Air China Limited

Stock code: 00753 Hong Kong 601111 Shanghai AIRC London

AIR CHINA

Annual report 2018

AIR CHINA

is the only CHINESE CIVIL AVIATION ENTERPRISE listed in THE WORLD'S 500 Most Influential Brands and the only NATIONAL FLAG CARRIER OF CHINA.

Air China is headquartered in **Beijing**, the capital of China, with three increasingly important international hubs in **Chengdu**, **Shanghai** and **Shenzhen**. With Star Alliance, our network covered 1,317 destinations in 193 countries as at the end of the Reporting Period. As at the end of the Reporting Period, the Group operated 669 passenger aircraft (including business jets), and has **the Largest Wide-body Aircraft Fleet** in China.

Air China is dedicated to serving passengers with
credibility, convenience, comfort and choice.
With the goal of becoming the world's leading airline,
Air China is actively implementing the strategic objectives of

GLOBALLY LEADING COMPETITIVE ADVANTAGES, CONSTANTLY ENHANCED DEVELOPMENT CAPABILITY, EXCELLENT AND UNIQUE CUSTOMER EXPERIENCE, AND STEADILY IMPROVED INTERESTS AND BENEFITS

In 2018, 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.

CONTENTS

CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

DIRECTORS:[1]

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

SUPERVISORS:

Wang Zhengang
He Chaofan
Xiao Yanjun
Li Guixia

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:

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:

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

1 Mr. Xue Yasong was elected as employee representative Director at the second session of the employee representative meeting of the Company in 2018.

CHAIRMAN'S STATEMENT

Cai Jianjiang
Chairman

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

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

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

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

PROFIT BEFORE TAX
RMB 9,977 million

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

蔡剑江

Chairman

Beijing, PRC
27 March 2019

CHRONICLE OF EVENTS

Jan On 22 January, the Company held the 2018 work meeting, the report of which was themed with "Firmly establish the concept of safe development and earnestly implement safe production responsibility, so as to create a world-class air transport industry group".

Feb The Group completed the 40-day guarantee work for Spring Festival transportation, and achieved the established goals of safety, smoothness and high quality. A total of 50,709 flights were secured, carrying 8.398 million passengers.

Mar Flying in the route from Chengdu to Lhasa has been universally acknowledged to be difficult and is regarded by the international civil aviation community as a "restricted airspace". Nevertheless, Air China marked the 53rd anniversary of safe flights in that route. In the past 53 years, 94.9 thousand flights passed through this plateau flight route safely, carrying 12.31 million Chinese and foreign passengers, transporting 270 thousand tonnes of cargo and mail and carrying out many important transportation tasks such as disaster relief and special flight support, and making positive contributions to the economic construction, reform and opening-up and ethnic unity of the Tibet Autonomous Region.

Apr On 5 April, Air China opened Beijing-Houston-Panama City route, which is also part of Air China's efforts to continuously strengthen its transport capacity in the Americas. Currently, Air China has 12 navigation points in the Americas, such as New York, Washington, Los Angeles, San Francisco, Vancouver and Sao Paulo, providing over 200 flights a week.

May On 10 May, Air China participated in China's first Independent Brand Expo held in Shanghai Exhibition Center, as the only air transport enterprise among the central enterprises.

On 30 May, Air China opened Beijing-Copenhagen route. As the largest air carrier between China and Europe, Air China, after the opening of the Beijing-Copenhagen route, had 27 China-EU routes, providing nearly 300 round-trip flights per week and flying between 20 major cities, with all navigation points served by wide-body aircraft.

Jun On 6 June, Air China and Air Canada signed the first joint venture agreement between Chinese and North American airlines. With the development of joint venture in the future, Air China and Air Canada will provide passengers with distinctive travel options on the China-Canada route by optimizing flight schedule and fare products, joint sales and large customer plans and marketing activities, joint frequent flier programmes and more reciprocal lounge services.

Jul On 10 July, the International Self-run Lounge in Terminal 1 of Shanghai Hongqiao Airport and the V02 VIP Lounge of Air China were opened. The service function of the lounges was complete and various Chinese and Western cuisines were provided. In particular, meals with Shanghai characteristics provide passengers with experience of local characteristic services.

Aug On 8 August, Air China introduced the first A350-900 aircraft in Mainland China. On 14 August, the first Airbus A350-900 aircraft made its maiden flight to Shanghai. Air China's business class on A350-900 adopts a 1-2-1 layout, and is equipped with lie-flat seats in the layout of "reverse herringbone" for the first time, which can increase passenger privacy significantly and with new large-size compartments on both sides instead of the overhead compartments, offering passengers with more space.

CHRONICLE
OF EVENTS

Aug On 9 August, as one of the official partners of the Beijing 2022 Winter Olympics and Winter Paralympics, Air China participated in the founding ceremony of the Winter Olympic Partners Club and Olympic Games Market Development Peak Dialogue sponsored by Beijing Organising Committee. The *Partner Club Proposal* was read out and partnership certificates were issued to global partners of the International Olympic Committee and official partners of the Beijing Winter Olympics.

Sep On 14 September, Chairman Mr. Cai Jianjiang went to the Sonid Right Banner, Xilingol League, Inner Mongolia Autonomous Region to investigate the situation of poverty alleviation, and signed with the local government the annual assistance project agreement and the framework agreement for cooperation in poverty alleviation in the following three years.

On 26 September, AMECO attended the MRO China 2018 held in Xiamen and won the first Red Crown Award for MRO Award.

Oct On 19 October, the Company won the 2018 "Golden Wing Award" for Hong Kong Stock Connect companies with the best investment return granted by *Securities Times*, for its efforts and improvements in market value management and positive reward to its shareholders.

Nov On 22 November, Beijing Airlines made its first public air passenger flight. The safe arrival of the first flight from Qiqihar airport to Beijing Capital International Airport marks a new chapter of Beijing Airlines in the public air transportation operation.

On 23 November, Air China won the Top-100 Enterprise Award selected by China's Top 100 Listed Companies Summit Forum.

Dec On 20 December, Vice Chairman and President Mr. Song Zhiyong went to the Zhaoping county, Hezhou City, Guangxi Zhuang Autonomous Region to investigate the situation of poverty alleviation, and signed with the local government the framework agreement for cooperation in poverty alleviation in the next three years.

On 28 December, the Company completed the transfer of 51% equity interest in Air China Cargo to Capital Holding, and since then the Company no longer held any equity interest in Air China Cargo.

On 31 December, Chairman Mr. Cai Jianjiang, Vice Chairman and President Mr. Song Zhiyong led the team to welcome the last flight crew of this year, wrapping up Air China's achievement of a safe flight year of 2018. The Group achieved a total of 2.2452 million safe flight hours, conducted safe takeoffs and landings for 801 thousand times and transported 110 million passengers safely throughout the year.

SUMMARY OF FINANCIAL INFORMATION

(RMB'000)

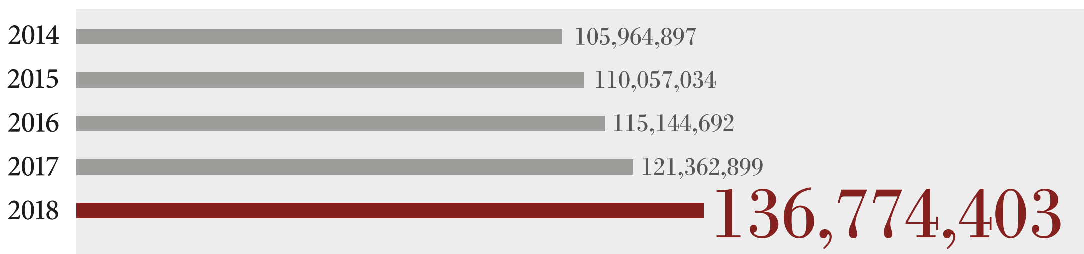
	2018	2017	2016	2015	2014
Revenue	**136,774,403**	121,362,899	115,144,692	110,057,034	105,964,897
Profit from operations	**14,346,331**	11,755,712	17,532,575	15,551,622	7,257,047
Profit before taxation	**9,977,017**	11,486,232	10,212,902	9,355,251	5,134,866
Profit after taxation (including profit attributable to non-controlling interests)	**8,214,871**	8,641,449	7,758,681	7,509,487	4,334,102
Profit attributable to non-controlling interests	**864,210**	1,397,128	949,522	446,140	481,610
Profit attributable to equity shareholders of the Company	**7,350,661**	7,244,321	6,809,159	7,063,347	3,852,492
EBITDA[(1)]	**28,850,007**	25,352,031	31,006,295	28,562,383	18,650,476
EBITDAR[(2)]	**37,133,039**	33,740,737	38,261,866	34,725,582	24,131,141
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.54**	0.54	0.55	0.57	0.31
Return on equity attributable to equity shareholders of the Company (%)	**7.89**	8.42	9.90	11.82	7.10

(1) EBITDA represents earnings before finance income and finance costs, exchange gains/losses, income tax expense, share of results of associates and joint ventures, depreciation and amortisation as computed under IFRSs.

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

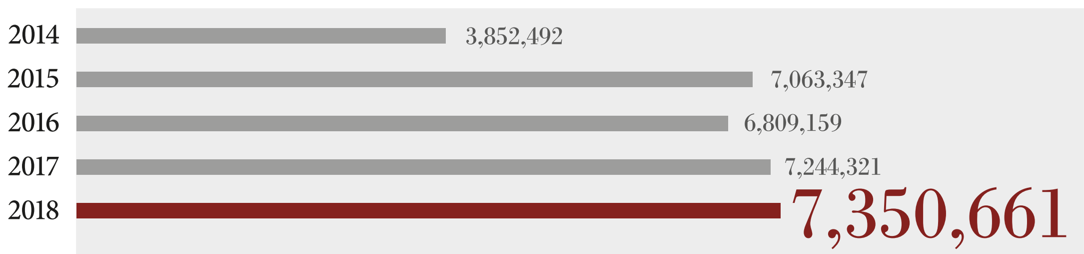
Revenue

(RMB'000)



Profit attributable to equity shareholders of the Company

(RMB'000)

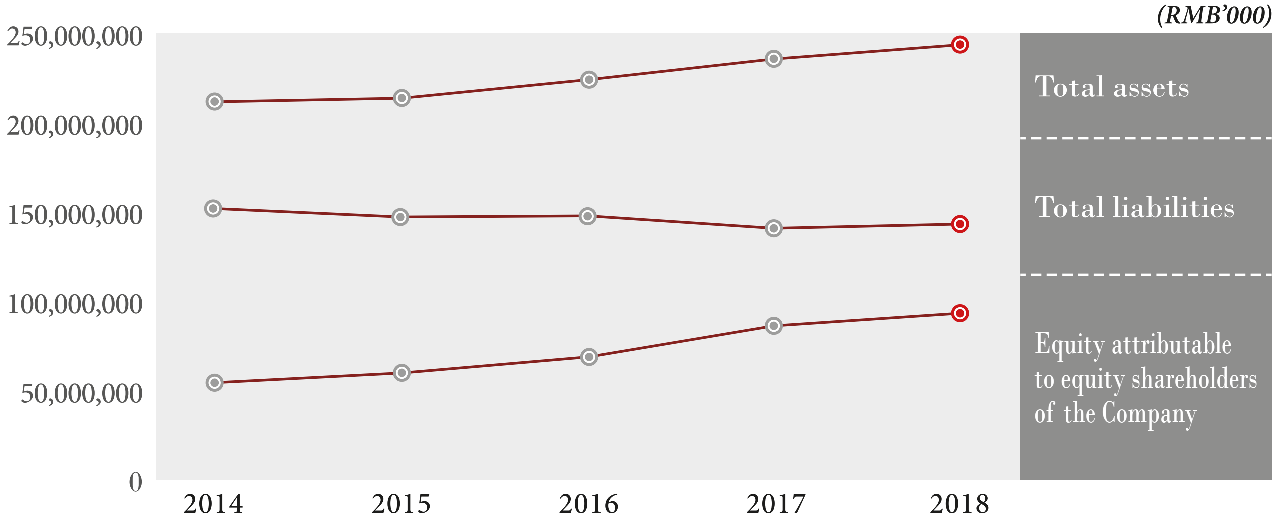


SUMMARY OF FINANCIAL INFORMATION

(RMB'000)

	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Total assets	**243,657,108**	235,644,584	224,050,951	213,631,150	211,669,694
Total liabilities	**143,159,074**	140,785,986	147,654,552	147,108,397	151,791,604
Non-controlling interests	**7,340,693**	8,811,036	7,597,144	6,774,742	5,604,325
Equity attributable to equity shareholders of the Company	**93,157,341**	86,047,562	68,799,255	59,748,011	54,273,765
Equity attributable to equity shareholders of the Company per share (RMB)	**6.41**	5.92	5.26	4.57	4.15

(RMB'000)



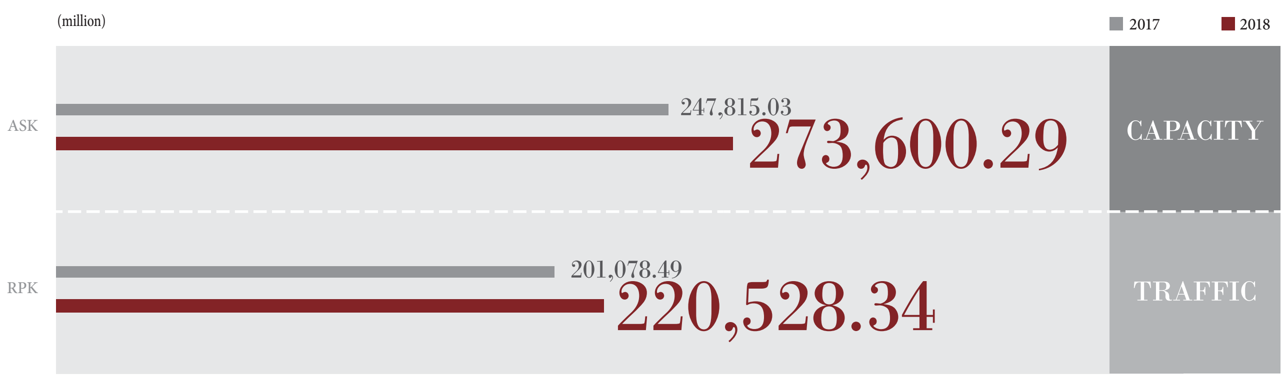
SUMMARY OF OPERATING DATA

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

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

SUMMARY OF OPERATING DATA

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



FLEET INFORMATION

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

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

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

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

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

FLEET INFORMATION

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

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

newly launched

155 Domestic & international Routes

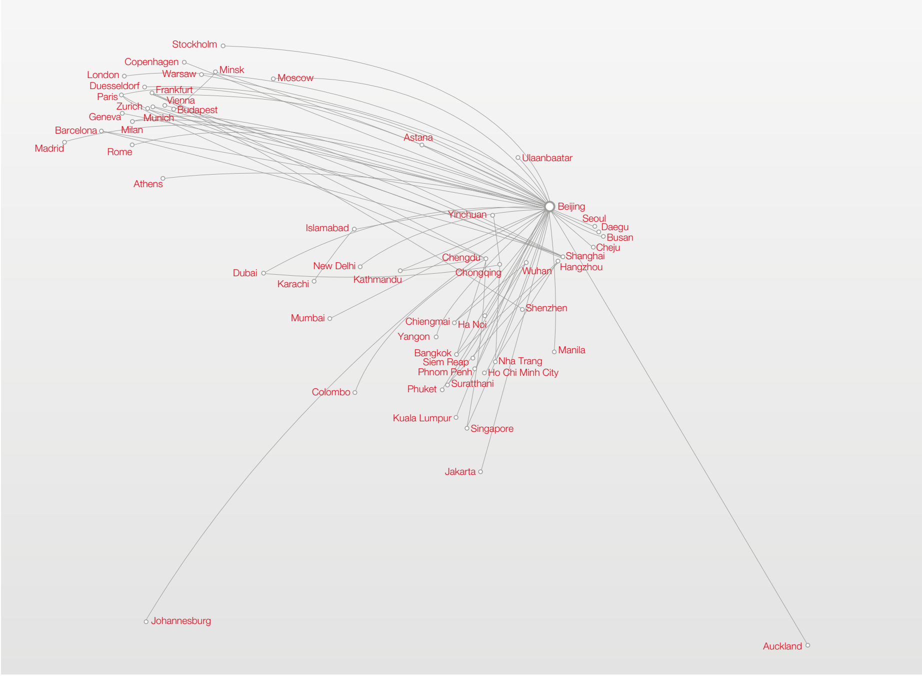
In 2018, the Group's ASKs and RPKs reached 273,600 million and 220,528 million, representing a year-on-year increase of 10.41% and 9.67%, respectively. The passenger load factor was 80.60%, representing a year-on-year decrease of 0.54 ppt. The Group's AFTKs and RFTKs reached 14,240 million and 7,970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

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

HUB NETWORK

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

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



Routes of Air China along the Belt and Road

SALES AND MARKETING

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

BRAND VALUE

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

Land your Dream

Phoenix Miles

PRODUCTS AND SERVICES

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

EXTERNAL COOPERATION

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

LEGAL CONSTRUCTION

The Company fully promoted the construction of its legal system. It strengthened the overall planning and mechanism-based guidance, continued to improve the management level of laws, propelled the development of the internal control on compliance risk and fostered the rule-of-law culture, so as to effectively serve the reform and development as well as the sound operation of the Company. The Company sorted out its compliance management framework and made comprehensive review to all its rules and regulations, issued compliance guideline and training manual in respect of key fields such as Training Manual on Overseas Compliance（《海外合規培訓手冊》） and Legislative Assemblies of Anti-Bribery in Different Jurisdictions （《各法域反賄賂立法彙編》） both in English and Chinese, and incorporated the compliance into various trainings while arranging over 10 offline compliance trainings on anti-monopoly, data protection and other special topics, thus basically establishing its compliance management system. The Company formulated requirements of internal control management and amended the risk management methods to regularly carry out comprehensive investigations of overseas risks and further strengthen the development of overall risk

External Cooperation

A collaborative win-win situation

and internal control system. The Company also strived to improve the utilization of standard contracts and reinforced the contract standardization management, actively promoted the establishment of a full life-cycle contract management model including prior approval, in-process control and post-verification. In addition, the Company tightened its legal review procedures on major projects and critical decisions to prevent and eliminate major legal risks. As for intellectual property protection, the Company established terms of use of core trademarks and continually strengthened the protection of intellectual property rights against trademark infringement, unfair competition, etc.

SAFETY MANAGEMENT

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

Safety First

EMPLOYEE SELF-ACHIEVEMENT

The Company respects and treats all employees equally. By safeguarding their legitimate rights and interests, expanding their growth channels and caring for their occupational health and personal life, we ensured that all our employees could share our development fruits more widely and equally, so as to enhance the enterprise's cohesion and employees' sense of belonging. Specifically, we improved our position management system, which provides unique career development channels for employees to management, business and technical posts; we organized diversified training programs through various online and offline training methods to continuously improve the professional competence and comprehensive quality of our employees; we conducted comprehensive appraisals on our young leaders and key talents at key positions through our self-developed "Assessment-oriented Method"; we continuously implemented "Happiness • Heart Program" to increase our employees' awareness and knowledge of psychological health and improve their physical and psychological health; we optimized our supportive mechanism for special groups, which extends our care to difficult employees, female employees and others alike; we promoted the integration of human resources sharing service platform by improving service standards, building an employee service system and pushing forward the business integration of services sites in Beijing and the construction of services sites outside Beijing of the employee service center to enlarge the service coverage for our staffs; and we organized vocational skills contests, art festivals, basketball matches and other recreational and sports activities to balance employees' work and life, hence increasing the enterprise's cohesion and employees' sense of belonging.

SUPPLIER MANAGEMENT

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

Targeted poverty alleviation

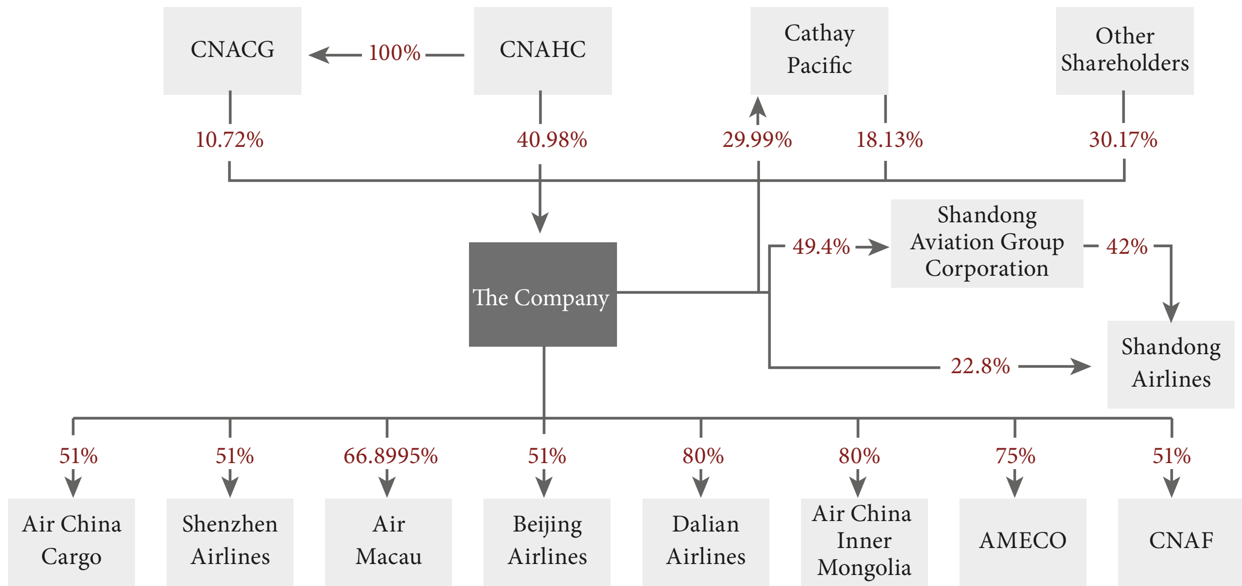
ENVIRONMENTAL PROTECTION

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

SOCIAL RESPONSIBILITY

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

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



Notes:
1. The Company no longer held the 51% equity interest in Air China Cargo since 28 December 2018.
2. CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.
3. Shandong Aviation Group Corporation was owned as to 49.4% by the Company, while Shandong Airlines was owned as to 42% by Shandong Aviation Group Corporation. Accordingly, Shandong Airlines was directly and indirectly owned as to 43.548% by the Company.

