2016: US$204 million (equivalent to RMB1,415 million)) were guaranteed by an associate of the Group; and

(c) As at 31 December 2017, corporate bonds issued by the Group with a face value of RMB10,000 million (31 December 2016: RMB10,000 million) were guaranteed by CNAHC.

37. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

As at 31 December 2017, corporate bonds with carrying amount of RMB2,198 million (31 December 2016: RMB7,343 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

38. PROVISION FOR MAJOR OVERHAULS

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

	2017 **RMB'000**	2016 RMB'000
As at 1 January	**4,466,845**	4,414,022
Provision for the year	**1,645,935**	1,849,427
Utilisation during the year	**(1,107,782)**	(1,796,604)
As at 31 December	**5,004,998**	4,466,845
Less: Portion classified as current liabilities	**(1,418,055)**	(943,609)
Non-current portion	**3,586,943**	3,523,236

Provision is estimated based on the costs of overhauls and flying hours/cycles of aircraft under operating leases. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

39. DEFINED BENEFIT OBLIGATIONS

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

	2017 **RMB'000**	2016 RMB'000
Post-retirement benefit obligations	**291,451**	298,219
Less: current portion	**(27,876)**	(28,477)
Long-term portion	**263,575**	269,742

AMECO, a subsidiary of the Company, provides monthly retirement benefits for those staff who were retired before AMECO adopted its own enterprise annuity plan (the "Plan"). These retirement benefits are recognised as defined benefit obligations.

39. DEFINED BENEFIT OBLIGATIONS (continued)

Movements of the defined benefit obligations were set out as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**298,219**	304,613
Remeasurement loss/(gain)	**13,301**	(2,295)
Past service cost	**–**	16,418
Interest cost	**8,518**	8,355
Payments	**(28,587)**	(28,872)
At 31 December	**291,451**	298,219
Less: current portion	**(27,876)**	(28,477)
Long-term portion	**263,575**	269,742

Expenses recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2017 RMB'000	2016 RMB'000
Employee compensation costs		
– Past service cost	**–**	16,418
Finance costs		
– Interest cost	**8,518**	8,355
Other comprehensive income		
– Remeasurement loss/(gain)	**13,301**	(2,295)
Total defined benefit costs	**21,819**	22,478

The Plan exposes the Group to actuarial risks such as interest rate risk and longevity risk.

Interest rate risk — The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.

Longevity risk — The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

39. DEFINED BENEFIT OBLIGATIONS (continued)

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2017 were carried out by an independent firm of actuaries. The present value of the defined benefit obligations, and the related current service cost and past cost were measured using the projected unit credit method.

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

	2017	2016
Discount rate	**3.9%**	3.0%
Average expected remaining life of eligible employees	**14.7 years**	13.3 years

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation decreases by 0.5%, the defined benefit obligations would increase by RMB11.7 million.
- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB5.0 million.

40. DEFERRED INCOME

	2017 **RMB'000**	2016 RMB'000
Frequent-flyer programme (Note (a))	**2,822,657**	2,420,734
Government grants (Note (b))	**578,032**	610,284
Gain on sale and lease back arrangements	**126,904**	27,950
Operating lease rebates	**40,534**	33,873
	3,568,127	3,092,841

40. DEFERRED INCOME (continued)

Notes:

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

	2017 RMB'000	2016 RMB'000
As at 1 January	**3,072,904**	3,527,105
Additions during the year	**1,971,371**	1,654,138
Recognised as revenue during the year	**(1,514,512)**	(2,108,339)
As at 31 December	**3,529,763**	3,072,904
Less: Portion classified as current liabilities (Note 35)	**(707,106)**	(652,170)
Non-current portion	**2,822,657**	2,420,734

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

	2017 RMB'000	2016 RMB'000
As at 1 January	**646,442**	665,412
Additions	**674**	42,137
Recognised as other operating revenue the year	**(36,177)**	(61,107)
As at 31 December	**610,939**	646,442
Less: Portion classified as current liabilities (Note 35)	**(32,907)**	(36,158)
Non-current portion	**578,032**	610,284