1. Air China Cargo

Air China Cargo was established in 2003. Headquartered in Beijing, Air China Cargo takes Shanghai as its main long-haul 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, in which Air China held 51% of the equity interest. The Company has completed the disposal of the 51% equity interests in Air China Cargo to Capital Holding in December 2018. For details, please refer to the section headed "Material disposals and acquisitions" of this annual report.

As at the end of the Reporting Period, Air China Cargo operated a fleet of 15 aircraft with an average age of 11.54 years.

In 2018, the AFTKs of Air China Cargo reached 12,926 million, representing a year-on-year increase of 6.16%. Its RFTKs reached 7,311 million, representing a year-on-year increase of 5.19%. The volume of cargo and mail carried was 1.4880 million tonnes, representing a year-on-year increase of 1.27%. The cargo and mail load factor was 56.56%, representing a year-on-year decrease of 0.52 ppt.

During the Reporting Period, Air China Cargo recorded consolidated revenue of RMB12,410 million, representing a year-on-year increase of 10.18%, of which cargo and mail transportation revenue amounted to RMB11,018 million, representing a year-on-year increase of 11.26%. The profit attributable to the equity shareholders was RMB389 million, representing a year-on-year decrease of 64.68%.

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 the end of the Reporting Period, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 214 aircraft with an average age of 6.20 years. During the year, 20 aircraft were introduced and 9 aircraft were phased out.

In 2018, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 65,564 million, representing a year-on-year increase of 9.65%. Its RPKs reached 53,855 million, representing a year-on-year increase of 9.14%. Shenzhen Airlines (including Kunming Airlines) carried 35.5321 million passengers, representing a year-on-year increase of 8.63%. The average passenger load factor was 82.14%, representing a year-on-year decrease of 0.39 ppt.

In terms of air cargo, the AFTKs of Shenzhen Airlines (including Kunming Airlines) reached 1,141 million, representing a year-on-year increase of 16.29%. Its RFTKs reached 599 million, representing a year-on-year increase of 10.55%. The volume of cargo and mail carried by Shenzhen Airlines (including Kunming Airlines) was 0.3747 million tonnes, representing a year-on-year increase of 14.57%, while the cargo and mail load factor was 52.52%, representing a year-on-year decrease of 2.72 ppt.

During the Reporting Period, Shenzhen Airlines recorded a consolidated revenue of RMB31,119 million, representing a year-on-year increase of 12.56%, of which, air traffic revenue amounted to RMB30,325 million, representing a year-on-year increase of 13.01%. Profit before taxation was RMB1,001 million and profit after taxation was RMB918 million. The profit attributable to equity shareholders was RMB915 million, representing a year-on-year decrease of 36.33%.

3. Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP442,042,000. Air China holds 66.8995% of its equity interest.

As at the end of the Reporting Period, Air Macau operated a fleet of 18 aircraft with an average age of 8.29 years. During the year, 1 new aircraft was introduced.

In 2018, the ASKs of Air Macau reached 6,599 million, representing a year-on-year increase of 7.10%. Its RPKs reached 5,328 million, representing a year-on-year increase of 15.37%. It carried a total of 3.1630 million passengers during the year, representing a year-on-year increase of 13.62%, with an average passenger load factor of 80.74%, representing a year-on-year increase of 5.78 ppt.

In terms of air cargo, the AFTKs of Air Macau reached 104.7047 million, representing a year-on-year increase of 6.65%. Its RFTKs reached 31.8456 million, representing a year-on-year decrease of 4.76%. 19,773.14 tonnes of cargo and mail were carried, representing a year-on-year decrease of 6.82%; the cargo and mail load factor was 30.41%, representing a year-on-year decrease of 3.65 ppt.

During the Reporting Period, Air Macau recorded a revenue of RMB3,372 million, representing a year-on-year increase of 19.07%, of which, air traffic revenue amounted to RMB3,342 million, representing a year-on-year increase of 18.84%. Profit after taxation was RMB180 million, representing a year-on-year increase of 156.28%.

4. Beijing Airlines

Beijing Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 51% of its equity interest. Since 22 November 2018, Beijing Airlines has officially been approved to carry out public air transportation business in addition to its business charter service.

As at the end of the Reporting Period, Beijing Airlines operated a fleet of four entrusted business jets and one self-owned business jet with an average age of 6.41 years. And one business jet was phased out during the year. In 2018, Beijing Airlines completed 368 flights for business charter service, representing a year-on-year decrease of 22.85%. It completed 1,389 flying hours, representing a year-on-year decrease of 17.12%. It carried a total of 2,340 passengers during the year, representing a year-on-year decrease of 21.48%.

As at the end of the Reporting Period, Beijing Airlines operated a fleet of three aircraft with an average age of 9.08 years. Three aircraft was introduced during the year. In 2018, the ASKs of Beijing Airlines reached 96.4328 million. Its RPKs reached 74.2726 million and it carried a total of 81.0 thousand passengers during the year, with an average passenger load factor of 77.02%. In terms of air cargo, the AFTKs of Beijing Airlines reached 1.2672 million. Its RFTKs reached 450.1 thousand. It carried a total of 522.82 tonnes of cargo and mail during the year, and the cargo and mail load factor was 35.52%.

During the Reporting Period, Beijing Airlines recorded a revenue of RMB179 million, representing a year-on-year increase of 42.75%, of which, air traffic revenue amounted to RMB177 million, representing a year-on-year increase of 40.87%. The loss for the year was RMB4 million, representing a year-on-year decrease of 89.55%.

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 the end of the Reporting Period, Dalian Airlines operated a fleet of 11 aircraft with an average age of 5.57 years.

In 2018, the ASKs of Dalian Airlines reached 3,101 million, representing a year-on-year increase of 12.09%. Its RPKs reached 2,612 million, representing a year-on-year increase of 11.90%. It carried a total of 2.4086 million passengers during the year, representing a year-on-year increase of 9.74%, with an average passenger load factor of 84.22%, representing a year-on-year decrease of 0.14 ppt.

In terms of air cargo, the AFTKs of Dalian Airlines reached 37.0206 million, representing a year-on-year increase of 5.98%. Its RFTKs reached 15.0040 million, representing a year-on-year decrease of 2.12%. It carried a total of 14,098.31 tonnes of cargo and mail during the year, representing a year-on-year increase of 2.87%. Its cargo and mail load factor was 40.53%, representing a year-on-year decrease of 3.35 ppt.

During the Reporting Period, Dalian Airlines recorded a revenue of RMB1,695 million, representing a year-on-year increase of 14.35%, of which, air traffic revenue amounted to RMB1,691 million, representing a year-on-year increase of 14.40%. Profit after taxation was RMB128 million, representing a year-on-year decrease of 3.60%.

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 the end of the Reporting Period, Air China Inner Mongolia operated a fleet of 9 aircraft with an average age of 7.02 years, including 3 aircraft under wet leases. 2 aircraft was introduced during the year.

In 2018, the ASKs of Air China Inner Mongolia reached 2,144 million, representing a year-on-year increase of 24.08%. Its RPKs reached 1,744 million, representing a year-on-year increase of 24.53%. It carried a total of 1.7905 million passengers during the year, representing a year-on-year increase of 25.70%, with an average passenger load factor of 81.33%, representing a year-on-year increase of 0.30 ppt.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 29.9334 million, representing a year-on-year increase of 4.68%. Its RFTKs reached 11.5494 million, representing a year-on-year increase of 1.14%. The amount of cargo and mail carried by Air China Inner Mongolia was 11,229.47 tonnes, representing a year-on-year increase of 9.48%, with a cargo and mail load factor of 38.58%, representing a year-on-year decrease of 1.36 ppt.

During the Reporting Period, Air China Inner Mongolia recorded a revenue of RMB1,397 million, representing a year-on-year increase of 24.53%, of which, air traffic revenue amounted to RMB1,381 million, representing a year-on-year increase of 25.88%. Profit after taxation was RMB149 million, representing a year-on-year increase of 53.44%.

7. AMECO

AMECO was established in 1989 and is principally engaged in maintenance, repair and overhaul of aircraft, engines and components. The registered capital of AMECO is USD300,052,800, and Air China holds 75% of its equity interest.

During the Reporting Period, AMECO recorded a revenue of RMB7,850 million, representing a year-on-year increase of 7.73%, and profit after taxation amounted to RMB176 million, representing a year-on-year increase of 6.39%.

8. CNAF

CNAF was established in 1994 and is 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.

During the Reporting Period, CNAF recorded a revenue of RMB300 million, representing a year-on-year decrease of 0.85%, and profit after taxation of RMB92 million, representing a year-on-year increase of 18.57%.

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 the end of the Reporting Period, Cathay Pacific operated a fleet of 212 aircraft with an average age of 9.9 years. 10 aircraft were introduced while 6 were phased out during the year.

During the Reporting Period, the ASKs of Cathay Pacific reached 155.36 billion, representing a year-on-year increase of 3.5%. Its RPKs reached 130.63 billion, representing a year-on-year increase of 3.1%. A total of 35.468 million passengers were carried, representing a year-on-year increase of 1.9%, with an average passenger load factor of 84.1%, representing a year-on-year decrease of 0.3 ppt.

In terms of air cargo, the AFTKs of Cathay Pacific reached 17.62 billion, representing a year-on-year increase of 2.6%. Its RFTKs reached 12.12 billion, representing a year-on-year increase of 4.2%. It carried a total of 2.152 million tonnes of cargo and mail, representing a year-on year increase of 4.7%. The cargo and mail load factor was 68.8%, representing a year-on-year increase of 1.0 ppt.

During the Reporting Period, Cathay Pacific recorded a consolidated revenue of RMB95,073 million, representing a year-on-year increase of 12.95%, of which, air traffic revenue amounted to RMB86,834 million, representing a year-on-year increase of 11.13%. The profit attributable to equity shareholders for the year was RMB2,007 million, the loss attributable to equity shareholders in the same period last year was RMB1,089 million.

10. **Shandong Airlines**

Shandong Airlines was established in 1999 with a registered capital of RMB400 million. Air China and Shandong Aviation Group Corporation hold 22.8% and 42% of its equity interest, respectively, while Air China holds 49.4% of equity interest of Shandong Aviation Group Corporation.

As at the end of the Reporting Period, Shandong Airlines operated a fleet of 122 aircraft with an average age of 5.29 years. 13 aircraft were introduced while 4 aircraft were phased out during the year.

In 2018, the ASKs of Shandong Airlines reached 43,923 million, representing a year-on-year increase of 10.73%. Its RPKs reached 36,853 million, representing a year-on-year increase of 11.73%. It carried a total of 25.4620 million passengers, representing a year-on-year increase of 9.88%, with an average passenger load factor of 83.90%, representing a year-on-year increase of 0.75 ppt.

In terms of air cargo, the AFTKs of Shandong Airlines reached 709 million, representing a year-on-year increase of 7.23%. Its RFTKs reached 287 million, representing a year-on-year increase of 6.39%. It carried a total of 0.1701 million tonnes of cargo and mail, representing a year-on-year increase of 4.86%. The cargo and mail load factor was 40.44%, representing a year-on-year decrease of 0.32 ppt.

During the Reporting Period, Shandong Airlines recorded a consolidated revenue of RMB18,766 million, representing a year-on-year increase of 13.84%, of which air traffic revenue amounted to RMB18,061 million, representing a year-on-year increase of 12.95%. The profit attributable to equity shareholders was RMB347 million, representing a year-on-year decrease of 29.16%.

OPERATIONAL PLAN

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

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

OUTLOOK FOR FUTURE

The implementation of the national strategy will change the spatial pattern of the existing aviation market

The five national strategies of the Belt and Road, the Yangtze River Economic Belt, the Yangtze River Delta Integration, the "Beijing-Tianjin-Hebei" Integration and Guangdong-Hong Kong-Macau Greater Bay Area will strengthen regional links and coordination, and as a result, change the existing pattern of the aviation market. The Belt and Road will promote China's economic and trade exchanges and cooperation with Southeast Asia and Europe, not only strengthening the international hub status of Shanghai and Guangzhou, but also providing development opportunities for airports in domestic second-tier cities. The Yangtze River Economic Belt and Yangtze River Delta Integration will speed up the formation of the aviation network with Shanghai international aviation hub and regional aviation hub as the core. The coordinated development of Beijing-Tianjin-Hebei will significantly enhance the international competitiveness of Beijing aviation hub, and the hub function will be further strengthened. The Guangdong-Hong Kong-Macau Greater Bay Area will deepen the cooperation between the Mainland and Hong Kong and Macao, and promote the construction of international hubs of Hong Kong, Guangzhou and Shenzhen. The construction of airport groups serving the three major urban agglomerations received increasing attention from the State, and the pattern of "two airports in one city" in Beijing, Shanghai, Chengdu and other major cities has taken or is taking shape.

With the rapid growth of air passenger transport market in China, market structure will undergo great changes

In 2019, China's economy is facing downward pressure, but the economic operation remains in a reasonable range. China's aviation market demand still enjoys a strong driving force, and the market potentials are huge. The market structure will be changed. The Civil Aviation Administration of China issued Several Policies and Measures on Controlling the Total Traffic and Adjusting Flight Structure to Improve the Punctuality Rate of Flights, aiming at optimizing the allocation of time resources through strict control of airport capacity. In the central and western regions, most airports have not been affected by this policy and can still maintain relatively high growth rate. Business travel and holiday tours continue to be fast-growing market with great development potentials, and air travel will become increasingly individualized and popularized. Affected by the relaxation on policies of overseas study, immigration, visa and other factors, the growth in outbound passenger traffic will outpace that in domestic passenger traffic.

With the continuous evolution of global aviation competition and cooperation, China's aviation market competition is becoming increasingly fierce

From the perspective of global market, new changes have occurred to the form of competition. European and American airlines basically completed the integration, which competitiveness has significantly improved. The bilateral and multilateral alliances of large network carriers are increasing, and the minority equity investment strategy establishes a global partnership that goes beyond the existing aviation alliance framework and code sharing model.

From the perspective of China's international market, the rapid expansion of transport capacity in recent years has gradually caused an oversupply. The Company, China Eastern Airlines and China Southern Airlines slowed down in introducing wide-body aircraft. However, domestic second-tier cities continued to open international medium- and long-haul routes. In the future, the international air traffic rights will be expanded but continue to be scarce. Europe and the United States transit market diverges seriously, North American routes are confronted the competition from Seoul, Tokyo, Hong Kong and other hubs, and European routes face the diversion of Middle East carriers.

From the perspective of China's domestic market, private airlines generally show a rising trend and present increasingly fierce competition. When the market access in the early stage was relaxed, regional airlines shoot up in succession, and the wave of low-cost airlines is gradually rising, which will further intensify the fierce competition in the domestic market and reduce the yield level. In addition, the impact from high-speed rail transportation on routes of medium- and short-haul is manifested not only in the primary diversion by newly opened lines, but also in the secondary diversion by network operation, overall speed-up, frequency increase, and extended operation time of existing routes.

M D & A

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 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

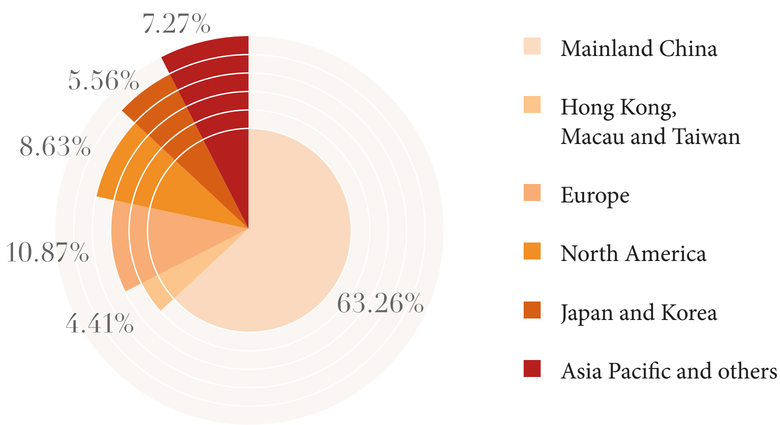
During the Reporting Period, the Group proactively grasped market opportunities, and further strengthened the advantages of our core air traffic business by adopting measures such as expanding the scale of production, optimising operational arrangement, stabilising the yield level and refining cost control.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

REVENUE

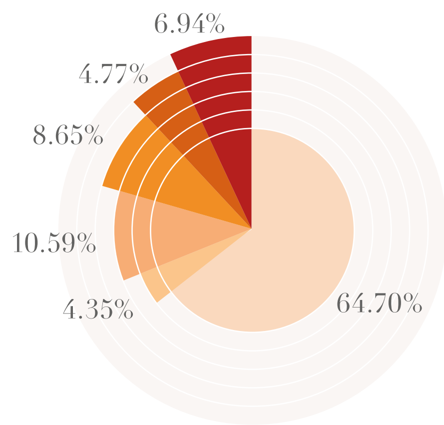
During the Reporting Period, the Group's revenue was RMB136,774 million, representing an increase of RMB15,412 million or 12.70% as compared with last year. Among which, air traffic revenue was RMB131,836 million, representing an increase of RMB14,837 million or 12.68% as compared with last year; other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

REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

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



2018



2017

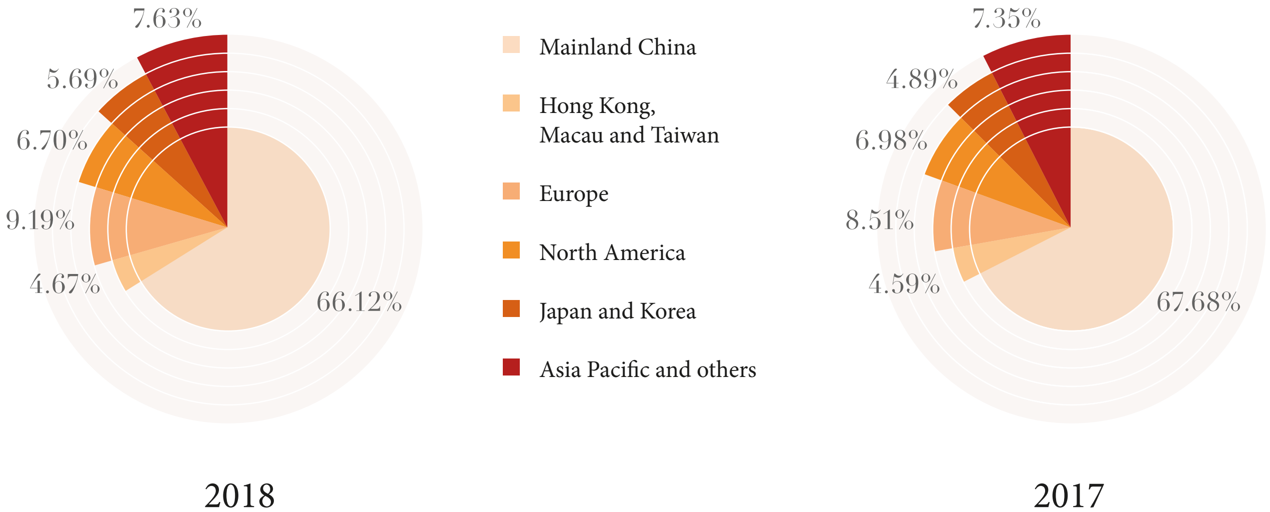
AIR PASSENGER REVENUE

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

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

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

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



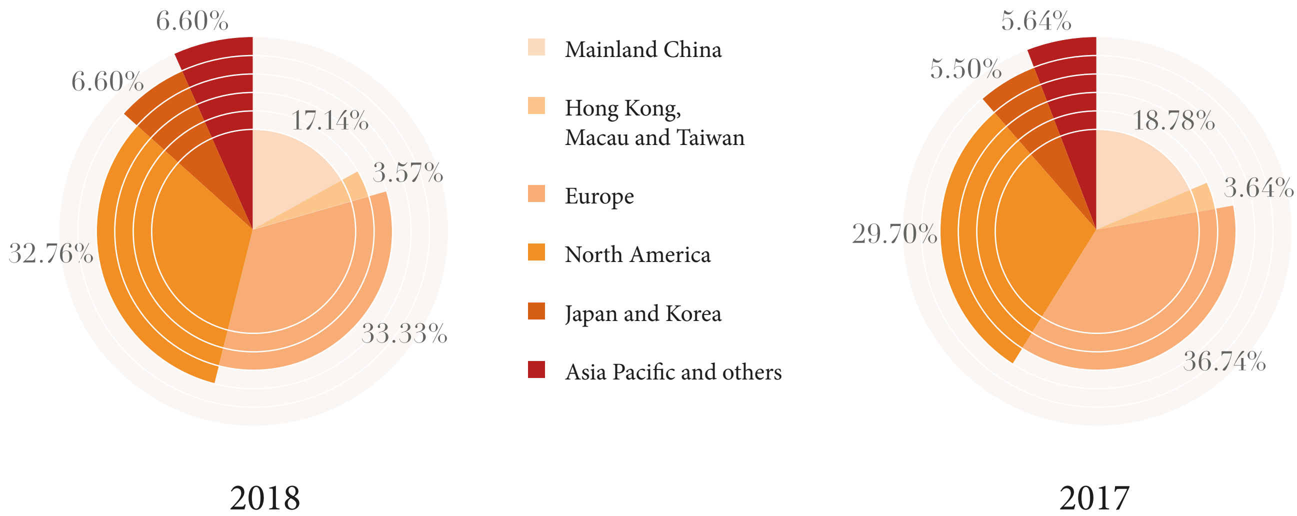
AIR CARGO AND MAIL REVENUE

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

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

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

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



OPERATING EXPENSES

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

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

Jet fuel costs increased by RMB10,072 million or 35.45% on a year-on-year basis, mainly due to the increase in the consumption and the prices of jet fuel.

Take-off, landing and depot charges increased by RMB1,492 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.

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

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

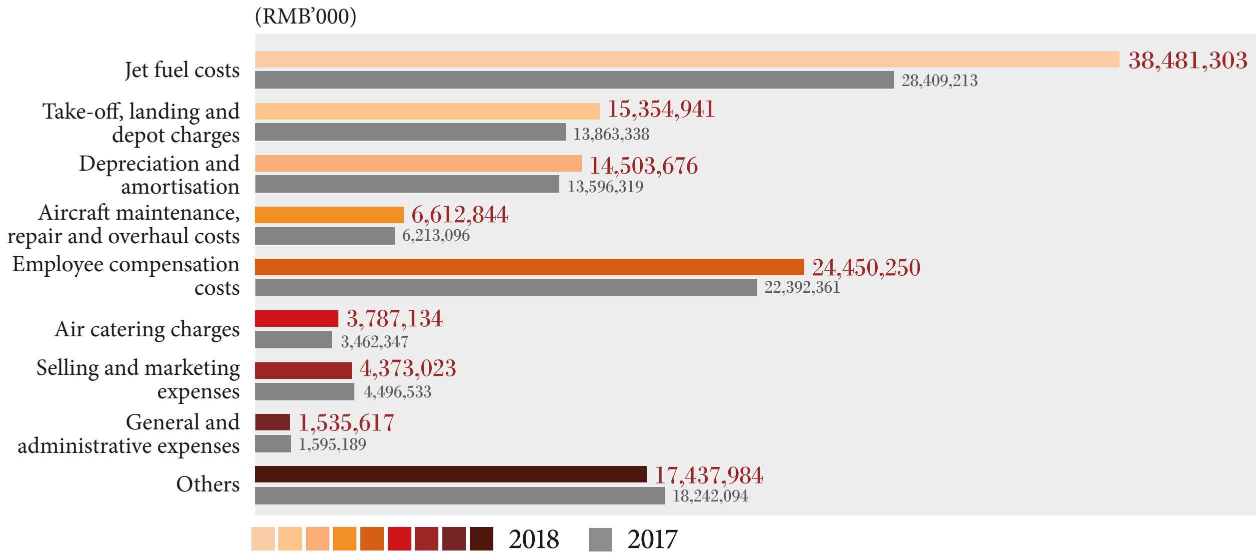
Air catering charges increased by RMB325 million on a year-on-year basis, mainly due to the increase in the number of passengers.

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

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

2018

2017



FINANCE INCOME, FINANCE COSTS AND NET EXCHANGE (LOSS) GAIN

During the Reporting Period, the Group recorded a finance income of RMB173 million, representing a year-on-year decrease of RMB51 million or 22.88%; and incurred a finance costs (excluding the capitalised portion) of RMB2,914 million, representing a year-on-year decrease of RMB141 million. During the Reporting Period, the Group recorded a net exchange loss of RMB2,377 million, as compared to the net exchange gain of RMB2,938 million for the same period of 2017, which was mainly due to the appreciation in the exchange rate of US dollars against RMB during the Reporting Period.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

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

ASSETS STRUCTURE ANALYSIS

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

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

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

ASSET MORTGAGE

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated net book value of approximately RMB85,514 million (approximately RMB81,064 million as at 31 December 2017) and land use rights with net book value of approximately RMB28 million (approximately RMB34 million as at 31 December 2017). In addition, as at the end of the Reporting Period, the Group had restricted bank deposits of approximately RMB1,044 million (approximately RMB697 million as at 31 December 2017), which were mainly reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

During the Reporting Period, the Company's capital expenditure amounted to a total of RMB16,659 million, of which the total investment in aircraft and engines was RMB15,788 million. Other capital expenditure investment amounted to RMB871 million, mainly including investments in aircraft modifications, flight simulators, infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at the end of the Reporting Period, the Group's equity investment in its associates amounted to RMB15,254 million, representing an increase of 7.42% from the beginning of the year. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB12,318 million, RMB1,386 million and RMB926 million, respectively, with such companies recording profits of RMB2,377 million, RMB462 million and RMB347 million, respectively in 2018.

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

DEBT STRUCTURE ANALYSIS

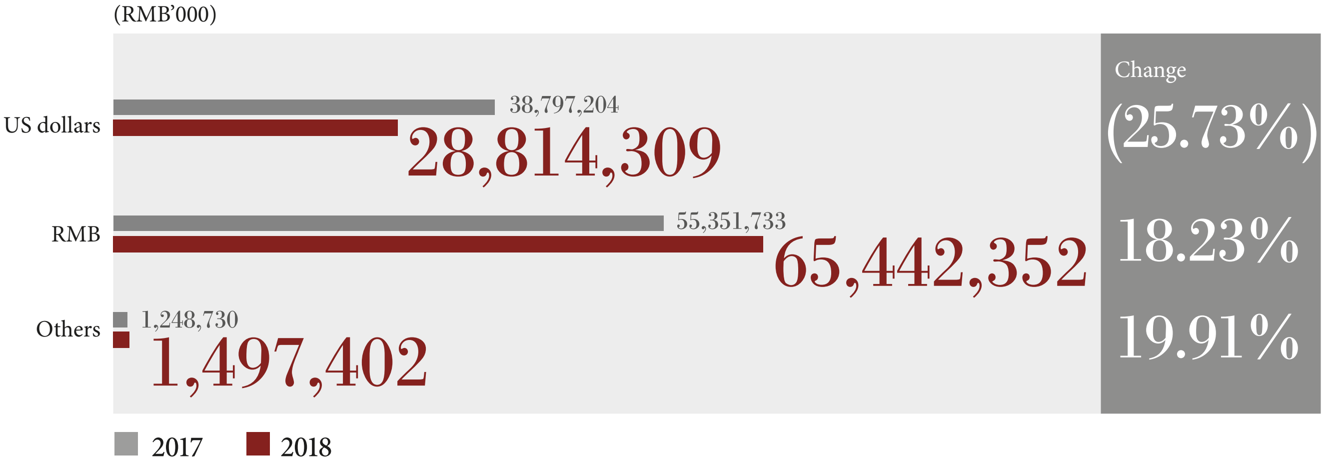
As at the end of the Reporting Period, the Group's total liabilities were RMB143,159 million, representing a year-on-year increase of 1.69%. Among which, current liabilities amounted to RMB72,540 million, accounting for 50.67% of the total liabilities; and non-current liabilities amounted to RMB70,619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

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

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

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

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



COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 33.64% from RMB59,178 million as at 31 December 2017 to RMB39,269 million as at the end of the Reporting Period. The Group's commitments under operating leases, which mainly consisted of the payments in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB51,395 million as at the end of the Reporting Period, representing a year-on-year increase of 0.01%. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB59 million as at the end of the Reporting Period, representing an increase of RMB1 million from RMB58 million as at 31 December 2017.

Details of the Group's contingent liabilities are set out in note 47 to the financial statements of the Group for 2018.

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

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

GEARING RATIO

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 58.75%, representing a decrease of 1.00 percentage points from 59.75% as at 31 December 2017, such decrease was mainly due to the continuous profit making of the Group. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

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

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

RISK FACTORS

1. Risks of External Environment

Market Fluctuation

In 2018, China stayed committed to the underlying principle of pursuing progress while ensuring stability. In accordance with the requirements of high-quality development, China responded effectively to profound changes in the external environment, achieved macro-regulation targets, implemented an in-depth structural supply-side reform, sustained sound economic development and maintained overall social stability. However, the stable economy is accompanied by changes and concerns due to the complicated and severe external environment and downward pressure on the economy. Affected by the macroeconomic policy and other uncertainties, the air transportation market is facing an ever-increasing volatility risk.

Oil Price Fluctuation

At present, the oil price remains at a relatively low level. In the future, with uncertainties in such factors as global economic recovery, crude oil supply, the cycle of the US dollar interest rate increase and geopolitics, it is expected there still exist certain risks of oil price fluctuation. Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group's financial performance is substantially subject to the fluctuation of jet fuel price. During the Reporting Period, with the other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel costs will rise or fall by approximately RMB1,924 million.

Exchange Rate Fluctuation

2018 witnessed the continuous polarization of the different monetary policies of the world's major economies. The Federal Reserve System raised its interest rates. In addition, the spike in risk aversion further prompted the increase of the US dollar index while the Eurozone and Japan maintained a loose monetary policy. The RMB exchange rate experienced a period of sharp rise and fall, and a process from appreciation to depreciation in 2018. With the resumption of Sino-US trade negotiations and the steady growth of China's economy, a slight rebound was seen at the end of the year. Currently, with the smooth running of China's economy and the implementation of proactive fiscal policy and prudent monetary policy, the RMB exchange rate is expected to maintain a two-way fluctuation around a reasonable and balanced level.

The Group's finance lease liabilities, bank loans and other loans are mainly in US dollar, Euro and Japanese Yen. Certain international income and expenses are 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 net profit and shareholders' equity for the year of 2018 by RMB228 million; the appreciation or depreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity for the year of 2018 by RMB5.75 million; the appreciation or depreciation of RMB against Japanese Yen by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity for the year of 2018 by RMB10.62 million.

Details of the financial risk management objectives and policies of the Group are set out in note 49 to the financial statements of the Group for 2018.

2. Risks of Competition

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-haul international routes, as a result, it will be harder to get the international air traffic rights. While the Company is enjoying the advantages in locations and timeslots in respect of the long-haul routes to Europe and America, it still has 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 period promoted the trend of low-cost aviation operations, which will further intensify the competition in the domestic market and may result in reduced yield.

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. In terms of short- and medium-haul transportation, high-speed railway transportation features high frequency, low fare, 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 high-speed 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-haul 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.

3. Operating Risks

De-hubbing

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-haul routes above the range of 5,000 kilometres as an example, in 2009, international long-haul routes were only operated in three second-tier cities in China, but as of 31 December 2018 the number has increased to 21. Long-haul 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 coverage of routes, airlines with wide-body aircraft have been actively involved in the development of long-distance routes in the second-tier cities. Such development will have certain impact on the Company's hubbed operations.

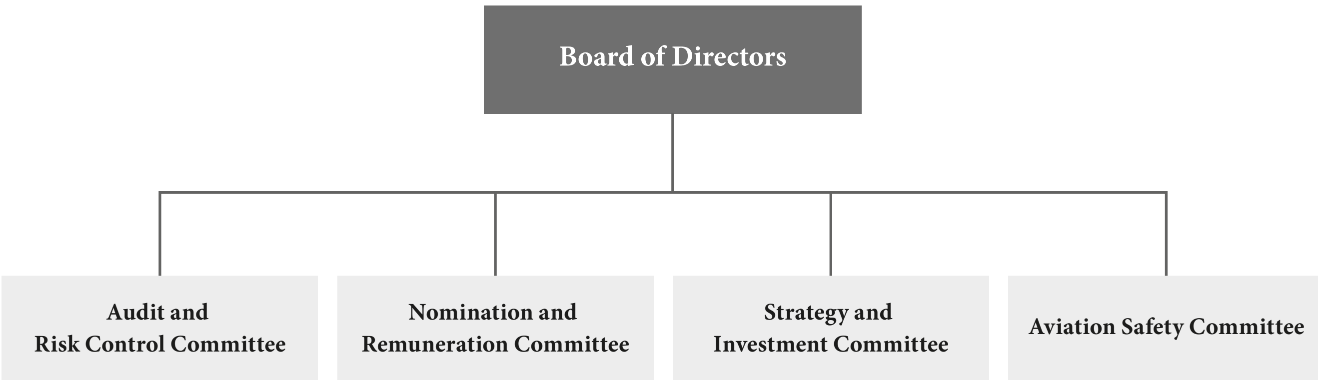
CORPORATE GOVERNANCE REPORT

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 Reporting Period. The Company's corporate governance practices are summarised and discussed below.

BOARD OF DIRECTORS

Governance Structure

As at the end of the Reporting Period, the structure of the Board and each special committee is set out as follows:



MEMBERS OF THE FIFTH SESSION OF THE BOARD

Mr. Cai Jianjiang | Mr. Song Zhiyong | Mr. Xue Yasong | Mr. John Robert Slosar

As at the end of the Reporting Period, the Board comprised 8 directors, out of which four were independent non-executive Directors. 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 during the Reporting Period are as follows:

	Number of meetings attended in person/should be attended					
	General Meeting	Board Meeting	Nomination and Remuneration Committee Meeting	Audit and Risk Control Committee Meeting	Strategy and Investment Committee Meeting	Aviation Safety Committee Meeting
Non-executive Directors						
Cai Jianjiang *(Chairman)*	3/3	6/6	1/1	N/A	2/2	3/3
Xue Yasong	2/3	3/3	N/A	N/A	N/A	N/A
John Robert Slosar	1/3	4/6	N/A	N/A	N/A	N/A
Executive Director						
Song Zhiyong *(President)*	2/3	6/6	N/A	N/A	2/2	3/3
Independent Non-executive Directors						
Wang Xiaokang	2/3	4/6	1/1	N/A	N/A	N/A
Liu Deheng	3/3	6/6	N/A	5/5	2/2	N/A
Stanley Hui Hon-chung	3/3	6/6	N/A	5/5	N/A	3/3
Li Dajin	2/3	6/6	1/1	5/5	N/A	N/A

Note: For the Reporting Period, 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 rates 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.

MEMBERS OF THE FIFTH SESSION OF THE BOARD

Mr. Wang Xiaokang Mr. Liu Deheng Mr. Stanley Hui Hon-chung Mr. Li Dajin

The Responsibilities of the Board

The Board is accountable to the general meeting and exercises the power according to the Articles of Association and the "Rules and the Procedures of the Board". Pursuant to the Articles of Association, the main responsibilities of the Board include: (1) to determine the Company's business policies and investment plans; (2) to formulate the Company's preliminary and final annual financial budgets; (3) to formulate the Company's profit distribution proposals and loss recovery proposals; (4) to determine the establishment of the Company's internal management bodies; and (5) to appoint or dismiss the President of the Company, Secretary to the Board, and based on the nomination of 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.

The Board shall be responsible for performing the following corporate governance duties: (1) to develop and review the Company's policies and practices on corporate governance, and provide recommendations in this regard; (2) to review and monitor the training and continuous professional development of the Directors and senior management; (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (4) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and (5) to review the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report. During the Reporting Period, 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.

The Board has independent access to the senior management personnel for enquiries in relation to the Company's management. The Board has established special committees to provide support to the Board in its decision-making process. For details, please refer to the section headed "Special Committees of the Board" below.

Procedure of Board Meeting

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 notice of 14 days shall be given to all Directors before each meeting. The Directors may attend in person 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 the proposal(s), 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.

MEMBERS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Wang Zhengang　Mr. He Chaofan　Ms. Xiao Yanjun　Ms. Li Guixia

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.

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. 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.

Election of Directors

Directors other than employee representative director(s) are elected at the shareholders' general meeting of the Company, while employee representative director(s) is/are elected or dismissed by the employee representative meeting of the Company. Directors are appointed for a term of three years and are eligible for re-election and re-appointment upon expiry of their terms of office.

Chairman and President

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 Chairman 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 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.

Board Diversity Policy

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 "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 redesignation 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.

Directors' Training and Continuous Professional Development

The management of the Company provides Directors 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 the training of Directors. All Directors have participated in continuing professional development by attending trainings and courses 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 during the Reporting Period	Category[Notes]
Non-executive Directors	
Cai Jianjiang *(Chairman)*	a, b
Xue Yasong	a, b
John Robert Slosar	a, b
Executive Director	
Song Zhiyong *(President)*	a, b
Independent Non-executive Directors	
Wang Xiaokang	a, b
Liu Deheng	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.

Biographical Details and Other Information of Directors

The list of Directors and their 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. Biographical details of the Directors are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report.

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. After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code set out in Appendix 10 to the Listing Rules and the Company's code of conduct throughout the Reporting Period.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE FIFTH SESSION OF THE BOARD

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

SPECIAL COMMITTEES OF THE BOARD

Audit and Risk Control Committee

As at the end of the Reporting Period, the Audit and Risk Control Committee comprised Mr. Liu Deheng, Mr. Li Dajin and Mr. Stanley Hui Hon-chung, all of whom are independent non-executive Directors, with Mr. Liu Deheng serving as the chairman of the committee.

The primary duties of the Audit and Risk Control Committee include: (1) 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; (2) to review and supervise the Company's 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; (3) to be responsible for the communications between the internal audit department and external auditors; (4) to review and verify the Company's financial information and its disclosure; (5) to review the Company's financial control, internal control and risk control system, and evaluate the appropriateness of the system; (6) 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 the management have performed their duties properly and established an effective internal control system; (7) to study the results of the important investigation on the internal control and the feedback of the management on the results; (8) 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; (9) 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; and (10) to receive reports from the Company relating to fraudulent acts and discovery and complaints.

The main work of the Audit and Risk Control Committee during the Reporting Period includes reviewing the following documents: (1) the Company's financial plan and investment plan for the year of 2018; (2) the 2017 annual report and special explanations for non-operating fund utilization and other related fund transactions for the year of 2017; (3) statement of the implementation of related transactions, profit distribution plan and the list of related parties of A share for the year of 2017; (4) assessment report on internal control and the audit report on internal control; (5) the 2018 first/third quarter report; (6) the interim report for the year of 2018; (7) the special report regarding the deposit and actual use of the proceeds from issuance of A Shares; (8) 2018-2019 aircraft finance lease service framework agreement; (9) documents related to the disposal of 51% equity interest in Air China Cargo; (10) matters related to the sale of 51% equity interests of Air China Cargo; (11) Interim Provisions on Internal Control and Management of the Company; and (12) the annual performance report by the Audit and Risk Control Committee.

In addition to the above, the Audit and Risk Control Committee also received the following reports during the Reporting Period: (1) the summary report on annual internal audit work and the internal audit plan; (2) summary report on annual audit work from Deloitte Touche Tohmatsu; (3) self-assessment plan on internal control of the Company for the year 2018; and (4) the audit plan on internal control of Deloitte Touche Tohmatsu Certified Public Accountants LLP.

The annual results and annual report of the Company for the year of 2018 had been reviewed by the Audit and Risk Control Committee.

Nomination and Remuneration Committee

As at the end of the Reporting Period, the Nomination and Remuneration Committee comprised Mr. Li Dajin and Mr. Wang Xiaokang, the independent non-executive Directors, and Mr. Cai Jianjiang, the non-executive Director of the Company, with Mr. Li Dajin serving as the chairman of the committee.

The primary duties of the Nomination and Remuneration Committee include: (1) to study on the criteria and procedures for selecting candidates for the Directors and senior management and make recommendations to the Board; (2) to nominate to the Board the candidates to fill casual vacancies on the Board, and make recommendations regarding the Directors' remuneration to the Board; (3) to evaluate the performance of the senior management of the Company and determine their remuneration structure; (4) 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; (5) to assess the independence of the independent non-executive Directors; and (6) 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.

The Nomination and Remuneration Committee received the report on the remuneration policy of the Company during the Reporting Period.

During the Reporting Period, the nomination policy for Directors of the Company implemented by the Nomination and Remuneration Committee is as follows: 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. For the diversity policy, please refer to the section headed "Board Diversity Policy" above. A shareholder holding 3% or more of the shares of the Company is entitled to nominate Directors to the Nomination and Remuneration Committee.

During the Reporting Period, the remuneration policy for Directors implemented by the Nomination and Remuneration Committee is as follows: 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, and the remuneration of the executive Directors and senior management shall be determined in accordance with the relevant laws and regulations of the PRC and the provisions of the "Interim Measures for Remuneration Administration of Responsible persons of Enterprise" 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 general meeting, and that of the senior management shall be determined by the Board after being considered by the Nomination and Remuneration Committee.

Details of the remuneration for the Directors and senior management during the Reporting Period are disclosed in note 13 to the financial statements of this annual report.