41. CAPITAL AND RESERVES

(a) Movements in components of equity

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

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2016		13,084,751	17,674,429	6,595,999	19,004,630	56,359,809
Total comprehensive income for the year		–	16,691	–	6,519,712	6,536,403
Appropriation of statutory reserve funds	(ii)	–	–	652,457	(652,457)	–
Appropriation of discretionary reserve fund	(iii)	–	–	544,081	(544,081)	–
Dividends declared in respect of the previous year		–	–	–	(1,400,068)	(1,400,068)
As at 31 December 2016 and 1 January 2017		**13,084,751**	**17,691,120**	**7,792,537**	**22,927,736**	**61,496,144**
Total comprehensive income for the year		**–**	**20,301**	**–**	**6,962,061**	**6,982,362**
Non-public offering of shares		**1,440,064**	**9,778,036**	**–**	**–**	**11,218,100**
Transaction costs related to non-public offering of shares		**–**	**(16,726)**	**–**	**–**	**(16,726)**
Appropriation of statutory reserve funds	(ii)	**–**	**–**	**695,805**	**(695,805)**	**–**
Appropriation of discretionary reserve fund	(iii)	**–**	**–**	**652,457**	**(652,457)**	**–**
Dividends declared in respect of the previous year		**–**	**–**	**–**	**(1,564,468)**	**(1,564,468)**
As at 31 December 2017		**14,524,815**	**27,472,731**	**9,140,799**	**26,977,067**	**78,115,412**

41. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

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

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

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

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

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. As at 31 December 2017, in accordance with the PRC Company Law, an amount of approximately RMB30,619 million (2016: RMB20,857 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB9,141 million (2016: RMB7,793 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained earnings of approximately RMB25,762 million available for distribution as at 31 December 2017 (2016: RMB21,717 million).

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2017 and 31 December 2016 are as follows:

	Number of shares 2017	**Nominal value 2017 RMB'000**	Number of shares 2016	Nominal value 2016 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**	8,522,067,640	8,522,068
– Trade-restricted (Note)	**1,440,064,181**	**1,440,064**	–	–
	14,524,815,185	**14,524,815**	13,084,751,004	13,084,751

41. CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

Note: On 10 March 2017, the Company completed the non-public offering of 1,440,064,181 A shares (the "Issuance") to 8 specific shareholders including CNAHC, which was approved by China Securities Regulatory Commission on 5 September 2016. The issue price was RMB7.79 per A share. The total proceeds raised through the Issuance amounted to RMB11,218,099,970. After deducting the relevant expenses for the Issuance amounted to RMB16,725,891, the net proceeds from the Issuance amounted to RMB11,201,374,079, of which RMB1,440,064,181 was recognised as share capital and RMB9,761,309,898 was recognised as capital reserve. As such, the total issued share capital of the Company had increased to 14,524,815,185 shares. The new A Shares subscribed by CNAHC were subject to a lock-up period of 36 months from the completion date of the Issuance and were expected to be listed for trading on 10 March 2020. Those new A Shares subscribed by other investors were subject to a lock-up period of 12 months from the completion date of the Issuance and were listed for trading on 12 March 2018. The new A shares under the Issuance issued ranked pari passu with the existing A shares in all respects.

A shares rank pari passu, in all material respects, with H shares of the Company.

(c) Treasury shares

As at 31 December 2017, the Group owned 29.99% equity interest in Cathay Pacific (2016: 29.99%), which in turn owned 18.13% equity interest in the Company (2016: 20.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratio as at the end of the reporting periods was as follows:

	2017 **RMB'000**	2016 RMB'000
Total liabilities	**140,785,986**	147,654,552
Total assets	**235,644,584**	224,050,951
Gearing ratio	**59.75%**	65.90%

42. SHARE APPRECIATION RIGHTS

The Company's "Measures on Management of the Stock Appreciation Rights 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 on 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 for the SARs 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 31 December 2017 was RMB Nil (31 December 2016: RMB2,028,000).

43. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had the following contingent liabilities:

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

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

(c) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 31 December 2017, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB53,865,000 (31 December 2016: RMB111,973,000) and for pilot trainees' tuition loans amounting to RMB172,000 (31 December 2016: RMB264,000). The Directors consider that the fair value of these guarantees are insignificant.