Strategy and Investment Committee

As at the end of the Reporting Period, the Strategy and Investment Committee comprised Mr. Song Zhiyong, an executive Director, Mr. Cai Jianjiang, the non-executive Director, and Mr. Liu Deheng, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the committee.

The primary duties of the Strategy and Investment Committee include: (1) 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; and (2) to make decisions on the establishment, merger and dissolution of branches of the Company

During the Reporting Period, the Strategy and Investment Committee studied and approved the investment plan for 2018, and received reports on strategic development plans of the Company and the 13th Five-year Plan as well as progress of key strategic projects.

Aviation Safety Committee

As at the end of the Reporting Period, the Aviation Safety Committee comprised Mr. Song Zhiyong, an executive Director, Mr. Cai Jianjiang, the non-executive Director, and Mr. Stanley Hui Hon-chung, an independent non-executive Director, with Mr. Song Zhiyong serving as the Chairman of the committee.

The primary duties of the Aviation Safety Committee include: (1) to receive the safety report of the Company on a regular basis and report to the Board; (2) to study and deal with significant problems in relation to aviation safety work of the Company; and (3) to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, properties and materials to fulfil the needs of safety operation of the Company

During the Reporting Period, the Aviation Safety Committee received report(s) on aviation safety of the Company.

MANAGEMENT

Duties of the Management

The management shall be accountable to the Board and its main responsibilities include: (1) to formulate the strategic development plans of the Company; (2) to formulate the plans on determinating the establishment of the Company's internal management bodies; (3) to implement annual business plans, investment proposals, preliminary and final annual financial budgets; (4) to establish general management systems regarding employment, remuneration and other fundamental internal rules and regulations; (5) to make decisions on major issues such as operation safety and business management; (6) 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; and (7) to implement board resolutions, etc..

The Company established the "Rules and Procedures for President's Office" to regulate the daily operation of the President's Office.

FINANCIAL REPORTING

The Company prepares and publishes annual reports, interim reports and quarterly reports in accordance with the requirements of the regulatory rules of the listing places of the Company and other relevant laws and regulations in a timely manner each year, 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 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. 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.

- 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.

RISK MANAGEMENT AND INTERNAL CONTROL

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 annual report on the internal control after it is reviewed by the Audit and Risk Control Committee.

During the Reporting Period, 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 2018, the main risks that the Group is facing are set out in the sub-section headed "Management's Discussion and Analysis of Financial Position and Operating Results – Risk Factors" of this annual report.

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 inside information they are aware of. The Board should guarantee the truthfulness, accuracy and completeness of the inside 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 inside information, and unless the information is in the category of "Safe Harbour Provisions", the Company will disclose such inside information to the public as soon as practicable.

ARTICLES OF ASSOCIATION

During the Reporting Period, the Company has amended the business scope prescribed in the Articles of Association, which was passed at the first extraordinary general meeting in 2018 of the Company held on 19 October 2018. For details, please refer to the circular of the Company dated 4 September 2018 and the announcement of the Company dated 19 October 2018.

JOINT COMPANY SECRETARIES

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

AUDITORS AND THEIR 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 Reporting Period 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 2018 and for the audit of the Group's financial statements for the year ended 31 December 2018; an aggregate amount of RMB7,793,000 (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 2018; RMB1,000,000 (including value-added tax) was charged for providing internal control audit services to the Group; and RMB525,000 (including value-added tax) was charged for the rendering of tax advisory related services to the Group.

COMMUNICATION 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 for Investors Relation Management" to regulate and strengthen its communication with the shareholders and investors, so as to optimize 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 at the annual general meeting.

Other than the annual general meeting, the Company would also hold extraordinary general meeting 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 extraordinary general meeting 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 extraordinary general meeting, it shall within five days of the Board resolution resolving to hold an extraordinary general meeting issue a notice convening an extraordinary general meeting 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 extraordinary general meeting by written request(s). If the Supervisory Committee fails to issue a notice 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 shareholders 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:	86-10-61462560
Fax number:	86-10-61462805

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 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 2018 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements 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 section headed "Business Overview" and the section headed "Management's Discussion and Analysis of Financial Position and Operating Results" of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2018 are summarised and set out in the section headed "Summary of Financial Information" of this annual report.

SHARE CAPITAL STRUCTURE

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

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

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

As at the end of the Reporting Period, 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 held by the Company	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short 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 the end of the Reporting Period:

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 55.10% equity interest and 63.97% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

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

As at the end of the Reporting Period, 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 the end of the Reporting Period, 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)	165,590 accounts, of which 3,288 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at the end of the month preceding to the disclosing date of annual report (account)	142,588 accounts, of which 3,290 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		Nature of shareholder
					Status	Number	
China National Aviation Holding Corporation Limited	0	5,952,236,697	40.98	513,478,818	Frozen	127,445,536	State-owned legal person
Cathay Pacific Airways Limited	0	2,633,725,455	18.13	0	Nil	0	Foreign legal person
HKSCC NOMINEES LIMITED	2,973,940	1,687,748,459	11.62	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 National Aviation Fuel Group Corporation	-659,800	468,485,702	3.23	0	Nil	0	State-owned legal person
China Securities Finance Corporation Limited	-190,816,782	311,302,365	2.14	0	Nil	0	State-owned legal person
Zhongyuan Equity Investment Management Co., Ltd.	-5,830,104	256,739,405	1.77	0	Unknown	256,739,405	State-owned legal person
China Structural Reform Fund Co., Ltd.	-115,499,959	115,565,509	0.80	0	Nil	0	State-owned legal person
National Social Security Fund 118	-12,070,217	58,964,678	0.41	0	Nil	0	State-owned legal person
Hong Kong Securities Clearing Company Limited	36,404,167	47,769,085	0.33	0	Nil	0	Foreign legal person

Shareholdings of the top 10 shareholders not subject to selling restrictions			
	Number of tradable shares held not subject to selling restrictions	Class and number of shares	
Name of shareholder		Class	Number
China National Aviation Holding Corporation Limited	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	1,687,748,459	Overseas listed foreign shares	1,687,748,459
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares Overseas listed foreign shares	1,332,482,920 223,852,000
China National Aviation Fuel Group Corporation	468,485,702	RMB ordinary shares	468,485,702
China Securities Finance Corporation Limited	311,302,365	RMB ordinary shares	311,302,365
Zhongyuan Equity Investment Management Co., Ltd.	256,739,405	RMB ordinary shares	256,739,405
China Structural Reform Fund Co., Ltd.	115,565,509	RMB ordinary shares	115,565,509
National Social Security Fund 118	58,964,678	RMB ordinary shares	58,964,678
Hong Kong Securities Clearing Company Limited	47,769,085	RMB ordinary shares	47,769,085
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 Corporation Limited. Accordingly, China National Aviation Holding Corporation Limited 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 1,687,748,459 H shares held by it in the Company do not include the 166,852,000 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份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 shares and 36,454,464 shares held by China National Aviation Holding Corporation Limited, 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 Corporation Limited	513,478,818	2020-03-10	513,478,818	Non-public offering of shares subject to selling restrictions

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 POLICY

In accordance with the relevant requirements of the China Securities Regulatory Commission and the CSRC Beijing Bureau on the cash dividends of listed companies and the provisions of the Articles of Association, the Company implements an active profit distribution approach and attaches importance to the reasonable return for investment of investors. The Company maintains a consistent and stable profit distribution policy and prioritizes cash dividends when distributing profits. It's clearly stipulated in the Articles of Association that in the case that the distributable profits realized for the current year in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards and regulations are positive, the Company will distribute dividends in cash with the cash dividends to be distributed each year no less than 15% of the applicable distributable profits. The applicable distributable profits represent the amount of profit after tax realized for the current year in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards, whichever is lower, after making up for the losses and making contributions to the common reserve fund in accordance with the provisions of the Articles of Association as well as deducting otherwise approved by the relevant national departments. The Company's profit distribution plan should be reviewed by independent non-executive Directors. The Company should actively communicate with shareholders, especially minority shareholders, through various means (including online voting and inviting minority shareholders to participate in the meetings) to fully understand the opinions and needs of minority shareholders and timely answer the questions of their concerns.

DIVIDEND

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

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

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

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

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

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 2018 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 Mainland individual shareholders at a tax rate of 20% when the Company distributes the 2018 final dividends to Mainland individual investors who invest in the H Shares of the Company 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 of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect in accordance with the aforementioned requirements when the Company distributes the 2018 final dividends; and the Company will not withhold income tax on behalf of Mainland enterprise investors investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2018 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 tax effects involved in the ownership and disposal of H Shares of the Company in Mainland China and Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities (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 of the Company 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.

USE OF THE PROCEEDS RAISED IN THE NON-PUBLIC ISSUANCE 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 (the "Non-public Issuance of A Shares"). The net proceeds raised is RMB11,200.4185 million. The table below shows the use of the net proceeds raised by the Non-public Issuance of A Shares:

Unit: RMB (million)

Committed investment project target		Total committed investment amount of proceeds	Amount invested during the Reporting Period	The cumulative amount invested as at the end of the Reporting Period	Outstanding amount to be invested as at the end of the Reporting Period
1.	Purchase of 15 Boeing B787 aircraft	7,450	–	7,450	–
2.	Upgrade of e-commerce direct sale project	100	43.63	43.63	56.37
3.	On-board WIFI (first phase) project	50.4185	–	–	50.4185
4.	Replenish the working capital	3,600	–	3,600	–
Total		**11,200.4185**	**43.63**	**11,093.63**	**106.7885**

Note: According to the plan on the Non-public Issuance of A Shares, if the actual proceeds raised by the Non-public Issuance of A Shares are less than the total amount of proceeds proposed to be invested in the projects, the Company will adjust and determine the specific amount invested in each project based on the net proceeds actually raised and priorities of projects. As the proceeds actually raised are less than the total proposed investment amount of RMB12 billion, the Company has adjusted the specific investment amount in "upgrade of e-commerce direct sale project" and "on-board WIFI (first phase) project" according to the above authorization (that was, RMB800 million and RMB150 million respectively before adjustment). Please refer to the above table for the total investment amount after adjustment. As at the end of the Reporting Period, there is no change in the use of proceeds.

As of the end of the Reporting Period, the balance of the specific raised fund account was RMB153.0517 million, where the outstanding amount of net proceeds to be invested in the projects was RMB106.7885 million, and the interest income of the net proceeds was RMB46.2632 million.

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
Xue Yasong (Non-executive Director and employee representative Director)	Elected on 29 March 2018
John Robert Slosar (Non-executive Director)	Elected on 22 May 2014
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	Elected on 29 October 2013
Xiao Yanjun	Elected on 16 June 2011
Li Guixia	Elected on 27 October 2017

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the Reporting Period or as at 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 of the Company 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 Group had a total of 88,160 employees, among which, the Company had 28,302 employees and the subsidiaries of the Company had 59,858 employees. The categories of employees of the Group are as follows:

Professional Categories	As at 31 December 2018
Management	**10,705**
Marketing and Sales	**6,230**
Operation	**4,251**
Ground Handling	**12,084**
Cabin Service	**20,847**
Logistics and Support	**10,802**
Flight Crew	**8,620**
Engineering and Maintenance	**12,730**
Information Technology	**633**
Others	**1,258**
Total	**88,160**

REMUNERATION POLICY

Upholding the concept of "paying salary with reference to the job value, personal ability as well as performance appraisal" and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company has continually established and improved a linkage mechanism combining salary distribution with performance, and implemented differentiated management on gross payroll and budget. In 2018, the Company has been accelerating to establish a salary system which is adapting to market competition through market-oriented remuneration benchmarking to promote the pilot implementation of market-oriented talent mechanism and stimulate the enthusiasm and creativity of its employees.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 9 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.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Group as at the end of the Reporting Period 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 39 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2018 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 2018 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 44 and the consolidated statement of changes in equity to the financial statements of this annual report.

DONATIONS

During the Reporting Period, the Group made donations for charitable and other purposes amounting to RMB11.562 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the purchases of the Group from the largest supplier accounted for 21.97% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 41.81% 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.

During the Reporting Period, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected the changes of titles of assets (land, buildings and vehicles), in accordance with its undertakings as disclosed in the Company's prospectus. The title transfer procedures for the underlying assets relating to the above undertakings have been completed.

COMPLIANCE OPERATIONS

As a Chinese company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Company shall comply with regulations such as 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 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 of the Company 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 47 to the financial statements of this annual report, as at the end of the Reporting Period, 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.

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.

One-off connected transactions – Disposal of Air China Cargo

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

Continuing connected transactions

The transactions under the following continuing connected transaction framework agreements constitute non-exempt continuing connected transactions of the Company:

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
1	Properties Leasing Framework Agreement	The Company and CNAHC (CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 29 October 2015 with a term of three years from 1 January 2016 to 31 December 2018 The details are set out in the announcement of the Company dated 29 October 2015	The Group agreed to lease from and to CNAHC Group a number of properties	The rent payable by the Group will be determined 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 property service quality, location and district of properties
2	Sales Agency Services Framework Agreement	The same as above	The same as above	Certain subsidiaries of CNAHC (i) act as the Company's sales agents 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 air passenger agency services: agency service fee shall be consulted and determined on a fair and voluntary basis The air cargo agency services: the transportation prices shall be not less favorable 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
3	Comprehensive Services Framework Agreement	The same as above	The same as above	(i) The subsidiaries of CNAHC engaged in ancillary services in relation to air transportation business will be appointed as suppliers of ancillary services in relation to air transportation business to the Company (ii) The Company is commissioned by CNAHC to provide welfare-logistics services for CNAHC's retired employees	Ancillary services in relation to air transportation business: (i) the prices of airline catering services will be determined based on the quotation for the same type of catering services available from independent third parties with reference to relevant factors; (ii) the prices of property management services will be determined based on the quotation for the same type of property management services available from independent third parties with reference to relevant factors; (iii) the prices of hotel accommodation and staff recuperation services shall be no less favourable than the quotation for the same type of guest room products or services available from independent third parties with relevant factors; (iv) the prices of catering supplies, publications and other services shall be no less favourable than the quotation of similar products or services available from independent third parties Welfare-logistics services for CNAHC's retired employees: management fee charged by the Company at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
4	Government Charter Flight Service Framework Agreement	The same as above	The same as above	CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment	Hourly rate of the charter flight services = Total cost per flight hour * (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs
5	Media Services Framework Agreement	The Company and CNAMC (CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	The Company grants CNAMC 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 from independent third parties or produce such programmes on its own; (iv) the right to act as operator of the Company's media business; and (v) a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements	The exclusive operation rights of the specific media: CNAMC agreed to pay the Company RMB13.8915 million as media usage fee for each year within the term of the agreement The in-flight entertainment programmes: The Company agreed to pay the purchase price to CNAMC for the in-flight entertainment programmes purchased by CNAMC. In the event that the relevant entertainment programmes are produced by CNAMC, the Company will pay the corresponding production costs to CNAMC The advertising design, image promotion and other services: the Company agreed to pay advertising fees and service fees at market price which will be determined taking into consideration certain factors including quotation, service quality and specific needs of the parties 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
6	Financial Services Agreement	The Company and CNAF (CNAF is a non-wholly owned subsidiary of the Company that CNAHC holds 49% of its equity interest and therefore a connected subsidiary of the Company)	Renewed and revised on 30 August 2017 with a term from 1 January 2018 to 31 December 2020 The details are set out in the announcement of the Company dated 30 August 2017	CNAF agreed to provide the Group with a range of financial services including deposit services, credit services and other financial services	Interest rates applicable to deposits: not be lower than (i) the interest rates for the same type of services provided by state-owned commercial banks to the Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Interest rates applicable to credit services: not be higher than (i) those for the same type of services provided by state-owned commercial banks to the Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Fees for other financial services: not be higher than (i) those for the same type of services provided by state-owned commercial banks to the Group under the same or similar conditions; and (ii) those for the same type of services provided by CNAF to other CNAHC member companies under the same or similar conditions

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
7	Financial Services Framework Agreement	CNAF (a non-wholly owned subsidiary of the Company), and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	The same as above	CNAF agreed to provide CNAHC Group with a range of financial services including deposit services, credit services and other financial services	The interest rates for deposits: not be higher than (i) the interest rates for the same type of services provided by state-owned commercial banks to CNAHC Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies The interest rates applicable to credit services: not be lower than (i) the interest rates for the same type of services provided by state-owned commercial banks to CNAHC Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Fees for other financial services: not be higher than (i) the fees for the same type of services provided by state-owned commercial banks to CNAHC Group under the same or similar conditions; and (ii) fees for the same type of financial services provided by CNAF to other CNAHC member companies under the same or similar conditions
8	Framework Agreement	The Company and CNACG (CNACG is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed and revised on 30 August 2016 with a term from 1 January 2017 to 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	CNACG Group agreed to provide ground support services, aircraft repair and maintenance services, administrative management services, as well as finance lease and operating lease services to the Group	Ground support services: The prices 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 Aircraft repair and maintenance services and administrative management services: The prices 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 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
9	2018-2019 Aircraft Finance Lease Service Framework Agreement	The Company and CNACG (CNACG is a substantial shareholder of the Company and therefore a connected person of the Company)	Signed on 27 March 2018 with a term from the date of the approval by the independent shareholder to 31 December 2019 The details are set out in the announcement of the Company dated 27 March 2018	CNACG Group agreed to provide the finance lease services in relation to leased aircraft to the Group	The comprehensive costs of finance lease scheme (including the relevant rental and arrangement fee) provided by CNACG Group to the Group shall be not higher than those provided by at least three independent third parties who have received the Group's request for proposals or are shortlisted in the same procurement processes of the Group

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
10	Framework Agreement	The Company and Cathay Pacific (Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 1 October 2016 with a term from 1 January 2017 to 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	Provide 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 flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement	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 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 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 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 Airline catering: The parties determine the pricing of airline catering having regard to quotations provided by unconnected caterers, taking due account of material and labor costs, quality, assurance of supply, safety and innovation (including changes in the foregoing matters) Ground support and engineering services: The pricing is required to be no less favorable than that offered for comparable services to unconnected parties taking due account of the quality of services Other products and services (including leasing premises and customs declaration services): The pricing 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

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
11	Framework Agreement	The Company and Air China Cargo (Air China Cargo is a connected subsidiary of the Company when renewing this framework agreement by virtue of being a non-wholly owned subsidiary of the Company while Cathay Pacific, a substantial shareholder of the Company, is able to exercise more than 10% of the voting power at the general meeting thereof; Air China Cargo is still a connected person of the Company after the sale of interests in Air China Cargo for being a subsidiary of CNAHC	Renewed and revised on 30 August 2016 with a term from 1 January 2017 and ending on 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	The 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: (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 prices for bellyhold space provided to the ACC Group by the Group: Total annual sales amount = the average sales price of bellyhold space of the Company in the past three years * (1 + adjustment rate) * the total volume of bellyhold space provided by the Company. The adjustment rate generally ranges from -7% to +7% 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, with a margin generally ranging from 5% to 10% 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

The above No. 1-5 agreements were renewed on 30 October 2018 with a term of three years from 1 January 2019 to 31 December 2021. The details are set out in the announcement of the Company dated 30 October 2018.

The Company has confirmed that the execution and enforcement of the specific agreements under the continuing connected transactions set out above during the Reporting Period has followed the pricing policies of such continuing connected transactions.

Transaction Caps and Actual Transaction Amounts for the Reporting Period

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions for the Reporting Period are as follows:

	Currency	Aggregate amount of transactions for the Reporting Period Annual cap (in millions)	Actual amount (in millions)
Transactions with CNAHC Group:			
Subcontracting of charter flight services	RMB	900	558
Sales of airline tickets and cargo space	RMB	167	93
Comprehensive services	RMB	1,664	1,573
Properties leasing	RMB	200	99
Media and advertising services	RMB	326.7	165
Financial services			
Maximum daily outstanding loans and other credit services granted by CNAF to CNAHC Group	RMB	8,000	1,445
Transactions with CNACG Group:			
Ground handling and other services (other than aircraft financial leasing business)	RMB	2,450	415
Aircraft finance lease	USD	1,046.59	957
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Group to Cathy Pacific Group	HKD	900	547
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	301
Transactions with ACC Group:			
Aggregate sales commission of bellyhold space paid by the Group to ACC Group	RMB	643	418
Aggregate amount of ground handling paid by the Group to ACC Group	RMB	1,088	580
Aggregate amount of other services paid by the Group to ACC Group	RMB	213	13
Aggregate sales of bellyhold space paid by ACC Group to the Group	RMB	6,429	5,543
Aggregate amount of ground handling paid by ACC Group to the Group	RMB	169	54
Aggregate amount of other services paid by ACC Group to the Group	RMB	562	446
Transactions with CNAF:			
Maximum daily outstanding deposits placed by the Group with CNAF	RMB	12,000	10,485

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have confirmed that during the Reporting Period, all continuing connected transactions 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 have been carried out according to the agreements governing them and that the terms of them were fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATION FROM THE AUDITOR

For the purpose of Rule 14A.56 of the Listing Rules, the Company's auditor, Deloitte Touche Tohmatsu has performed its work on the disclosed continuing connected transactions for the Reporting Period 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 aggregate amount of the continuing connected transactions for the year has exceeded the annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Reporting Period are set out in note 52 to the financial statements of this annual report. None of these related party transactions constitutes a disclosable 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

The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP (collectively, "Deloitte") as the Company's international auditor and domestic auditor respectively for the year of 2018. The auditors of the Company has been changed to Deloitte since 2017.

SUBSEQUENT EVENTS

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

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

DIRECTORS

Mr. Cai Jianjiang, aged 55, graduated from Civil Aviation University of China 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 of Air China International Corporation, etc.. 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 the 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 53, Mr. Song is a commanding pilot, 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, Assistant Manager, Chief Pilot, and Deputy General Manager of the Third Fleet, Deputy General Manager of the General Fleet and the General Manager of the Training Department of Air China International Corporation. He served as the General Manager and Deputy Secretary of the Communist Party Committee of the General Fleet from November 2002 to June 2008. Mr. Song held the post of Assistant to President of the Company 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. Xue Yasong, aged 57, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as 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 served as a director, Executive Deputy General Manager and Secretary of the Board of Directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999, the Deputy General Manager of CNAHC from November 2004 to July 2009, the Chairman of the Labour Union of CNAHC in July 2009. He was elected Chairman of the Labour Union of the Company in October 2016. 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. John Robert Slosar, aged 62, 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. He served as the chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited from March 2014 to June 2018. Mr. Slosar became Chairman of Cathay Pacific in March 2014 and has been serving as a non-executive Director of the Company since May 2014.

Mr. Wang Xiaokang, aged 63, 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 (CPPCC) and a member of the Committee of Population, Resources and Environment under the Twelfth National Committee the CPPCC, a member of National Manufacturing Strategy Advisory Committee and a member of the Sixth China Council for International Cooperation on Environment and Development. He has been serving as an independent non-executive Director of Company since May 2017. He was appointed as an external director of China Datang Corporation Ltd. in August 2018.

Mr. Liu Deheng, aged 62, 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, Deputy Director General and Director General of Revenue Management Bureau of the SASAC from May 2003 to September 2016, and served as Professional External Director for Central State-owned Enterprises from September 2016. He has been serving as External Director of Commercial Aircraft Corporation of China, Ltd. from March 2017 and as an independent non-executive Director of the Company from May 2017, and was appointed as external director of Aviation Industry Corporation of China, Ltd. in February 2018.

Mr. Stanley Hui Hon-chung, aged 68, 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 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. From September 2015 to October 2017, Mr. Hui was an executive director and the Vice CEO of NWS Holdings Limited. He was appointed as independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. in December 2016, and served as advisor in NWS Holdings Limited from October 2017 to October 2018.

Mr. Li Dajin, aged 60, graduated from Peking University majoring in law. He is a director, partner and lawyer of East & Concord Partners. He has practiced law 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 CPPCC, 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.

SUPERVISORS

Mr. Wang Zhengang, aged 60, a senior accountant 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 from July 2011 to December 2018 and the chairman of the board of directors of Zhongyi Aviation Investment Co., Ltd. since September 2011 till now. Mr. Wang served as an assistant general manager of CNAHC from September 2014 to December 2018 and was elected as Chairman of the Supervisory Committee of the Company in August 2016. Mr. Wang is currently a member of the Committee of the 13th session of the CPPCC of Beijing Municipality.

Mr. He Chaofan, aged 56, 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 Communist Party Committee 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 served as vice president of CNACG from May 2011 to December 2018, and concurrently served as a director, general manager, party committee member and the Deputy Secretary of the Communist Party Committee of Zhongyi Aviation Investment Co., Ltd. from July 2013 to December 2018. Mr. He was appointed as a Supervisor of the Company in October 2013 and has been serving as the director, president, party committee member of CNACG since December 2018.

Ms. Xiao Yanjun, aged 54, 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 head of the office to the Labour Union of the Company from March 2008 to November 2012. She has been serving as the head of the office to 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.

Ms. Li Guixia, aged 42, 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 Commercial Committee. She has been serving as a Senior Deputy Manager of the Planning Financial Office of the Commercial Committee of the Company since 2014. Since October 2017, she has been serving as a Supervisor of the Company.

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, aged 59, holds a master's 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 the 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. Mr. Cao was appointed as a member of Communist Party Group of CNAHC in December 2008, and served as Deputy General Manager of CNAHC from December 2008 to March 2019. From June 2009 to October 2017, Mr. Cao served as a non-executive Director of the Company. He has been serving as the director of TravelSky Technology Limited since August 2014. From Octorber 2015 to September 2018, Mr. Cao served as the chairman of Capital Holding. In November 2016, Mr. Cao was appointed as Deputy Secretary of the Communist Party Group of CNAHC. Mr. Cao served as Vice President of the Company from May 2017 to March 2019 and as Deputy Secretary of the Communist Party Committee of the Company since May 2017. He concurrently served as a member and Secretary of the Communist Party Committee of the management support division of CNAHC and the Company since July 2017. Mr. Cao was appointed as a director of CNAHC in March 2019.

Mr. Feng Gang, aged 55, 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 Secretary of the Communist Party Committee 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 Corporation 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 a member of the Communist Party Group of CNAHC since April 2014. He served as non-executive Director of the Company from August 2014 to October 2017. He has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since May 2017.

Mr. Hou Xulun, aged 51, 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 the Bureau of Cadre Supervision of 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 Central Committee. Since August 2014, he was an inspector and the Deputy Director of the Bureau of Cadre Supervision of the Organization Department of the Central Committee. From July 2015 to January 2019, he was a member of the Communist Party Group and team leader of the Discipline Inspection Group of the Communist Party Group of CNAHC. From May 2017 to January 2019, he was a member of the Communist Party Group and team leader of the Discipline Inspection Group of the Communist Party Group of CNAHC and a member and a standing member of the Communist Party Committee and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Ma Chongxian, aged 53, graduated from Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA 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 International Corporation, 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, Secretary of the Communist Party Committee 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 member of the Standing Committee of the Communist Party Committee of the Company since April 2010. 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 of CNAHC since December 2016.

Mr. Zhao Xiaohang, aged 57, 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 the Communist Party Committee 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 Manage of CNAHC as well as Vice Chairman of CNACG and Chairman of CNAMC in December 2016. Mr. Zhao was appointed as the chairman of Capital Holding in September 2018.

Mr. Tan Huanmin, aged 54, graduated from Jilin University School of Law majoring in constitutional law. Mr. Tan previously served as the deputy principal officer and principal officer of Policies and Laws Department of the Ministry of Supervision. From January 1993 to May 2008, Mr. Tan consecutively served as principal officer and deputy director of the Review Division of Regulation Office of the Central Commission for Discipline Inspection, deputy director, director-level inspector and supervisor of Supervision and Regulation Division, deputy director of Supervision and Regulation Division, and director of Supervision and Regulation Division. From May 2008 to December 2016, Mr. Tan consecutively served as Discipline Inspector of vice-bureau level and specialised Supervisor of Regulation Office of the Central Commission for Discipline Inspection, deputy director of Regulation Office, and Discipline Inspector of bureau level, specialised Supervisor and deputy director of Regulation Office. From December 2016 to January 2019, Mr. Tan was a member of the Communist Party Group and team leader of the Discipline Inspection Group of Communist Party Group of China Aerospace Science & Technology Corporation. Since January 2019, Mr. Tan has been serving as team leader of the Discipline Inspection and Supervision Group and a member of the Communist Party Group of CNAHC, and in January 2019, he was appointed as a member and a standing member of the Communist Party Committee, and the Secretary of Committee for Discipline Inspection of the Company .

Mr. Wang Mingyuan, aged 53, 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 served 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.

Mr. Chai Weixi, aged 56, 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 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 AMECO and Deputy General Manager of the Engineering Technology Branch of the Company. From October 2005 to March 2009, he served as General Manager and a member of the Communist Party Committee of AMECO as well as a 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. He was appointed as the director of AMECO in October 2005, and appointed as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company in March 2012. He also served as the Chief Executive Officer of AMECO from June 2015 to September 2017.

Mr. Chen Zhiyong, aged 55, 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 navigator of the Third Section of the Seventh Fleet of CAAC, Section Manager and General Manager of Chengdu Flight Department of China Southwest Airlines and general manager of Flight Technology Management Department of China Southwest Airlines, General Manager 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 member of the Standing Committee of the Communist Party Committee of the Company since December 2012. Mr. Chen has also been serving as director and president of Shenzhen Airlines since May 2014.

Mr. Liu Tiexiang, aged 52, graduated from the Second Flying Academy of China Air Force with a bachelor degree in aviation. Mr. Liu is a commanding pilot. He started his career in June 1983 and has previously served various positions in Air China International Corporation, including pilot, Section Manager of the Third Fleet of the General Fleet, Deputy Chief, Assistant Manager of Flight Training Centre, Deputy General Manager of Aviation Safety Technology Department, Deputy General Manager and General Manager of Flight Technology Management Department and Deputy General Manager of the General Fleet. He served as the General Manager and Deputy Secretary of the Communist Party Committee of the General Fleet 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 the Communist Party Committee of the Company since August 2014 and the Chief Operating Officer of the Company since April 2015.

Mr. Xue Yasong, 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 54, graduated from Civil Aviation Flight University of China majoring in airplane piloting 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, Assistant Manager of the Flight Technology Office of the Third Fleet of the General Fleet, an Inspector of the Safety Monitoring Office and the General Manager of the Third Fleet. In December 2001, Mr. Xu was appointed as the Deputy General Manager of the General Fleet 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 Officer of the Company, and concurrently served as General Manager, a member and Deputy Secretary of the Communist Party Committee of the Operation Control Centre of the Company from January 2009 to March 2011. He served as the Chief Pilot of the Company 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 Communist Party Committee of Shandong Aviation Group Corporation in November 2016.

Mr. Zhang Hua, aged 53, 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 a director of 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 50, 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 Air China International Corporation 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. Wang Yingnian, aged 55, 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 Deputy General Manager, a member and a standing member of the Communist Party Committee of the General Fleet of the Company from August 2007 to April 2011. Mr. Wang served as the General Manager, Deputy Secretary of Communist Party Committee of the General Fleet 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. He has also been serving as the Chairman of Air China Inner Mongolia Co., Ltd. since November 2017.

Mr. Zhou Feng, aged 57, 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 CNAHC and the Company since June 2017 and was appointed as Secretary to the Board of the Company in August 2017.

Mr. Shao Bin, aged 53, 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 held various positions in Tianjin branch of Air China International Corporation, including Assistant Manager and Manager of the First Section, Deputy General Manager and General Manager of the General Fleet, Manager of the Flight Department, Deputy General Manager and a member of the Communist Party Committee; he was appointed as the General Manager of Flight 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 of the Company 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 Vice President of Shenzhen Airlines since November 2014.

Mr. Zhu Songyan, aged 48, graduated from Civil Aviation University of China'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 Deputy Secretary of the Party General Branch of the Information Technology Center. Mr. Zhu served as the Deputy Director of Commercial Committee and a member of the Communist Party Committee of the Company since July 2008, the Deputy Director and a member of the Communist Party Committee of Commercial 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. He has also been serving as the General Manager of the Planning and Developing Department of CNAHC since May 2017.

Mr. Zhao Yang, aged 51, 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 the Manager of the Seventh Section, the General Manager of the First Fleet, 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, a member and standing member of the Communist Party Committee of the Southwest Branch of the Company since November 2014. He served as the Deputy Operation Officer of the Company and the General Manager of the Operation Control Centre, and Deputy Secretary of the Communist Party Committee of the Operation Control Centre since October 2017. Mr. Zhao has been serving as the Assistant to the President of the Company since October 2017.

JOINT COMPANY SECRETARIES

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

Ms. Tam Shuit Mui, aged 47, 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.

PRIZES AND AWARDS

From February to March 2018, Air China ranked 21st in the "BrandZ Top 100 Most Valuable Chinese Brands 2018" jointly released by the global communications services group WPP and its research institute, up by 8% in the annual brand value, marking the highest score in the Chinese aviation industry. It was also honored as the "BrandZ Top 50 Chinese Global Brand Builders" and the "BrandZ Top Ten Chinese Brands with the Most Overseas Revenues".

On 21 May 2018, Air China won the "Certificate of Excellence" in the 4th Investor Relations Awards hosted by Hong Kong Investor Relations Association (HKIRA).

On 25 May 2018, Air China ranked 66th in the "List of Public Companies with Rich Returns" jointly released by the China Association for Public Companies, Shanghai Stock Exchange and Shenzhen Stock Exchange due to good performance and handsome cash dividends in consecutive years. Air China will focus on its main business, seek stable operations and actively reward its shareholders.

On 11 October 2018, the Company's Annual Report 2017 was honored with the Gold Award in the Airlines - Traditional Annual Report and the Bronze Award in the Airlines - Cover Photo / Design at the 32nd ARC Awards International.

On 19 October 2018, the Company won the 2018 "Golden Wing Award" for Hong Kong Stock Connect companies with the best investment return granted by *Security Times* for its efforts and improvements in market value management and active rewards to shareholders.

On 23 November 2018, at the 18th China Business Top 100 hosted by the Organizing Committee of China Business Top 100 and the Wharton Economic Institute, Air China ranked 55th with a profit before tax of RMB11.481 billion in the "List of China Business Top 100", and won the award of "Top 100 Enterprise Award".

On 6 December 2018, the Company's Social Responsibility Report 2017 won the "Golden Bee Excellent Corporate Social Responsibility Report 2018 Evergreen Award".

On 12 December 2018, Air China was recognized as the "Most Popular Domestic Airline Among Chinese Families" at the awarding ceremony of the 10th "Most Popular Outbound Tour Among Chinese Families Awards" hosted by the *Global Times·Global Travel* for the 10th time since 2009.

On 27 December 2018, Air China ranked 287th in the list of "The World's 500 Most Influential Brands 2018" released at the "15th World Brand Convention" of World Brand Lab with a brand value of RMB145.295 billion, up by 3 compared with the previous year. Of the 38 Chinese companies on the list, Air China was the only civil aviation company. Air China was also honored with the "Annual No.1 Chinese Brand Award (Aviation) 2018" and a special award - "Chinese Cultural Enterprise Brand Award 2018".

On 11 January 2019, Air China was awarded the "Best Boards" at the 14th "Gold Prize of Round Table" of listed companies in China sponsored by the *Directors & Boards* magazine, the most authoritative organization in corporate governance and evaluation in China.

INDEPENDENT AUDITOR'S REPORT

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 83 to 214, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 (the "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 for 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 matter	How our audit addressed the key audit matter
Provision for major overhauls	
As at 31 December 2018, the provision for major overhauls of RMB5,622 million was recorded in the consolidated statement of financial position. The Group held certain aircraft under operating leases at 31 December 2018. 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. 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. Details of the related estimation uncertainty are set out in Notes 4, 5 and 40 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 and evaluating the design and operating effectiveness of the key internal controls relevant to the audit of provision for major overhauls to fulfil the return condition of aircraft under operating leases. • Evaluating the appropriateness of the methodology and key assumptions adopted by management in estimating the provision for these major overhauls. This evaluation based on the terms of the operating leases and the Group's maintenance cost experience. • Performing a retrospective review of the provision for major overhauls to evaluate the appropriateness of the assumptions adopted by management by comparing the assumptions adopted by management in prior years with actual maintenance costs incurred. • 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 assumptions adopted by management and the mathematical accuracy of the calculation of provision for major overhauls prepared by management for those aircraft under operating leases.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group's revenue primarily consists of air traffic revenue amounting to RMB131,836 million for the year ended 31 December 2018. 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 Group allocates the transaction price to passenger revenue and miles awards on a relative stand-alone selling price basis. The transaction price allocated to miles awards under the Group's frequent-flyer programme is deferred and included in contract liabilities in the consolidated statement of financial position. The Group maintains complex information technology ("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 awards. We identified air traffic revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and an estimation of the stand-alone selling price of miles in the 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. Details of revenue are set out in Notes 4, 5, 6 and 41 to the consolidated financial statements.	Our procedures in relation to air traffic revenue recognition included: • Testing and evaluating the design and operating effectiveness of the key internal controls, including IT controls, relevant to our audit of revenue recognition. • Performing analytical procedures on passenger revenue by developing an expectation for passenger 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 appropriateness of the assumptions adopted by management in estimating the stand-alone selling price of miles in the frequent-flyer programme by comparison with historical experience and planned changes to the programme that may impact future redemption activities. • Checking underlying supporting documents for revenue transactions which are material or meet other specified risk-based criteria on a sample basis.

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 for 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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6	**136,774,403**	121,362,899
Other income and gains	8	**4,108,700**	2,663,303
		140,883,103	124,026,202
Operating expenses			
Jet fuel costs		**(38,481,303)**	(28,409,213)
Employee compensation costs	9	**(24,450,250)**	(22,392,361)
Depreciation and amortisation		**(14,503,676)**	(13,596,319)
Take-off, landing and depot charges		**(15,354,941)**	(13,863,338)
Aircraft and engine operating lease expenses		**(7,165,554)**	(7,310,649)
Aircraft maintenance, repair and overhaul costs		**(6,612,844)**	(6,213,096)
Air catering charges		**(3,787,134)**	(3,462,347)
Other operating lease expenses		**(1,117,478)**	(1,078,057)
Other flight operation expenses		**(9,419,344)**	(9,721,535)
Selling and marketing expenses		**(4,373,023)**	(4,496,533)
General and administrative expenses		**(1,535,617)**	(1,595,189)
Net impairment gains/(losses)	10	**264,392**	(131,853)
		(126,536,772)	(112,270,490)
Profit from operations	11	**14,346,331**	11,755,712
Finance income		**172,564**	223,746
Finance costs	12	**(2,914,097)**	(3,055,064)
Share of results of associates		**526,570**	(604,671)
Share of results of joint ventures		**222,226**	228,408
Exchange (loss)/gain, net		**(2,376,577)**	2,938,101
Profit before taxation		**9,977,017**	11,486,232
Income tax expense	14	**(1,762,146)**	(2,844,783)
Profit for the year		**8,214,871**	8,641,449
Attributable to:			
– Equity shareholders of the Company		**7,350,661**	7,244,321
– Non-controlling interests		**864,210**	1,397,128
Profit for the year		**8,214,871**	8,641,449
Earnings per share			
– Basic and diluted	15	**RMB53.52 cents**	RMB53.79 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	17	**171,662,659**	168,536,471
Lease prepayments	18	**2,599,058**	3,300,124
Investment properties	19	**650,786**	674,738
Intangible assets	20	**36,913**	76,021
Goodwill	21	**1,099,975**	1,099,975
Interests in associates	23	**15,253,744**	14,199,540
Interests in joint ventures	24	**1,427,063**	1,239,396
Advance payments for aircraft and flight equipment		**21,303,650**	20,480,204
Deposits for aircraft under operating leases		**613,346**	567,889
Available-for-sale securities	25	**–**	1,334,953
Equity instruments at fair value through other comprehensive income	26	**268,071**	–
Debt instruments at fair value through other comprehensive income	27	**1,040,419**	–
Deferred tax assets	28	**2,840,321**	2,501,518
Other non-current assets		**1,134,996**	873,813
		219,931,001	214,884,642
Current assets			
Non-current assets held for sale	29	**–**	284,169
Inventories	30	**1,877,494**	1,535,769
Accounts receivable	31	**5,373,972**	3,490,427
Bills receivable		**403**	348
Prepayments, deposits and other receivables	32	**4,220,036**	5,122,517
Financial assets at fair value through profit or loss	33	**–**	19,938
Restricted bank deposits	34	**1,044,389**	697,167
Cash and cash equivalents	34	**6,763,183**	5,562,907
Held-to-maturity securities		**–**	10,000
Other current assets	35	**4,446,630**	4,036,700
		23,726,107	20,759,942
Total assets		**243,657,108**	235,644,584

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Current liabilities			
Air traffic liabilities		**(8,886,274)**	(7,405,757)
Accounts payable	36	**(14,726,428)**	(13,254,188)
Other payables and accruals	37	**(10,833,540)**	(12,737,976)
Current taxation		**(1,023,938)**	(1,825,063)
Obligations under finance leases	38	**(7,125,586)**	(6,344,699)
Interest-bearing bank loans and other borrowings	39	**(27,194,901)**	(29,146,097)
Provision for major overhauls	40	**(1,447,693)**	(1,418,055)
Contract liabilities	41	**(1,301,518)**	–
		(72,539,878)	(72,131,835)
Net current liabilities		**(48,813,771)**	(51,371,893)
Total assets less current liabilities		**171,117,230**	163,512,749
Non-current liabilities			
Obligations under finance leases	38	**(45,848,095)**	(37,798,582)
Interest-bearing bank loans and other borrowings	39	**(15,585,481)**	(22,108,289)
Provision for major overhauls	40	**(4,174,398)**	(3,586,943)
Provision for early retirement benefit obligations		**(3,105)**	(4,869)
Long-term payables		**(154,171)**	(193,712)
Contract liabilities	41	**(3,062,739)**	–
Defined benefit obligations	42	**(263,862)**	(263,575)
Deferred income	43	**(647,973)**	(3,568,127)
Deferred tax liabilities	28	**(879,372)**	(1,130,054)
		(70,619,196)	(68,654,151)
NET ASSETS		**100,498,034**	94,858,598

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
CAPITAL AND RESERVES			
Issued capital	44	**14,524,815**	14,524,815
Treasury shares	44	**(3,047,564)**	(3,047,564)
Reserves		**81,680,090**	74,570,311
Total equity attributable to equity shareholders of the Company		**93,157,341**	86,047,562
Non-controlling interests		**7,340,693**	8,811,036
TOTAL EQUITY		**100,498,034**	94,858,598