44. 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:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**77,130,746**	84,450,700
– Buildings and others	**611,254**	691,804
Total capital commitments	**77,742,000**	85,142,504

(b) Investment commitments

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
– Associate and joint venture	**57,870**	59,280

(c) Operating lease commitments

The Group has leased 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:

	2017 RMB'000	2016 RMB'000
Within one year	**6,990,927**	6,922,872
After one year but within five years	**22,778,784**	21,787,782
Over five years	**21,621,602**	23,460,545
Total capital commitments	**51,391,313**	52,171,199

45. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables:		
Accounts receivable	**3,490,427**	3,286,091
Deposits and other receivables	**1,276,692**	1,728,923
Deposits for aircraft under operating leases	**567,889**	649,343
Bills receivable	**348**	837
Loans to related parties	**1,411,600**	1,406,200
Other current assets – other	**1,000,000**	900,000
Restricted bank deposits	**697,167**	474,338
Cash and cash equivalents	**5,562,907**	6,848,018
Subtotal	**14,007,030**	15,293,750
Held-to-maturity financial assets	**10,000**	10,000
Available-for-sale financial assets	**1,334,953**	1,150,661
Financial assets at FVTPL	**19,938**	222
Financial liabilities		
Amortised cost:		
Accounts payable	**13,254,188**	10,832,292
Other payable	**8,581,663**	9,944,667
Obligations under finance leases	**44,036,054**	42,394,924
Bank and other borrowings	**50,762,888**	63,808,962
Long-term payables	**95,915**	26,071
	116,730,708	127,006,916

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, bills receivable, available-for-sale financial assets, financial assets at fair value through profit or loss, held-to-maturity financial assets, deposits and other receivables, deposits for aircraft under operating leases, restricted bank deposits, cash and cash equivalents, loans to related parties, other current assets, accounts payable, other payable, bank and other borrowings, obligations under finance lease and long-term payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk which arises from fixed rate bank and other borrowings and obligation under finance lease.

In addition, the Group is exposed to cash flow interest rate risk which arises from floating rate bank and other borrowings, pledged deposits and bank and cash balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for cash and cash equivalents, restricted bank deposits, floating rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate on bank and cash balances and pledged deposits and a 50 basis points increase or decrease in interest rate on bank and other borrowings are used which represent management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower for floating rate bank and other borrowings with all other variables held constant, the Group's post-tax profit (net of interest capitalised) for the year ended 31 December 2017 would have decreased/increased by approximately RMB162,562,000 (2016: RMB166,077,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk

The Group's exposure to currency risk is attributable to cash and cash equivalents, accounts receivable, other receivables, accounts payable, other payables, obligation under finance lease and bank and other borrowings which are denominated in the currencies other than the functional currency of the relevant group entities. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**2,500,109**	2,658,515	**39,701,263**	52,794,616
EURO	**402,595**	327,980	**662,726**	603,030
HKD	**149,722**	346,217	**164,401**	121,359
JPY	**83,367**	80,899	**1,454,516**	1,590,236

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2016: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2016: 1%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% (2016: 1%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in the Group's post-tax profit and the Group's other comprehensive income, where functional currency of respective group entities had strengthened 1% (2016:1%) against the relevant foreign currency. For a 1% (2016: 1%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit and other comprehensive income for the year.

	2017	2016
	RMB'000	RMB'000
Increase (decrease) in the Group's post-tax profit		
– if RMB strengthens against USD	**279,009**	376,021
– if RMB strengthens against EURO	**1,951**	2,063
– if RMB strengthens against HKD	**110**	(1,686)
– if RMB strengthens against JPY	**10,284**	11,320

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organized by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB1,129 million or 32% of accounts receivable as at 31 December 2017 (31 December 2016: RMB895 million or 27% of accounts receivable). The credit risk exposure to BSP and the remaining accounts receivables balance are monitored by the Group on an ongoing basis and the allowance for impairment of doubtful debts is within management's expectations.

In the opinion of management, the Group has no significant credit risk with BSP as the Group maintains long-term and stable business relationships with BSP with healthy repayment history. For other accounts receivable, the management of the Group performs an ongoing individual credit evaluation of their customers' and counterparties' financial conditions, and is of the opinion that the outstanding debts are recoverable.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

Other than the above mentioned concentration of credit risk, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings to ensure compliance with loan covenants.

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB51,372 million (31 December 2016: RMB44,194 million). The Group recorded a net cash inflow from operating activities of approximately RMB22,837 million for the year ended 31 December 2017 (2016: RMB27,366 million). For the same year, the Group had a net cash outflow from investing activities of approximately RMB14,653 million (2016: RMB19,013 million). The Group also recorded a net cash outflow from financing activities of approximately RMB9,301 million for the year ended 31 December 2017 (2016: RMB8,781 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB1,117 million for the year ended 31 December 2017 (2016: RMB428 million) respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its financial obligations as and when they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB171,567million as at 31 December 2017 (31 December 2016: RMB155,535 million), of which an amount of approximately RMB23,004 million was utilised (31 December 2016: RMB20,835 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2017. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2017								
Accounts payable	13,254,188	-	-	-	-	-	13,254,188	13,254,188
Other payables	8,581,663	-	-	-	-	-	8,581,663	8,581,663
Obligations under financial lease	7,352,188	6,453,959	6,046,343	5,839,642	5,411,742	18,104,668	49,208,542	44,036,054
Interest-bearing bank and other borrowings	29,727,175	8,213,681	2,196,686	5,408,769	1,055,858	7,998,481	54,600,650	50,762,888
Long-term payable	8,393	72,217	18,992	-	-	-	99,602	95,915
	58,923,607	14,739,857	8,262,021	11,248,411	6,467,600	26,103,149	125,744,645	116,730,708

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2016								
Accounts payable	10,832,292	-	-	-	-	-	10,832,292	10,832,292
Other payables	9,944,667	-	-	-	-	-	9,944,667	9,944,667
Obligations under								
Obligations under financial lease	7,000,199	6,519,323	5,565,696	5,106,224	4,890,312	17,492,189	46,573,943	42,394,924
Interest-bearing bank and other borrowings	27,426,442	9,303,485	14,127,491	2,431,658	5,980,133	11,283,938	70,553,147	63,808,962
Long-term payable	3,190	12,235	11,356	-	-	-	26,781	26,071
	55,206,790	15,835,043	19,704,543	7,537,882	10,870,445	28,776,127	137,930,830	127,006,916

45. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments

Fair value measurements for financial instruments measured at fair value on a recurring basis

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 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets:				
– Money market fund	**19,938**	**19,938**	**–**	**–**
Available-for-sale equity securities	**257,267**	**–**	**257,267**	**–**
Available-for-sale debt securities	**1,034,961**	**354,202**	**680,759**	**–**
Total financial assets at fair value	**1,312,166**	**374,140**	**938,026**	**–**

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets:				
– Interest rate swaps	222	–	222	–
Available-for-sale equity securities	114,775	–	114,775	–
Available-for-sale debt securities	993,161	164,288	828,873	–
Total financial assets at fair value	1,108,158	164,288	943,870	–

45. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

Fair value measurements for financial instruments measured at fair value on a recurring basis (continued)

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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.

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.

The fair value of available-for-sale debt securities was determined in accordance with the discounted cash flow analysis with the significant input being the discount rate that reflects the credit risk of counterparties.

The fair value of available-for-sale equity securities as at the end of the reporting period was estimated by reference to the quoted prices in an active market with an adjustment of discount of lack of marketability.

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

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in these consolidated financial statements approximate their fair values.

	Carrying amounts		Fair values	
	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Financial liabilities corporate bonds (fixed rate)	**18,949,853**	26,196,052	**18,231,547**	26,605,005

45. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

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

Fair value hierarchy as at 31 December 2017

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

Fair value hierarchy as at 31 December 2016

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Corporate bonds (fixed rate)	–	26,605,005	–	26,605,005

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings Note 37 RMB'000	**Corporate bonds** Note 37 RMB'000	**Obligations under finance leases** Note 36 RMB'000	**Total** RMB'000
At 1 January 2017	32,465,827	31,343,135	42,394,924	106,203,886
Financing cash flow	(1,381,769)	(11,196,198)	(6,178,027)	(18,755,994)
New finance leases	–	–	9,822,691	9,822,691
Foreign exchange translation	(550,624)	–	(2,003,534)	(2,554,158)
Others	80,151	2,366	–	82,517
At 31 December 2017	30,613,585	20,149,303	44,036,054	94,798,942

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into several finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB9,823 million (2016: RMB2,440 million).