The consolidated financial statements on pages 83 to 214 were approved and authorised for issue by the board of directors on 27 March 2019 and signed on its behalf by:

Cai Jianjiang
Director

Song Zhiyong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to equity shareholders of the Company									
	Notes	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 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
Adjustments (see Note 3)		–	–	(197,684)	–	–	–	702,221	504,537	18,056	522,593
As at 1 January 2018 (Restated)		**14,524,815**	**(3,047,564)**	**29,527,576**	**9,177,905**	**69,742**	**(2,711,954)**	**39,011,579**	**86,552,099**	**8,829,092**	**95,381,191**
Changes in equity for 2018											
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**7,350,661**	**7,350,661**	**864,210**	**8,214,871**
Other comprehensive (expense) income		**-**	**-**	**(77,940)**	**-**	**-**	**1,006,399**	**-**	**928,459**	**(13,466)**	**914,993**
Total comprehensive (expense) income		**-**	**-**	**(77,940)**	**-**	**-**	**1,006,399**	**7,350,661**	**8,279,120**	**850,744**	**9,129,864**
Appropriation of statutory reserve funds		**-**	**-**	**-**	**535,760**	**-**	**-**	**(535,760)**	**-**	**-**	**-**
Appropriation of discretionary reserve funds and others		**-**	**-**	**-**	**695,805**	**-**	**-**	**(699,765)**	**(3,960)**	**(2,151)**	**(6,111)**
Appropriation of general reserve		**-**	**-**	**-**	**-**	**23,446**	**-**	**(23,446)**	**-**	**-**	**-**
Dividends paid to non-controlling-shareholders		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(202,957)**	**(202,957)**
Dividends declared in respect of the previous year	16	**-**	**-**	**-**	**-**	**-**	**-**	**(1,669,918)**	**(1,669,918)**	**-**	**(1,669,918)**
Disposal of a subsidiary	46	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,134,035)**	**(2,134,035)**
As at 31 December 2018		**14,524,815**	**(3,047,564)**	**29,449,636**	**10,409,470**	**93,188**	**(1,705,555)**	**43,433,351**	**93,157,341**	**7,340,693**	**100,498,034**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	**9,977,017**	11,486,232
Adjustments for:		
Share of results of associates and joint ventures	**(748,796)**	376,263
Exchange losses/(gains), net	**2,376,577**	(2,938,101)
Finance income	**(172,564)**	(223,746)
Finance costs	**2,914,097**	3,055,064
Fair value changes of financial assets at fair value through profit or loss	**(60)**	60
Depreciation of property, plant and equipment	**14,357,683**	13,453,155
(Gain)/loss on disposal of property, plant and equipment	**(20,593)**	37,186
Gain on disposal of non-current assets held for sale	**(59,893)**	(46,414)
Gain on disposal of financial assets at fair value through profit or loss	**(8,521)**	–
Gain on disposal of subsidiaries	**(405,543)**	–
Gain on disposal of interests in associates	**(163,184)**	–
Amortisation of lease prepayments	**74,278**	71,811
Depreciation of investment properties	**32,912**	32,518
Amortisation of intangible assets	**38,803**	38,835
Impairment of property, plant and equipment	**16**	149,160
Impairment of debt instruments at fair value through other comprehensive income	**6,827**	–
Provision for inventories	**13,373**	341,802
Impairment of accounts receivable	**46,653**	90,100
Impairment losses (reversed)/recognised on deposits and other receivables	**(299,486)**	525
Impairment losses (reversed)/recognised on other non-current assets	**(1,004)**	3,034
Impairment losses (reversed)/recognised on other current assets	**(17,382)**	38,194
Dividend income	**(7,418)**	(14,337)
Operating cash flows before movements in working capital	**27,933,792**	25,951,341
(Increase)/decrease in deposits for aircraft under operating leases	**(45,457)**	81,454
Increase in other non-current assets	**(242,807)**	(627,345)
Increase in inventories	**(350,357)**	(380,941)
Increase in accounts receivable	**(189,096)**	(294,436)
(Increase)/decrease in bills receivable	**(55)**	489
Decrease/(increase) in prepayments, deposits and other receivables	**767,174**	(1,117,255)
Decrease/(increase) in other current assets	**407,388**	(1,021,524)
Increase in air traffic liabilities	**2,122,938**	1,091,821
Increase in accounts payable	**633,998**	2,421,896
Increase in other payables and accruals	**2,805,707**	1,848,875
Increase in provision for major overhauls	**617,093**	538,153
Decrease in provision for early retirement benefit obligations	**(1,764)**	(3,050)
Decrease in defined benefit obligations	**(27,375)**	(27,986)
(Decrease)/increase in deferred income	**(25,006)**	475,286
Increase in contract liabilities	**313,569**	–
(Decrease)/increase in long-term payables	**(38,448)**	170,362
Cash generated from operations	**34,681,294**	29,107,140
Income tax paid	**(3,262,404)**	(2,717,839)
Interest paid	**(2,735,721)**	(3,552,358)
Net cash generated from operating activities	**28,683,169**	22,836,943

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(9,139,089)**	(10,206,470)
Payment for the purchase of intangible assets		**–**	(1,489)
Increase in lease prepayments		**–**	(2,361)
Increase in advance payments for aircraft and flight equipment		**(3,168,590)**	(7,421,245)
Proceeds from sale of property, plant and equipment		**349,128**	1,628,809
Proceeds from sale of non-current assets held for sale		**344,062**	959,543
Increase in investment properties		**–**	(11,738)
Decrease in intangible assets		**285**	–
Increase in restricted bank deposits against aircraft operating leases and others		**(197,002)**	(3,451)
Disposal of subsidiaries	46	**1,996,025**	–
Disposal of investment in associates		**168,305**	–
Purchase of			
– available-for-sale securities		**–**	(56,818)
– financial assets at fair value through profit or loss		**–**	(19,998)
– debt instruments at fair value through other comprehensive income		**(345,535)**	–
Proceeds from disposal of			
– held-to-maturity securities		**10,000**	–
– financial assets at fair value through profit or loss		**399,998**	–
Interest received		**231,421**	259,903
Dividends received from associates, joint ventures and equity instruments at fair value through other comprehensive income		**401,296**	222,558
Net cash used in investing activities		**(8,949,696)**	(14,652,757)
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		**36,392,655**	27,645,359
Proceeds from issuance of corporate bonds		**6,100,000**	1,200,000
Repayment of bank loans and other loans		**(44,322,115)**	(29,027,128)
Repayment of principal under finance lease obligations		**(8,494,990)**	(6,178,027)
Repayment of corporate bonds		**(6,449,853)**	(12,396,198)
Dividends paid		**(1,872,875)**	(1,746,926)
Net cash used in financing activities		**(18,647,178)**	(9,301,546)
Net increase/(decrease) in cash and cash equivalents		**1,086,295**	(1,117,360)
Cash and cash equivalents at 1 January	34	**5,562,907**	6,848,018
Effect of foreign exchange rate changes		**113,981**	(167,751)
Cash and cash equivalents at 31 December	34	**6,763,183**	5,562,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 Corporation Limited ("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 2018, the Group's current liabilities exceeded its current assets by approximately RMB48,814 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB113,111 million as at 31 December 2018, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2018. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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

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

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

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

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

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

3.1 IFRS 15 Revenue from Contracts with Customers

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

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

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

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

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

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

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

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 6 and 4 respectively.

Passenger ticket breakage

Passenger ticket breakage consists of flight tickets that remain unused past the departure date or the ultimate expiration date. Prior to the adoption of IFRS 15, revenue of the Group arising from passenger ticket breakage was recognised when the likelihood of the passenger exercising their remaining rights becomes remote.

Upon adoption of IFRS 15, for those passenger flight tickets the Group expects to be entitled to breakage because the passenger has not required the Group to perform and is unlikely to do so, the Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue). This estimation is made such that the revenue recognised from passenger ticket breakage is highly probable not to result in a significant reversal of cumulative revenue in the future.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under IFRS 15 at 1 January 2018* RMB'000
Non-current assets					
Interests in associates	b	14,199,540	–	131,109	14,330,649
Non-current liabilities					
Contract liabilities	c	–	(2,822,657)	–	(2,822,657)
Deferred income	c	(3,568,127)	2,822,657	–	(745,470)
Current liabilities					
Air traffic liabilities	a	(7,405,757)	–	531,393	(6,874,364)
Other payables and accruals	a, c, d	(12,737,976)	1,225,519	(17,303)	(11,529,760)
Current taxation	a	(1,825,063)	–	(122,606)	(1,947,669)
Contract liabilities	c, d	–	(1,225,519)	–	(1,225,519)
Capital and reserves					
Reserves	a, b	74,570,311	–	504,537	75,074,848
Non-controlling interests	a	8,811,036	–	18,056	8,829,092

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

Notes:

(a) At the date of initial application of IFRS 15, passenger ticket breakage of RMB531 million, the respective value-added tax liability of RMB17 million and current taxation of RMB123 million were recognised with the corresponding adjustments of RMB373 million and RMB18 million made to retained earnings and non-controlling interests.

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

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

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Notes: (continued)

(b) The net effects arising from the initial application of IFRS 15 resulted in an increase in the carrying amount of interests in associates of RMB131 million with a corresponding adjustment made to retained earnings.

(c) At the date of initial application of IFRS 15, deferred income (including current portion of RMB707 million previously included in other payables and accruals and non-current portion of RMB2,823 million) relating to the frequent-flyer programme of RMB3,530 million was reclassified to contract liabilities.

(d) At the date of initial application of IFRS 15, advance billings to customers for aircraft engineering services of RMB519 million previously included in other payables and accruals was reclassified to contract liabilities.

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

Impact on the consolidated statement of financial position

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

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of profit or loss

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

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Operating activities			
Profit before taxation	9,977,017	(49,650)	9,927,367
Share of results of associates and joint ventures	(748,796)	2,365	(746,431)
Operating cash flows before movements in working capital	27,933,792	(47,285)	27,886,507
Increase in air traffic liabilities	2,122,938	50,315	2,173,253
Increase in other payables and accruals	2,805,707	310,539	3,116,246
Increase in contract liabilities	313,569	(313,569)	–
Cash generated from operations	34,681,294	–	34,681,294
Net cash generated from operating activities	**28,683,169**	**–**	**28,683,169**

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

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

3.2 IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and financial guarantee contracts and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 4.

Summary of effects arising from initial application of IFRS 9

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

	Notes	Equity instruments at fair value through other comprehensive income ("FVTOCI") RMB'000	Debt instruments at FVTOCI RMB'000	Available-for-sale ("AFS") securities RMB'000	Financial assets at fair value through profit or loss ("FVTPL") RMB'000	Held-to-maturity securities RMB'000	Other current assets RMB'000	Prepayments, deposits and other receivables RMB'000	Capital reserve RMB'000	Retained earnings RMB'000
Closing balance at 31 December 2017 – IAS 39		-	-	1,334,953	19,938	10,000	4,036,700	5,122,517	29,725,260	38,309,358
Effect arising from initial application of IFRS 9:										
Reclassification										
From AFS securities	a	299,992	654,961	(1,334,953)	380,000	-	-	-	-	-
From held-to-maturity securities	b	-	-	-	-	(10,000)	10,000	-	-	-
From other receivables	a	-	-	-	13,559	-	-	(13,559)	-	-
Impairment on AFS securities	a	-	-	-	-	-	-	-	(25,713)	25,713
Impact of interests in associates	a	-	-	-	-	-	-	-	(171,971)	171,971
Opening balance at 1 January 2018 – IFRS 9		299,992	654,961	-	413,497	-	4,046,700	5,108,958	29,527,576	38,507,042

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

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

3.2 IFRS 9 Financial Instruments and the related amendments (continued)

Summary of effects arising from initial application of IFRS 9 (continued)

(a) AFS investments

From AFS equity investments to FVTOCI
At the date of initial application of IFRS 9, approximately RMB300 million were reclassified from AFS securities to equity instruments at FVTOCI, of which RMB43 million related to unquoted equity investments previously measured at cost less impairment under IAS 39 and RMB257 million related to unlisted securities of a listed company previously measured at fair value under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. The fair value gains of RMB248 million relating to those investments previously carried at fair value continued to accumulate in the capital reserve and non-controlling interests. In addition, impairment losses previously recognised of RMB26 million were transferred from retained earnings to capital reserve as at 1 January 2018.

From AFS debt investments to FVTOCI
Listed bonds with a fair value of RMB626 million and negotiable certificates of deposit with a fair value of RMB29 million were reclassified from AFS securities to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses continued to accumulate in the capital reserve from 1 January 2018.

From AFS debt investments to FVTPL
Entrusted products and financing products with a fair value of RMB380 million were reclassified from AFS securities to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Interests receivable on these products of RMB14 million were reclassified from prepayments, deposits and other receivables to financial assets at FVTPL as well.

Impact of interests in associates
The net effect arising from the initial application of IFRS 9 by Cathay Pacific Airways Limited ("Cathay Pacific", an associate of the Group) resulted in an increase of RMB172 million in retained earnings with a corresponding adjustment to capital reserve.

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

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

3.2 IFRS 9 Financial Instruments and the related amendments (continued)

Summary of effects arising from initial application of IFRS 9 (continued)

(b) Held-to-maturity investments

Listed bonds of RMB10 million previously classified as held-to-maturity investments were reclassified to other current assets and measured at amortised cost upon application of IFRS 9.

(c) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and bills receivable. Except for those which had been determined as credit impaired under IAS 39 have been assessed individually, the remaining balances are grouped based on shared credit risk characteristics.

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

All of the Group's debt instruments at FVTOCI are listed bonds and negotiable certificates of deposit that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

Application of ECL model did not have any significant impact on retained earnings as at 1 January 2018.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

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

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Interests in associates	14,199,540	131,109	–	**14,330,649**
Available-for-sale securities	1,334,953	–	(1,334,953)	**-**
Equity instruments at fair value through other comprehensive income	–	–	299,992	**299,992**
Debt instruments at fair value through other comprehensive income	–	–	654,961	**654,961**
Current assets				
Prepayments, deposits and other receivables	5,122,517	–	(13,559)	**5,108,958**
Financial assets at fair value through profit or loss	19,938	–	393,559	**413,497**
Held-to-maturity securities	10,000	–	(10,000)	**-**
Other current assets	4,036,700	–	10,000	**4,046,700**
Total assets	235,644,584	131,109	–	**235,775,693**
Current liabilities				
Air traffic liabilities	(7,405,757)	531,393	–	**(6,874,364)**
Other payables and accruals	(12,737,976)	1,208,216	–	**(11,529,760)**
Current taxation	(1,825,063)	(122,606)	–	**(1,947,669)**
Contract liabilities	–	(1,225,519)	–	**(1,225,519)**
Net current liabilities	(51,371,893)	391,484	380,000	**(50,600,409)**
Total assets less current liabilities	163,512,749	522,593	–	**164,035,342**
Non-current liabilities				
Contract liabilities	–	(2,822,657)	–	**(2,822,657)**
Deferred income	(3,568,127)	2,822,657	–	**(745,470)**
Net assets	94,858,598	522,593	–	**95,381,191**
CAPITAL AND RESERVES				
Reserves	74,570,311	504,537	–	**75,074,848**
Non-controlling interests	8,811,036	18,056	–	**8,829,092**
TOTAL EQUITY	94,858,598	522,593	–	**95,381,191**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and amendments to IFRSs in issue but not yet effective

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

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

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

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

IFRS 16 Leases

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

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

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

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

New and amendments to IFRSs in issue but not yet effective (continued)

IFRS 16 Leases (continued)

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB51,395 million as disclosed in Note 48. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

New and amendments to IFRSs in issue but not yet effective (continued)

IFRS 16 Leases (continued)

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

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 at the end of each reporting period, 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.*

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained earnings and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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 associates and joint ventures use accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associates' and the joint ventures' 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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, 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 IFRS 9, 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.

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 from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. 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 awards. 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)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) (continued)

Contracts with multiple performance obligations (including allocation of transaction price) (continued)

For contracts that contain more than one performance obligations, i.e. frequent-flyer programme, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Revenue recognition (prior to 1 January 2018)

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:

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.

4. SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Revenue recognition (prior to 1 January 2018) (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

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.

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. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Sale and leaseback transactions

When a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

When a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

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.

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 or an 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs and termination benefits (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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/loss before tax because 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Construction costs incurred for investment properties under construction are capitalised 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, except for financial assets within the scope of IFRS 9 which continue to be measured in accordance with the accounting policies as set out in respective sections.

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 when a group entity becomes a party to the contractual provisions of the instrument. 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 time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) (continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial assets from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of capital reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amount of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) (continued)

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the capital reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3)

The Group recognises ECL on financial assets (including accounts receivable, bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, financial assets included in other current assets and other non-current assets, and debt instruments at FVTOCI) and financial guarantee contracts which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) (continued)

The Group always recognises lifetime ECL for accounts receivable and bills receivable. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) (continued)

(v) Measurement and recognition of ECL (continued)

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for investments in debt instruments that are measured at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the capital reserve without reducing the carrying amounts of these debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into FVTPL, held-to-maturity investments, AFS 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.

(i) 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 income and gains" line item. Fair value is determined in the manner described in Note 49.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

(ii) 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.

(iii) AFS financial assets

AFS financial assets 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 49.

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.

(iv) 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 accounts receivable, bills receivable, deposits and other receivables, deposits for aircraft under operating leases, loans to related parties, other current assets – others, restricted bank deposits and 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

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.

Derecognition of financial assets

The Group derecognises a financial asset only when 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 entity. 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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the capital reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the capital reserve is not reclassified to profit or loss, but is transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the capital reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Repurchase of the Group's own equity instruments (treasury shares) is recognised and deducted directly in 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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition of financial liabilities

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.

Non-substantial modifications of financial liabilities (under IFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of IFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

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.

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.

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

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 2018, the carrying amount of goodwill was RMB1,100 million (31 December 2017: RMB1,100 million) (net of impairment). Details of the recoverable amount calculation are disclosed in Note 21.

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 2018, the aggregate carrying amount of property, plant and equipment, lease prepayments, investment properties and intangible assets (net of impairment), was RMB174,949 million (31 December 2017: RMB172,587 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 costs of maintenance. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

As at 31 December 2018, the Group had overhaul provisions amounting to RMB5,622 million (31 December 2017: RMB5,005 million) and details are disclosed in Note 40.

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

Frequent-flyer programme

The transaction price allocated to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the stand-alone selling price of the miles awarded. The stand-alone selling price of the miles awarded is estimated relating to the expected redemption rate. 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 2018, the contract liabilities related to frequent-flyer programme was RMB3,794 million (31 December 2017: RMB3,530 million) and details are disclosed in Note 41.

Expected breakage

For those passenger flight tickets the Group expects to be entitled to breakage because the passenger has not required the Group to perform and is unlikely to do so, the Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. The air traffic liabilities recorded in consolidated statement of financial position is after adjusting the effect of expected breakage.

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 2018, a deferred tax assets of RMB2,840 million (31 December 2017: RMB2,502 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 RMB106 million (2017: RMB584 million) and other temporary differences of RMB5 million (2017: RMB792 million) due to the unpredictability of the future streams and details are disclosed in Note 28.

6. REVENUE

A. For the year ended 31 December 2018

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

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FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE (continued)

A. For the year ended 31 December 2018 (continued)

Disaggregation of revenue from contracts with customers

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

6. REVENUE (continued)

A. For the year ended 31 December 2018 (continued)

Performance obligations for contracts with customers

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

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

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

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

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

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

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

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FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE (continued)

B. For the year ended 31 December 2017

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

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

7. SEGMENT INFORMATION

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

(a) the "airline operations" segment which mainly comprises the provision of air passenger and air cargo services; and

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

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

7. 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 2018 and 2017 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2018

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

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7. 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
Revenue				
Sales to external customers	120,066,345	1,296,554	–	121,362,899
Intersegment sales	247,297	8,689,539	(8,936,836)	–
Revenue for reportable segments under CASs and IFRSs	120,313,642	9,986,093	(8,936,836)	121,362,899
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	11,077,352	453,377	(49,842)	11,480,887
Effect of differences between IFRSs and CASs				5,345
Profit before taxation for the year under IFRSs				11,486,232

7. 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 2018 and 2017 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2018 under CASs	**236,739,437**	**22,396,863**	**(15,420,294)**	**243,716,006**
Effect of differences between IFRSs and CASs				**(58,898)**
Total assets under IFRSs				**243,657,108**
Total assets for reportable segments as at 31 December 2017 under CASs	228,104,759	19,166,617	(11,553,560)	235,717,816
Effect of differences between IFRSs and CASs				(73,232)
Total assets under IFRSs				235,644,584

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

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7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2018

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

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

7. 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 2018 and 2017, respectively:

Year ended 31 December 2018

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	**86,520,847**	**6,029,445**	**14,865,700**	**11,806,117**	**7,607,451**	**9,944,843**	**136,774,403**

Year ended 31 December 2017

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	78,528,959	5,274,802	12,848,155	10,499,908	5,785,753	8,425,322	121,362,899

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

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

8. OTHER INCOME AND GAINS

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

9. EMPLOYEE COMPENSATION COSTS

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

	2018 RMB'000	2017 RMB'000
Wages, salaries and other benefits	**21,798,956**	20,081,647
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**2,649,830**	2,313,802
– Early retirement benefits	**1,464**	(1,060)
Share-based benefits (Note 45)	**–**	(2,028)
	24,450,250	22,392,361

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10. NET IMPAIRMENT (GAINS)/LOSSES

	2018 RMB'000	2017 RMB'000
Impairment losses recognised/(reversed) on financial assets:		
– Accounts receivable	**46,653**	90,100
– Deposits and other receivables	**(299,486)**	525
– Debt instruments at FVTOCI	**6,827**	–
– Other current assets	**(17,382)**	38,194
– Other non-current assets	**(1,004)**	3,034
	(264,392)	131,853

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 49.