48. RELATED PARTY TRANSACTIONS

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

(i) Transactions with related parties

	2017 RMB'000	2016 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**14,964**	5,851
Sale of cargo space	**65,140**	58,807
Government charter flights	**440,821**	518,275
Ground services income	**3,004**	2,332
Air catering income	**17,053**	16,329
Income from advertising media business	**14,281**	14,324
Aircraft and flight equipment leasing income	**–**	123
Others	**7,754**	2,402
	563,017	618,443
Service provided by the CNAHC Group		
Sales commission expenses	**1,379**	969
Air catering charges	**1,098,518**	1,008,107
Airport ground services, take-off, landing and depot expenses	**794,142**	884,341
Repair and maintenance costs	**15,342**	366
Management fees	**139,108**	114,804
Expense on finance lease	**114,665**	23,442
Lease charges for land and buildings	**151,034**	147,599
Other procurement and maintenance	**127,512**	79,661
Aviation communication expenses	**550,250**	528,225
Interest expenses	**3,975**	38,713
Media advertisement expenses	**157,405**	207,666
Construction management expenses	**1,068**	4,360
Aircraft and flight equipment leasing fees	**22,282**	–
Others	**48,301**	502
	3,224,981	3,038,755

48. RELATED PARTY TRANSACTIONS

(a) (Continued)

(i) Transactions with related parties (continued)

	2017 RMB'000	2016 RMB'000
Loans to the CNAHC Group by CNAF:		
Net granting/(repayment) of loans	**35,000**	(20,000)
Interest income	**42,150**	40,684
Deposits from the CNAHC Group received by CNAF:		
(Decrease)/increase in deposits received	**(442,516)**	345,122
Interest expenses	**56,164**	45,970
Service provided to joint ventures and associates		
Sales commission income	**28,547**	18,601
Ground services income	**161,270**	123,700
Aircraft maintenance income	**84,410**	124,843
Air catering income	**3,842**	3,899
Frequent-flyer programme income	**47,883**	114,840
Airline joint venture income	**–**	7,824
Aircraft and flight equipment leasing income	**2,296**	–
Others	**5,315**	868
	333,563	394,575

48. RELATED PARTY TRANSACTIONS (continued)

(a) (Continued)

(i) Transactions with related parties (continued)

	2017 RMB'000	2016 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	**7,561**	9,079
Air catering charges	**26,189**	24,028
Airport ground services, take-off, landing and depot expenses	**464,078**	444,368
Repair and maintenance costs	**667,911**	977,689
Aircraft and flight equipment leasing fees	**147,921**	251,792
Other procurement and maintenance	**8,743**	36,676
Aviation communication expenses	**6,008**	51,352
Interest expenses	**–**	14,537
Frequent-flyer programme expenses	**3,486**	4,017
Airline joint venture expenses	**58,106**	34,650
	1,390,003	1,848,188
Loans to joint ventures and associates by CNAF:		
(Repayment)/net granting of loans	**(29,600)**	281,200
Interest income	**10,814**	5,735
Deposits from joint ventures and associates received by CNAF:		
(Decrease)/increase in deposits received	**(171,447)**	89,031
Interest expenses	**357**	707

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

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

48. RELATED PARTY TRANSACTIONS (continued)

(a) (Continued)

(ii) Balances with related parties

	2017 RMB'000	2016 RMB'000
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**134,444**	125,684
Amounts due from associates	**203,112**	209,077
Amounts due from joint ventures	**66**	1,700
Amounts due from other related companies	**14,602**	12,729
Amount due to the ultimate holding company	**76,934**	51,384
Amounts due to associates	**577,452**	256,575
Amounts due to joint ventures	**237,999**	100,614
Amounts due to other related companies	**810,195**	871,603