11. PROFIT FROM OPERATIONS

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

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

12. FINANCE COSTS

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

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

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:

	2018 RMB'000	2017 RMB'000
Directors' fee	**420**	400
Salaries and other allowances	**1,463**	665
Discretionary bonus	**417**	216
Retirement benefit scheme contributions	**243**	124
	2,543	1,405

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

2018

	Director's fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	SARs (Note 45) RMB'000	Total RMB'000
Executive director						
Song Zhiyong (Note (a))	–	–	–	–	–	–
Non-executive directors						
Cai Jianjiang (Note (a))	–	–	–	–	–	–
John Robert Slosar (Note (b))	–	–	–	–	–	–
Xue Yasong	–	713	112	92	–	917
	–	713	112	92	–	917

Mr. Xue Yasong was appointed as the employee representative director of the Company on 29 March 2018.

	Director's fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	SARs (Note 45) RMB'000	Total RMB'000
Independent non-executive directors						
Wang Xiaokang	60	–	–	–	–	60
Liu Deheng	60	–	–	–	–	60
Stanley Hui Hon-chung	150	–	–	–	–	150
Li Dajin	150	–	–	–	–	150
	420	–	–	–	–	420
Supervisors						
Wang Zhengang (Note (a))	–	–	–	–	–	–
He Chaofan (Note (a))	–	–	–	–	–	–
Xiao Yanjun	–	446	174	80	–	700
Li Guixia	–	304	131	71	–	506
	–	750	305	151	–	1,206
	420	1,463	417	243	–	2,543

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 45) RMB'000	Total RMB'000
Executive director						
Song Zhiyong (Note (a))	–	–	–	–	–	–
Non-executive directors						
Cai Jianjiang (Note (a))	–	–	–	–	–	–
Cao Jianxiong (Note (a)) (Resigned on 27 October 2017)	–	–	–	–	–	–
Feng Gang (Note (a)) (Resigned on 27 October 2017)	–	–	–	–	–	–
John Robert Slosar (Note (b))	–	–	–	–	–	–
Shiu Sai Cheung, Ian (Note (b)) (Resigned on 27 October 2017)	–	–	–	–	–	–
	–	–	–	–	–	–

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

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

2017 (continued)

	Director's fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contributions RMB'000	SARs (Note 45) RMB'000	Total RMB'000
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
Stanley Hui Hon-chung	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

Certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in Note 45.

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) The Director 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 resigned on 8 May 2017, 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 2018 and 2017.

(d) For the year ended 31 December 2018, the Group received cash consideration from Cathay Pacific of Hong Kong Dollar ("HKD")2,486,000 for making available directors' services to Cathay Pacific (2017: HKD2,480,000).

Five highest paid individuals

For both 2018 and 2017, 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:

	2018 RMB'000	2017 RMB'000
Salaries and other allowances	**12,532**	13,355
Discretionary bonuses	**221**	225
Retirement benefit scheme contributions	**183**	167
	12,936	13,747

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

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

	2018	2017
HKD2,500,001 to HKD3,000,000	**3**	1
HKD3,000,001 to HKD3,500,000	**1**	3
HKD3,500,001 to HKD4,000,000	**1**	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 (2017: Nil).

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14. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current income tax:		
– Mainland China	**2,341,423**	3,615,672
– Hong Kong and Macau	**23,664**	11,939
Over-provision in respect of prior years	**(13,444)**	(5,217)
Deferred tax (Note 28)	**(589,497)**	(777,611)
	1,762,146	2,844,783

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

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

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

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

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:

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

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:

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

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

15. EARNINGS PER SHARE (continued)

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 44(c)).

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:

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

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

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 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 and 1 January 2018	**226,642,836**	**11,983,483**	**11,168,416**	**9,860,688**	**259,655,423**
Additions	**5,438,717**	**175**	**430,295**	**21,948,681**	**27,817,868**
Transfer from construction in progress	**19,613,276**	**690,701**	**457,335**	**(20,761,312)**	**–**
Reclassification to investment properties	**–**	**(28,699)**	**–**	**–**	**(28,699)**
Disposals	**(3,735,860)**	**(20,844)**	**(258,116)**	**–**	**(4,014,820)**
Disposal of subsidiaries (Note 46)	**(14,302,234)**	**(289,618)**	**(683,224)**	**(172,126)**	**(15,447,202)**
Exchange realignment	**30,795**	**–**	**6,997**	**–**	**37,792**
At 31 December 2018	**233,687,530**	**12,335,198**	**11,121,703**	**10,875,931**	**268,020,362**
Accumulated depreciation					
At 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 and 1 January 2018	**(78,692,039)**	**(4,409,336)**	**(7,101,658)**	**–**	**(90,203,033)**
Depreciation charge for the year	**(13,210,885)**	**(428,488)**	**(718,310)**	**–**	**(14,357,683)**
Reclassification to investment properties	**–**	**14,564**	**–**	**–**	**14,564**
Written back on disposals	**3,321,559**	**7,355**	**238,025**	**–**	**3,566,939**
Disposal of subsidiaries (Note 46)	**4,670,490**	**96,290**	**582,016**	**–**	**5,348,796**
Exchange realignment	**(20,080)**	**–**	**(5,540)**	**–**	**(25,620)**
At 31 December 2018	**(83,930,955)**	**(4,719,615)**	**(7,005,467)**	**–**	**(95,656,037)**

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Impairment					
At 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 and 1 January 2018	**(915,919)**	–	–	–	**(915,919)**
Charge for the year	**(16)**	–	–	–	**(16)**
Written back on disposals	**112,088**	–	–	–	**112,088**
Disposal of subsidiaries (Note 46)	**102,181**	–	–	–	**102,181**
At 31 December 2018	**(701,666)**	–	–	–	**(701,666)**
Net book value					
At 31 December 2018	**149,054,909**	**7,615,583**	**4,116,236**	**10,875,931**	**171,662,659**
At 31 December 2017	147,034,878	7,574,147	4,066,758	9,860,688	168,536,471

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%

17. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2018, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB7,935 million (31 December 2017: RMB13,107 million) were pledged to secure certain bank loans of the Group (Note 39).

As at 31 December 2018, 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 RMB77,579 million (31 December 2017: RMB67,957 million) (Note 38).

As at 31 December 2018, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,696 million (31 December 2017: RMB3,646 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 2018.

18. LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January	**3,941,746**	3,627,556
Additions	**12,542**	314,190
Reclassification to investment properties	**(9,094)**	–
Disposal of subsidiaries (Note 46)	**(726,639)**	–
As at 31 December	**3,218,555**	3,941,746
Accumulated amortisation		
As at 1 January	**(641,622)**	(569,811)
Amortisation for the year	**(74,278)**	(71,811)
Reclassification to investment properties	**2,395**	–
Disposal of subsidiaries (Note 46)	**94,008**	–
As at 31 December	**(619,497)**	(641,622)
Net carrying amount		
As at 31 December	**2,599,058**	3,300,124

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

As at 31 December 2018, the Group's land use rights with an aggregate net book value of approximately RMB28 million (31 December 2017: RMB34 million) were pledged to secure certain bank loans of the Group (Note 39).

As at 31 December 2018, the Group had title certificates for all the land acquired. As at 31 December 2017, the Group was in the process of applying for the title certificates of certain lease prepayments acquired by the Group with an aggregate carrying amount of approximately RMB48 million.

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19. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January	**915,445**	903,707
Additions	**151,618**	11,738
Transfer from property, plant and equipment/lease prepayments	**37,793**	–
Disposal of a subsidiary (Note 46)	**(338,614)**	–
As at 31 December	**766,242**	915,445
Accumulated depreciation		
As at 1 January	**(240,707)**	(208,189)
Depreciation for the year	**(32,912)**	(32,518)
Transfer from property, plant and equipment/lease prepayments	**(16,959)**	–
Disposal of a subsidiary (Note 46)	**175,122**	–
As at 31 December	**(115,456)**	(240,707)
Net carrying amount		
As at 31 December	**650,786**	674,738

20. INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
As at 1 January	**76,021**	113,367
Addition	**–**	1,489
Disposal of a subsidiary (Note 46)	**(20)**	–
Amortisation for the year	**(38,803)**	(38,835)
Cash refund upon admission of new Star Alliance members	**(285)**	–
As at 31 December	**36,913**	76,021

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

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January	**1,276,866**	1,276,866
Disposal of a subsidiary (Note 46)	**(176,891)**	–
As at 31 December	**1,099,975**	1,276,866
Impairment		
As at 1 January	**(176,891)**	(176,891)
Disposal of a subsidiary (Note 46)	**176,891**	–
As at 31 December	**–**	(176,891)
Net carrying amount		
As at 31 December	**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. As the Company has disposed of Air China Cargo during the year, the goodwill relating to the prior acquisition of Air China Cargo was de-recognised upon disposal of Air China Cargo.

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% (2017: 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.

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22. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2018 were as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$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

22. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
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
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.

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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 2018, the Group had a subsidiary 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	**500,000**	**520,860**	**14/03/2021**
	800,000	**818,953**	**24/04/2021**
	600,000	**614,214**	**07/09/2021**
	500,000	**516,061**	**11/01/2019**
	500,000	**513,385**	**18/02/2019**
	400,000	**409,545**	**16/03/2019**
	500,000	**508,102**	**21/04/2019**
	500,000	**506,792**	**10/05/2019**
	500,000	**506,884**	**25/04/2019**
	500,000	**506,713**	**14/05/2019**
		5,421,509	

As at 31 December 2017, the Group had a subsidiary 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	1,001,015	11/12/2018
	600,000	610,491	21/04/2018
	600,000	604,471	24/03/2018
		2,215,977	

22. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activity	Place of incorporation/ registration and operations	Number of principal subsidiaries 2018	2017
Airline operator	PRC/Macau	**5**	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 services	PRC	**2**	2
Provision of financial services	PRC	**1**	1
		16	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/ registration and operations	Proportion of equity interests and voting rights held by non-controlling interests at 31 December 2018	2017	Profit allocated to non-controlling interests year ended 31 December 2018 RMB'000	2017 RMB'000	Accumulated non-controlling interests at 31 December 2018 RMB'000	2017 RMB'000
Shenzhen Airlines	PRC	**49%**	49%	**451,840**	709,439	**4,179,571**	3,848,030
Air China Cargo	PRC	**–**	49%	**193,137**	540,771	**–**	1,939,609

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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.

	2018	2017	
	Shenzhen Airlines RMB'000	Shenzhen Airlines RMB'000	Air China Cargo RMB'000
Current assets	**4,197,351**	3,370,806	3,344,189
Non-current assets	**52,213,407**	47,144,256	11,003,418
Current liabilities	**(26,949,407)**	(25,202,668)	(4,211,970)
Non-current liabilities	**(21,038,684)**	(17,562,511)	(6,186,863)
Net assets	**8,422,667**	7,749,883	3,948,774
– Equity contributed to equity shareholders of the subsidiary	**8,319,796**	7,650,692	3,939,540
– Equity contributed to the non-controlling interests ("NCI") at the subsidiary level	**102,871**	99,191	9,234
Carrying amount of NCI	**4,179,571**	3,848,030	1,939,609
Revenue	**31,118,865**	28,051,965	11,424,404
Profit for the year	**918,293**	1,444,438	1,103,112
Total comprehensive income	**893,034**	1,550,819	1,100,893
Total comprehensive income allocated to NCI	**439,463**	761,566	539,401
Dividend paid to NCI	**(125,979)**	(134,955)	–
Cash flows generated from operating activities	**5,189,121**	3,234,613	2,294,037
Cash flows used in investing activities	**(4,028,192)**	(3,068,375)	(245,739)
Cash flows used in financing activities	**(1,112,779)**	(197,449)	(4,626,260)

23. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets		
– Listed shares in the PRC	**858,267**	820,269
– Listed shares in Hong Kong	**9,831,096**	9,097,056
– Unlisted investments	**1,864,967**	1,743,985
Goodwill	**2,699,414**	2,585,072
	15,253,744	14,246,382
Less: impairment	**–**	(46,842)
As at 31 December	**15,253,744**	14,199,540
Market value of listed shares	**12,520,506**	13,097,468

23. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31 December 2018 were as follows:

Company name	Place of incorporation/ registration and operations	Paid up issued/registered 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.

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23. INTERESTS IN ASSOCIATES (continued)

Cathay Pacific

	2018 RMB'000	2017 RMB'000
Gross amounts of the associate's		
Current assets	**25,951,292**	27,447,105
Non-current assets	**140,784,311**	130,019,949
Current liabilities	**(42,359,889)**	(34,504,693)
Non-current liabilities	**(68,352,362)**	(71,744,483)
Equity	**56,023,352**	51,217,878
– Equity contributed to equity shareholders of the associate	**56,020,723**	51,074,937
– Equity contributed to NCI of the associate	**2,629**	142,941
Revenue	**95,073,468**	84,171,090
Profit (loss) for the year	**2,377,265**	(768,306)
Other comprehensive income	**384,369**	6,052,144
Total comprehensive income	**2,761,634**	5,283,838
Dividend received from the associate	**151,484**	–
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**56,020,723**	51,074,937
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**16,800,615**	15,317,374
Elimination of reciprocal shareholding	**(6,969,523)**	(6,220,319)
Goodwill	**2,486,629**	2,372,287
Carrying amount in the consolidated financial statements	**12,317,721**	11,469,342

Aggregate information of associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**2,936,023**	2,730,198
Aggregate amounts of the Group's share of those associates'		
– Profit from continuing operating	**324,449**	380,948
– Other comprehensive (expense) income for the year	**(10,851)**	17,684
Total comprehensive income for the year	**313,598**	398,632

24. INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**1,420,568**	1,232,901
Goodwill	**6,495**	6,495
	1,427,063	1,239,396

Particulars of the joint ventures of the Group at 31 December 2018 were as follows:

Company name	Place of incorporation/ registration and operations	Paid up issued/ registered capital	Percentage of Ownership interest %	Percentage of 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
Wuxi Xiangyi Development Co. Ltd.# (無錫市祥翼發展有限公司)	PRC/Mainland China	RMB20,000,000	46.3	46.3	Property development

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

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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:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	**1,427,063**	1,239,396
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**222,226**	228,408
Total comprehensive income for the year	**222,226**	228,408

25. AVAILABLE-FOR-SALE SECURITIES

	2017 RMB'000
Available-for-sale debt securities	1,034,961
Available-for-sale equity securities	299,992
	1,334,953

26. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000
Unlisted investments:	
– Equity securities	**268,071**

The above unlisted equity investments represent the Group's equity interest in a private entity established in the PRC or represent the Group's interest in unlisted securities of a listed company. The Directors have elected to designate these investments in equity instruments as at FVTOCI as they believe that these equity instruments are not held for trading and not expected to be sold in the foreseeable future.

27. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 **RMB'000**
Investments in listed bonds	**941,192**
Negotiable certificates of deposit	**99,227**
Total	**1,040,419**

Details of impairment assessment are set out in Note 49.

28. DEFERRED TAXATION

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

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets:		
As at 1 January	**3,556,168**	3,054,035
Credited to profit or loss (Note 14)	**450,567**	500,847
Recognised in other comprehensive income	**(1,273)**	1,286
Exchange realignment	**266**	–
Disposal of a subsidiary	**(1,843)**	–
Gross deferred tax assets as at 31 December	**4,003,885**	3,556,168
Deferred tax liabilities:		
As at 1 January	**2,184,704**	2,428,313
Credited to profit or loss (Note 14)	**(138,930)**	(276,764)
Recognised in other comprehensive income	**(2,838)**	33,155
Gross deferred tax liabilities as at 31 December	**2,042,936**	2,184,704
Net deferred tax assets as at 31 December	**1,960,949**	1,371,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. DEFERRED TAXATION (continued)

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**64,854**	69,632
Provisions and accruals	**3,328,278**	2,906,362
Unrealised profit of intra-group transactions	**123,346**	106,020
Impairment	**461,334**	460,743
Deductible tax losses	**24,366**	12,110
Impairment of investments in debt instruments	**1,707**	–
Changes in fair value of financial instruments	**–**	1,301
Gross deferred tax assets	**4,003,885**	3,556,168
Deferred tax liabilities:		
Changes in fair value of equity instruments	**(53,937)**	(61,917)
Changes in fair value of debt instruments	**(3,435)**	–
Depreciation allowances in excess of the related depreciation	**(1,707,584)**	(1,846,514)
Impairment of investments in debt instruments	**(1,707)**	–
Others	**(276,273)**	(276,273)
Gross deferred tax liabilities	**(2,042,936)**	(2,184,704)
Net deferred tax assets	**1,960,949**	1,371,464

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000
Net deferred tax assets	**2,840,321**	2,501,518
Net deferred tax liabilities	**(879,372)**	(1,130,054)
	1,960,949	1,371,464

28. DEFERRED TAXATION (continued)

Details of tax losses and other temporary differences not recognised are set out below:

	2018 RMB'000	2017 RMB'000
Deductible tax losses	**106,166**	584,273
Other unrecognised temporary differences	**4,864**	792,153
	111,030	1,376,426

The Group has no tax losses arising from operations outside Mainland China (2017: Nil). The Group has unrecognised tax losses and other deductible temporary differences arising from the operation in Mainland China of approximately RMB111 million (2017: RMB1,376 million). 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.

29. 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.

As at 31 December 2018, the management concludes that there was no flight equipment will be retired in the next 12 months.

30. INVENTORIES

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

	2018 RMB'000	2017 RMB'000
Spare parts of flight equipment	**924,193**	881,492
Catering supplies	**83,444**	86,365
Ordinary equipment	**10,436**	11,228
Others	**859,421**	556,684
	1,877,494	1,535,769

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31. ACCOUNTS RECEIVABLE

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

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

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

As at 31 December 2018, included in the Group's accounts receivable balance are debtors with aggregate carrying amount of RMB452 million which are past due as at the reporting date. Out of the past due balances, RMB87 million has been past due 90 days or more and is not considered as in default because the amounts relate to a number of independent customers that have a good settlement record with the Group.

As at 31 December 2017, 69% of the accounts receivable that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group. The amounts relate to a large number of diversified customers for whom there was no recent history of default.

Ageing of accounts receivable which are past due but no impaired:

	2017 RMB'000
Less than 3 months pass due	515,516
More than 3 months pass due	162,012
Total	677,528

31. ACCOUNTS RECEIVABLE (continued)

Movements in the allowance for doubtful debts for the year ended 31 December 2017:

	2017 RMB'000
As at 1 January	128,475
Provided for the year, net	90,100
Write-offs	(33,936)
Exchange realignment	(239)
As at 31 December	184,400

Details of impairment assessment of accounts receivable for the year ended 31 December 2018 are set out in Note 49.

32. 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:

	2018 RMB'000	2017 RMB'000
Manufacturers' credits	**821,725**	732,563
Prepayments of aircraft operating lease rentals	**652,846**	611,984
Prepayments of jet fuel	**71,983**	2,000,376
Other prepayments	**464,051**	500,902
Others	**210,041**	–
	2,220,646	3,845,825
Deposits and other receivables	**1,999,390**	1,276,692
	4,220,036	5,122,517

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32. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Movements in the allowance for doubtful debts:

	2018 RMB'000	2017 RMB'000
As at 1 January	**2,401,172**	2,400,952
(Reversed)/provided for the year, net	**(299,486)**	525
Write-offs	**(102,793)**	(243)
Exchange realignment	**42**	(62)
Disposal of subsidiaries	**(312)**	–
As at 31 December	**1,998,623**	2,401,172

As at 31 December 2018, 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 RMB774,820,000 (31 December 2017: RMB1,075,182,000) and RMB649,486,000 (31 December 2017: RMB649,486,000), respectively.

Details of impairment assessment of deposits and other receivables for the year ended 31 December 2018 are set out in Note 49.

33. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Money market fund	–	19,938
	–	19,938

34. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Note	2018 RMB'000	2017 RMB'000
Time deposits with banks		**826,641**	1,012,733
Bank and cash		**6,980,931**	5,247,341
Less: Restricted bank deposits	(i)	**(1,044,389)**	(697,167)
Cash and cash equivalents		**6,763,183**	5,562,907

Note:

(i) Details of restricted bank deposits are as follows:

	2018 RMB'000	2017 RMB'000
Deposits with The People's Bank of China by CNAF	**758,371**	609,770
Restricted bank deposits against aircraft operating leases and others	**286,018**	87,397
	1,044,389	697,167

35. OTHER CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
The VAT tax credit and others	**2,467,442**	1,896,840
Loans to related parties	**1,054,600**	1,189,600
Others	**956,861**	1,000,000
	4,478,903	4,086,440
Impairment	**(32,273)**	(49,740)
	4,446,630	4,036,700

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at rates ranging from 3.92% to 4.35% (2017: 3.83% to 4.35%) per annum.