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

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

	2017 RMB'000	2016 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing bank loans and other borrowings:		
– Due to the ultimate holding company	**–**	1,000,000
– Due to an associate	**980,000**	980,000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**1,160,000**	1,125,000
Deposits received	**3,179,474**	3,676,376
Interest payable to related parties	**11,362**	14,067
Interest receivable from related parties	**1,368**	18
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**251,600**	281,200
Deposits received	**12,100**	183,547
Interest payable to related parties	**2**	59
Interest receivable from related parties	**309**	–

48. RELATED PARTY TRANSACTIONS (continued)

(a) (Continued)

(ii) Balances with related parties (continued)

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.

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

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**12,737**	13,891
Retirement benefits	**1,124**	1,173
Emoluments for key management personnel	**13,861**	15,064
Expense for SARs (Note 42)	**(470)**	(3,699)
	13,391	11,365

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

	2017 RMB'000	2016 RMB'000
Directors and supervisors	**1,405**	1,905
Senior management	**12,456**	13,159
	13,861	15,064

Further details of the remuneration of the Directors and supervisors are included in Note 13 to the financial statements.

48. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties

Amount of guaranty at 31 December 2017:

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

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

48. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties (continued)

Amount of guaranty at 31 December 2016:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2016 USD'000	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo	67,714	16/12/2013	15/12/2023
Cathay Pacific	Air China Cargo	72,958	12/03/2014	11/03/2024
Cathay Pacific	Air China Cargo	63,158	31/03/2014	30/03/2024
Obligations under finance leases:				
Cathay Pacific	Air China Cargo	56,450	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo	57,953	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo	61,362	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo	64,812	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo	64,742	31/08/2015	30/08/2027

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2016 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	3,500,000	16/08/2013	16/02/2019
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

48. RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

49. EVENT AFTER THE REPORTING PERIOD

On 27 March 2018, the Company and CNACG entered into the 2018-2019 aircraft finance lease service framework agreement in relation to aircraft finance lease services provided by the CNACG Group to the Group. The 2018-2019 aircraft finance lease service framework agreement, the transactions contemplated thereunder as well as the proposed maximum transaction amounts thereunder are subject to the approval by the independent shareholders of the Company at the 2017 annual general meeting.

50. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period included:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current assets		
Property, plant and equipment	**114,862,113**	104,485,927
Lease prepayments	**2,228,252**	1,976,989
Intangible assets	**11,857**	11,857
Interests in subsidiaries	**21,476,446**	21,476,446
Interests in associates	**2,669,369**	2,364,782
Interests in joint ventures	**1,239,396**	1,126,992
Advance payments for aircraft and flight equipment	**12,928,552**	15,911,987
Deposits for aircraft under operating leases	**449,913**	470,648
Entrusted loans to subsidiaries	**1,020,000**	1,020,000
Available-for-sale securities	**22,110**	22,110
Deferred tax assets	**2,104,502**	1,936,377
Other non-current assets	**312,285**	–
	159,324,795	150,804,115
Current assets		
Non-current assets held for sale	**284,169**	911,680
Inventories	**97,900**	130,941
Accounts receivable	**3,534,850**	3,028,488
Prepayments, deposits and other receivables	**4,526,783**	3,471,581
Cash and cash equivalents	**3,172,520**	2,221,952
Other current assets	**1,173,376**	829,828
	12,789,598	10,594,470
Total assets	**172,114,393**	161,398,585

50. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2017 RMB'000	31 December 2016 RMB'000
Current liabilities		
Air traffic liabilities	**(6,276,702)**	(4,909,318)
Accounts payable	**(11,363,190)**	(9,818,098)
Other payables and accruals	**(10,260,543)**	(9,071,796)
Current taxation	**(851,979)**	(611,110)
Obligations under finance leases	**(4,365,278)**	(4,441,898)
Interest-bearing bank loans and other borrowings	**(15,385,880)**	(16,490,414)
Provision for major overhauls	**(612,360)**	(468,625)
	(49,115,932)	(45,811,259)
Net current liabilities	**(36,326,334)**	(35,216,789)
Total assets less current liabilities	**122,998,461**	115,587,326
Non-current liabilities		
Obligations under finance leases	**(23,638,515)**	(22,519,793)
Interest-bearing bank loans and other borrowings	**(16,371,198)**	(27,025,373)
Provision for major overhauls	**(1,933,084)**	(1,821,218)
Provision for early retirement benefit obligations	**(4,711)**	(7,760)
Deferred income	**(2,935,541)**	(2,614,384)
Deferred tax liabilities	**–**	(102,654)
	(44,883,049)	(54,091,182)
NET ASSETS	**78,115,412**	61,496,144
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	13,084,751
Reserves	**63,590,597**	48,411,393
TOTAL EQUITY	**78,115,412**	61,496,144

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

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

	Notes	2017 RMB'000	2016 RMB'000
Net profit attributable to shareholders of the Company under CASs		**7,240,312**	6,814,015
Deferred taxation	(i)	**(1,336)**	1,618
Differences in value of fixed assets and other non-current assets	(ii)	**5,345**	(6,474)
Net profit attributable to shareholders of the Company under IFRSs		**7,244,321**	6,809,159

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Equity attributable to shareholders of the Company under CASs		**86,120,794**	68,876,496
Deferred taxation	(i)	**69,632**	70,968
Differences in value of fixed assets and other non-current assets	(ii)	**(282,783)**	(288,128)
Unrealised profit of the disposal of Hong Kong Dragon Airlines	(iii)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**86,047,562**	68,799,255

Notes:

(i) The differences in deferred taxation were mainly caused by the differences under IFRSs and CASs 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 IFRSs and CASs; (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 IFRSs and CASs. 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) 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 freight tonne kilometres
"overall load factor"	revenue tonne kilometres 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

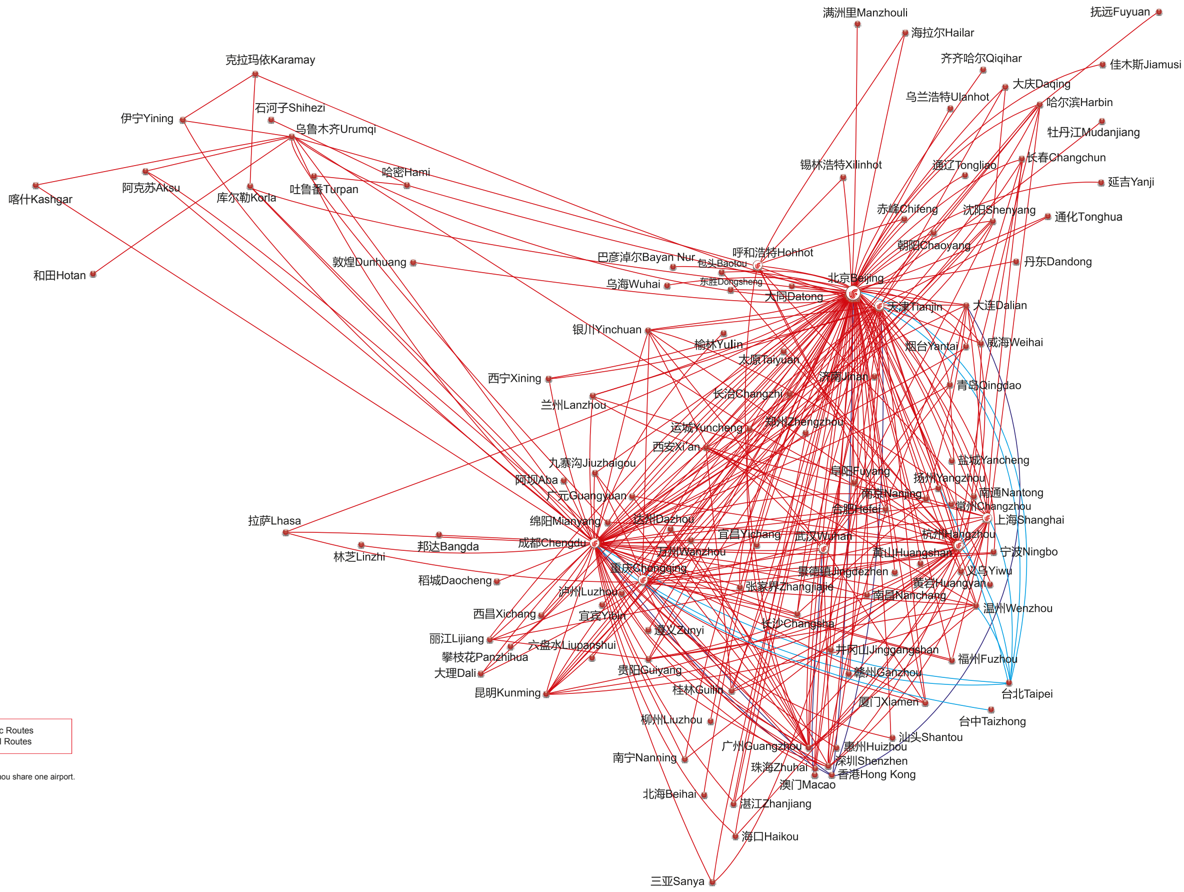
DEFINITIONS

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

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

"Group"	Air China Limited and its subsidiaries
"H Share(s)"	overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (as primary listing venue) and have been admitted into the Official List of the UK Listing Authority (as secondary listing venue)
"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
"reporting period"	the period from 1 January 2017 to 31 December 2017
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shandong Aviation Group Corporation"	Shandong Aviation Group Corporation
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisor(s)"	The supervisor(s) of the Company
"Supervisory Committee"	The supervisory committee of the Company

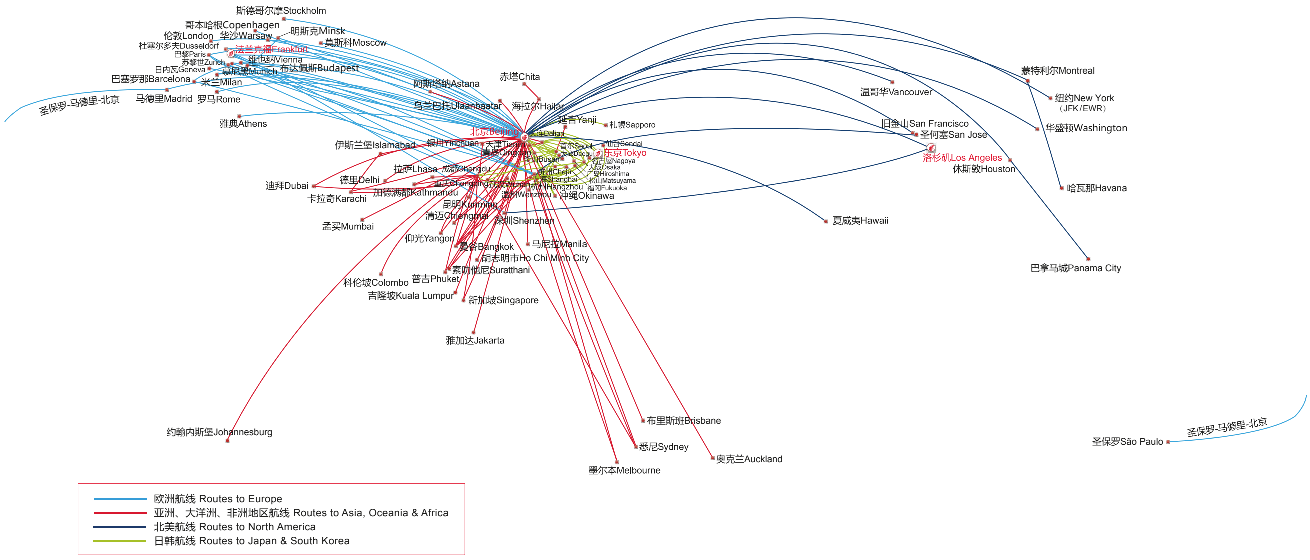
中国国际航空股份有限公司国内及地区航线
AIR CHINA'S DOMESTIC & REGIONAL, TAIWAN ROUTES



国内航线 Domestic Routes
地区航线 Regional Routes

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

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



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