Details of impairment assessment of other current asset for the year ended 31 December 2018 are set out in Note 49.

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36. ACCOUNTS PAYABLE

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

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

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

37. OTHER PAYABLES AND ACCRUALS

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

	2018 RMB'000	2017 RMB'000
Accrued salaries, wages and benefits	**2,917,925**	2,643,064
Receipts in advance for employee residence	**115,512**	609,260
Accrued operating expenses	**370,289**	514,850
Other tax payables	**404,988**	536,190
Deposits received from sales agents	**789,871**	887,690
Due to a non-controlling shareholder of a subsidiary	–	100,000
Current portion of deferred income related to the frequent-flyer programme	–	707,106
Current portion of deferred income related to government grants	**39,563**	32,907
Current portion of long-term payables	**29,104**	8,393
Deposits received by CNAF from related parties	**3,102,233**	3,148,939
Others	**3,064,055**	3,549,577
	10,833,540	12,737,976

38. OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under finance lease agreements expiring during the years from 2019 to 2030 (2017: 2018 to 2029) 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 2018 RMB'000	**Present values of minimum lease payments 2018 RMB'000**	Minimum lease payments 2017 RMB'000	Present values of minimum lease payments 2017 RMB'000
Amounts repayable				
– Within 1 year	**8,690,029**	**7,125,586**	7,352,188	6,344,699
– After 1 year but within 2 years	**8,149,776**	**6,797,165**	6,453,959	5,543,525
– After 2 years but within 5 years	**22,432,938**	**19,617,952**	17,297,727	15,355,311
– After 5 years	**20,676,552**	**19,432,978**	18,104,668	16,899,746
Total minimum finance lease payments	**59,949,295**	**52,973,681**	49,208,542	44,143,281
Less: Amounts representing finance costs	**(6,975,614)**		(5,065,261)	
Present values of minimum lease payments	**52,973,681**		44,143,281	
Less: Portion classified as current liabilities	**(7,125,586)**		(6,344,699)	
Non-current portion	**45,848,095**		37,798,582	

The Group's finance leases were secured by the Group's aircraft with net carrying amount of approximately RMB77,579 million (31 December 2017: RMB67,957 million) (Note 17).

At 31 December 2018, there was no finance leases of the Group guaranteed by a third party. 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) was guaranteed by Cathy 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.

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39. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans and other borrowings		
– Secured	**3,017,063**	7,649,748
– Unsecured	**19,501,661**	23,029,536
	22,518,724	30,679,284
Corporate bonds:		
– Secured	**6,773,181**	10,341,330
– Unsecured	**13,488,477**	10,233,772
	20,261,658	20,575,102
	42,780,382	51,254,386

	2018 RMB'000	2017 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year or payable on demand	**19,333,243**	23,070,995
– After 1 year but within 2 years	**1,723,200**	3,441,120
– After 2 years but within 5 years	**1,173,090**	3,183,086
– After 5 years	**289,191**	984,083
	22,518,724	30,679,284
Corporate bonds repayable:		
– Within 1 year	**7,861,658**	6,075,102
– After 1 year but within 2 years	**–**	4,000,000
– After 2 years but within 5 years	**12,400,000**	4,000,000
– After 5 years	**–**	6,500,000
	20,261,658	20,575,102
Total interest-bearing bank loans and other borrowings	**42,780,382**	51,254,386
Less: Portion classified as current liabilities	**(27,194,901)**	(29,146,097)
Non-current portion	**15,585,481**	22,108,289

39. 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:

	2018 RMB'000	2017 RMB'000
USD	**4,017,395**	9,121,920
EURO	**121,428**	120,731
Macau Pataca ("MOP")	**298,443**	–
	4,437,266	9,242,651

The carrying amount of the bank and other borrowings and the range of interest rates are as below:

	2018		2017	
	RMB'000	%	RMB'000	%
Fixed rate bank and other borrowings	**15,152,215**	**2.95 – 4.73**	12,085,000	2.39 – 5.40
Fixed rate corporate bonds	**20,261,658**	**2.84 – 5.30**	20,575,102	2.84 – 5.30
Floating rate bank and other borrowings	**7,366,509**	**2.17 – 5.47**	17,614,284	1.21 – 4.90
Interest-free borrowings	**–**	**0.00**	980,000	0.00
	42,780,382		51,254,386	

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 nominal amount of the Group's bank loans and corporate bonds of approximately RMB9,516 million as at 31 December 2018 (31 December 2017: RMB17,650 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 RMB7,935 million as at 31 December 2018 (31 December 2017: RMB13,107 million) (Note 17); and land use rights with an aggregate carrying amount of approximately RMB28 million as at 31 December 2018 (31 December 2017: RMB34 million) (Note 18);

(b) As at 31 December 2018, there were no bank loans of the Group guaranteed by a third party of the Group (31 December 2017: US$117 million (equivalent to RMB765 million) were guaranteed by an associate of the Group); and

(c) As at 31 December 2018, corporate bonds issued by the Group with a face value of RMB6,500 million (31 December 2017: RMB10,000 million) were guaranteed by CNAHC.

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39. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

As at 31 December 2018, corporate bonds with carrying amount of RMB5,422 million (31 December 2017: RMB2,216 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

40. 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:

	2018 RMB'000	2017 RMB'000
As at 1 January	**5,004,998**	4,466,845
Provision for the year	**1,863,777**	1,645,935
Utilisation during the year	**(1,246,684)**	(1,107,782)
As at 31 December	**5,622,091**	5,004,998
Less: Portion classified as current liabilities	**(1,447,693)**	(1,418,055)
Non-current portion	**4,174,398**	3,586,943

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.

41. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018 RMB'000
Frequent-flyer programme (Note)	**3,794,006**	3,529,763
Others	**570,251**	518,413
	4,364,257	4,048,176
Current portion	**1,301,518**	1,225,519
Non-current portion	**3,062,739**	2,822,657
	4,364,257	4,048,176

41. CONTRACT LIABILITIES (continued)

Note:

The movements of the Group's frequent-flyer programme during the year were as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January	**3,529,763**	3,072,904
Additions during the year	**1,965,381**	1,971,371
Recognised as revenue during the year	**(1,701,138)**	(1,514,512)
As at 31 December	**3,794,006**	3,529,763
Less: Portion classified as current liabilities	**(731,267)**	(707,106)
Non-current portion	**3,062,739**	2,822,657

42. DEFINED BENEFIT OBLIGATIONS

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

	2018 RMB'000	2017 RMB'000
Post-retirement benefit obligations	**291,178**	291,451
Less: current portion	**(27,316)**	(27,876)
Long-term portion	**263,862**	263,575

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.

42. DEFINED BENEFIT OBLIGATIONS (continued)

Movements of the defined benefit obligations were set out as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**291,451**	298,219
Remeasurement loss	**16,840**	13,301
Interest cost	**10,822**	8,518
Payments	**(27,935)**	(28,587)
At 31 December	**291,178**	291,451
Less: current portion	**(27,316)**	(27,876)
Long-term portion	**263,862**	263,575

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

	2018 RMB'000	2017 RMB'000
Finance costs		
– Interest cost	**10,822**	8,518
Other comprehensive income		
– Remeasurement loss	**16,840**	13,301
Total defined benefit costs	**27,662**	21,819

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 after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

42. DEFINED BENEFIT OBLIGATIONS (continued)

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2018 were carried out by an independent firm of actuaries. The present value of the defined benefit obligations, and the related past cost were measured using the projected unit credit method.

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

	2018	2017
Discount rate	**3.2%**	3.9%
Average expected remaining life of eligible participants	**14.0 years**	14.7 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 RMB11.9 million (2017: increase by RMB11.7 million).
- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB5.5 million (2017: increase by RMB5.0 million).

43. DEFERRED INCOME

	31/12/2018 RMB'000	1/1/2018 RMB'000
Government grants	**464,665**	610,939
Gain on sale and lease back arrangements	**123,757**	164,576
Others	**146,276**	45,110
	734,698	820,625
Less: Portion classified as current liabilities	**(86,725)**	(75,155)
Non-current portion	**647,973**	745,470

44. 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 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**
Adjustments		**–**	**–**	**–**	**354,635**	**354,635**
As at 1 January 2018 (restated)		**14,524,815**	**27,472,731**	**9,140,799**	**27,331,702**	**78,470,047**
Total comprehensive (expense)/income for the year		**–**	**(12,791)**	**–**	**5,360,654**	**5,347,863**
Appropriation of statutory reserve funds	(ii)	**–**	**–**	**535,760**	**(535,760)**	**–**
Appropriation of discretionary reserve fund	(iii)	**–**	**–**	**695,805**	**(695,805)**	**–**
Dividends declared in respect of the previous year		**–**	**–**	**–**	**(1,669,918)**	**(1,669,918)**
As at 31 December 2018		**14,524,815**	**27,459,940**	**10,372,364**	**29,790,873**	**82,147,992**

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.

44. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. As at 31 December 2018, in accordance with the PRC Company Law, an amount of approximately RMB10,372 million (2017: RMB9,141 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 RMB28,573 million available for distribution as at 31 December 2018 (2017: RMB25,762 million).

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2018 and 31 December 2017 are as follows:

	Number of shares 2018	**Nominal value 2018 RMB'000**	Number of shares 2017	Nominal value 2017 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	**9,448,653,003**	**9,448,653**	8,522,067,640	8,522,068
– Trade-restricted	**513,478,818**	**513,479**	1,440,064,181	1,440,064
	14,524,815,185	**14,524,815**	14,524,815,185	14,524,815

A shares rank pari passu, in all material respects, with H shares of the Company.

(c) Treasury shares

As at 31 December 2018, the Group owned 29.99% equity interest in Cathay Pacific (2017: 29.99%), which in turn owned 18.13% equity interest in the Company (2017: 18.13%). 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.

44. CAPITAL AND RESERVES (continued)

(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 2018 and 31 December 2017.

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:

	2018 RMB'000	2017 RMB'000
Total liabilities	**143,159,074**	140,785,986
Total assets	**243,657,108**	235,644,584
Gearing ratio	**58.75%**	59.75%

45. 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 2018 was RMB Nil (31 December 2017: Nil).

46. DISPOSAL OF SUBSIDIARIES

Air China Cargo Co., Ltd.

On 30 August 2018, the Company entered into an equity transfer agreement with China National Aviation Capital Holding Co., Ltd. ("Capital Holding", a subsidiary of CNAHC), pursuant to which, the Company has conditionally agreed to sell and Capital Holding has conditionally agreed to purchase 51% equity interests of Air China Cargo, a subsidiary of the Company, at a consideration of RMB2,438,837,520 (the "Disposal"). The Disposal was completed on 28 December 2018 and the Company no longer held any equity interest in Air China Cargo.

Consideration received

	2018 **RMB'000**
Consideration received in cash and cash equivalents	**2,438,838**
Total consideration received	**2,438,838**

Analysis of assets and liabilities over which control was lost

	28/12/2018 RMB'000
Current assets	
Inventories	3,126
Accounts receivable	1,104,615
Prepayments, deposits and other receivables	1,484,038
Cash and cash equivalents	116,144
Deposits in CNAF	436,234
Restricted bank deposits	1,401
Other current assets	148,506
Non-current assets	
Property, plant and equipment	9,996,160
Lease prepayments	252,909
Investment properties	163,492
Investments in associates	10,232
Advance payments for aircraft and related equipment	15,437
Other non-current assets	3,916

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46. DISPOSAL OF SUBSIDIARIES (continued)

Air China Cargo Co., Ltd. (continued)

Analysis of assets and liabilities over which control was lost (continued)

	28/12/2018 RMB'000
Current liabilities	
Air traffic liabilities	(111,028)
Accounts payable	(961,863)
Other payables and accruals	(3,097,074)
Current taxation	(12,970)
Obligations under finance leases	(392,361)
Interest-bearing bank loans and other borrowings	(335,964)
Interest-bearing borrowings from CNAF	(950,000)
Non-current liabilities	
Obligations under finance leases	(3,127,834)
Interest-bearing bank loans and other borrowings	(365,002)
Deferred income	(39,520)
Net assets disposed of	4,342,594

Gain on disposal of subsidiaries

	2018 **RMB'000**
Consideration received	**2,438,838**
Net assets disposed of	**(4,342,594)**
Non-controlling interests	**2,134,035**
Recognition of unrealised gains on previous transactions with Air China Cargo	**45,102**
Gain on disposal	**275,381**

Net cash inflow arising on disposal

	2018 **RMB'000**
Consideration received in cash and cash equivalents	**2,438,838**
Less: cash and cash equivalent balances disposed of	**(116,144)**
	2,322,694

46. DISPOSAL OF SUBSIDIARIES (continued)

Wuxi Xiangyi Development Co., Ltd. ("Wuxi Xiangyi")

The Group entered into a co-operation agreement with a third party in this year. Pursuant to the agreement, partial interests in Wuxi Xiangyi was disposed of by the Group and the Group's interest therein was diluted from 100% to 46.3% resulting in a loss of control over Wuxi Xiangyi. After the completion of this transaction, the Group still has joint control over Wuxi Xiangyi. The remaining equity interests in Wuxi Xiangyi was measured at fair value at the date when the control was lost, and were accounted for as interest in a joint venture from that date onwards.

Analysis of assets and liabilities over which control was lost

	31/12/2018 RMB'000
Current assets	
Inventories	121,750
Prepayments, deposits and other receivables	1,245
Cash and cash equivalents	326,669
Other current assets	1,558
Non-current assets	
Property, plant and equipment	65
Lease prepayments	379,722
Intangible assets	20
Deferred tax assets	1,843
Current liabilities	
Accounts payable	(401)
Other payables and accruals	(846,662)
Net liabilities disposed of	(14,191)

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46. DISPOSAL OF SUBSIDIARIES (continued)

Wuxi Xiangyi Development Co., Ltd. (continued)

Gain on disposal of subsidiaries

	2018 RMB'000
Consideration received	–
Transfer to interests in joint ventures	115,971
Net liabilities disposed of	14,191
Gain on disposal	130,162

Net cash outflow arising on disposal

	2018 RMB'000
Consideration received in cash and cash equivalents	–
Less: cash and cash equivalent balances disposed of	(326,669)
	(326,669)

47. CONTINGENT LIABILITIES

As at 31 December 2018, 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.

47. CONTINGENT LIABILITIES (continued)

(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.

As of the issuance date of these financial statements, the Directors consider that given the preliminary status of the second trial, 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 2018, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB1,635,000 (31 December 2017: RMB53,865,000) and for pilot trainees' tuition loans amounting to RMB91,000 (31 December 2017: RMB172,000). The Directors consider that the fair value of these guarantees are insignificant.

48. 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:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**38,297,480**	58,566,273
– Buildings and others	**971,571**	611,254
Total capital commitments	**39,269,051**	59,177,527

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48. COMMITMENTS (continued)

(b) Investment commitments

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

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
– investment commitment to a joint venture	**24,021**	22,870
– investment commitment to an associate	**35,000**	35,000
Total capital commitments	**59,021**	57,870

(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:

	2018 RMB'000	2017 RMB'000
Within 1 year	**7,977,480**	6,990,927
After 1 year but within 5 years	**26,382,463**	22,778,784
Over 5 years	**17,035,496**	21,621,602
Total operating lease commitments	**51,395,439**	51,391,313

Value-added tax is included in the amount of operating lease commitments.

49. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Amortised cost:		
Accounts receivable	**5,373,972**	3,490,427
Deposits and other receivables	**1,999,390**	1,276,692
Deposits for aircraft under operating leases	**613,346**	567,889
Bills receivable	**403**	348
Loans to related parties	**1,247,000**	1,411,600
Other current assets – others	**800,000**	1,000,000
Restricted bank deposits	**1,044,389**	697,167
Cash and cash equivalents	**6,763,183**	5,562,907
Subtotal	**17,841,683**	14,007,030
Held-to-maturity financial assets	**–**	10,000
Available-for-sale financial assets	**–**	1,334,953
Financial assets at FVTPL	**–**	19,938
Equity instruments at FVTOCI	**268,071**	–
Debt instruments at FVTOCI	**1,040,419**	–
Financial liabilities		
Amortised cost:		
Accounts payable	**14,726,428**	13,254,188
Other payables	**6,553,085**	7,982,938
Obligations under finance leases	**52,973,681**	44,143,281
Bank loans and other borrowings	**42,780,382**	51,254,386
Long-term payables	**68,890**	95,915
	117,102,466	116,730,708

b. Financial risk management objectives and policies

The above table lists the Group's major financial instruments. Details of these 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.

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

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 obligations under finance leases.

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 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 (2017: 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 2018 would decrease/increase by approximately RMB135,726,000 (2017: RMB162,562,000).

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.

(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.

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk (continued)

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	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
USD	**4,875,274**	2,500,109	**35,270,717**	39,779,032
EURO	**95,180**	402,595	**862,176**	662,726
HKD	**161,398**	149,722	**234,604**	164,401
JPY	**68,891**	83,367	**1,484,694**	1,454,708

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2017: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2017: 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% (2017: 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% (2017: 1%) against the relevant foreign currency. For a 1% (2017: 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.

	2018 RMB'000	2017 RMB'000
Increase (decrease) in the Group's post-tax profit		
– if RMB strengthens against USD	**227,966**	279,592
– if RMB strengthens against EURO	**5,752**	1,951
– if RMB strengthens against HKD	**549**	110
– if RMB strengthens against JPY	**10,619**	10,285

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

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 and the amount of financial guarantees provided by the Group disclosed in Note 47.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB931 million or 17% of accounts receivable as at 31 December 2018 (31 December 2017: RMB1,129 million or 32% of accounts receivable). The credit risk exposure to BSP and the remaining accounts receivable balance are monitored by the Group on an ongoing basis. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on accounts receivable individually or based on provision matrix.

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.

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 associated with financial assets and financial guarantees contracts.

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	12-month or lifetime ECL	Gross carrying amount	
				RMB'000	RMB'000
Debt instruments at FVTOCI					
Investments in listing bonds	27	AAA	12-month ECL	941,192	
Negotiable certificates of deposit	27	AAA	12-month ECL	99,227	1,040,419
Financial assets at amortised costs					
Accounts receivable	31	N/A	Lifetime ECL (provision matrix)	5,404,225	
			Credit-impaired	185,887	5,590,112
Deposits and other receivables	32	N/A	12-month ECL	1,980,602	
			Lifetime ECL	49,419	
			Credit-impaired	1,967,992	3,998,013
Deposits for aircraft under operating leases		N/A	12-month ECL	613,346	613,346
Bills receivable		N/A	12-month ECL	403	403
Loans to related parties		N/A	12-month ECL	1,247,000	1,247,000
Other current assets-others	35	N/A	12-month ECL	800,000	800,000
Restricted bank deposits	34	N/A	12-month ECL	1,044,389	1,044,389
Cash and cash equivalents	34	N/A	12-month ECL	6,763,183	6,763,183

Note:

For accounts receivable, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix. The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB186 million as at 31 December 2018 were assessed individually.

For deposits and other receivables, financial assets included in other current assets and other non-current assets, the Group measures the loss allowance equal to 12m ECL, unless when these has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The ECL on these assets are assessed individually.

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49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Gross carrying amount

Customer group	Loss rate	Accounts receivable RMB'000
Ground service receivable	1%	85,928
BSP international	1%	139,078
Others	0.1%-4%	5,179,219
		5,404,225

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The following table shows the movements in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	**31,903**	**152,497**	**184,400**
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	**(1,512)**	**1,512**	**–**
– Impairment losses recognised	**39**	**46,614**	**46,653**
– Write-offs	**–**	**(13,607)**	**(13,607)**
Exchange adjustments	**177**	**–**	**177**
Disposal of a subsidiary	**(354)**	**(1,129)**	**(1,483)**
As at 31 December 2018	**30,253**	**185,887**	**216,140**

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows reconciliation of loss allowances that has been recognised for deposits and other receivables.

	12m ECL RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	**25,653**	**7,164**	**2,368,355**	**2,401,172**
Changes due to financial instruments recognised as at 1 January:				
– Transfer to credit-impaired	**(71)**	**(2,078)**	**2,149**	**–**
– Impairment losses recognised/ (reversed)	**–**	**233**	**(299,719)**	**(299,486)**
– Write-offs	**–**	**–**	**(102,793)**	**(102,793)**
Exchange adjustments	**42**	**–**	**–**	**42**
Disposal of subsidiaries	**(312)**	**–**	**–**	**(312)**
As at 31 December 2018	**25,312**	**5,319**	**1,967,992**	**1,998,623**

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.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB48,814 million (31 December 2017: RMB51,372 million). The Group recorded a net cash inflow from operating activities of approximately RMB28,683 million for the year ended 31 December 2018 (2017: RMB22,837 million). For the same year, the Group had a net cash outflow from investing activities of approximately RMB8,950 million (2017: RMB14,653 million). The Group also recorded a net cash outflow from financing activities of approximately RMB18,647 million for the year ended 31 December 2018 (2017: RMB9,301 million). The Group recorded an increase in cash and cash equivalents of approximately RMB1,086 million for the year ended 31 December 2018 (2017: a decrease of RMB1,117 million).

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49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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 RMB134,595 million as at 31 December 2018 (31 December 2017: RMB171,567 million), of which an amount of approximately RMB21,484 million was utilised (31 December 2017: RMB23,004 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2018. 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.

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 2018								
Accounts payable	14,726,428	–	–	–	–	–	14,726,428	14,726,428
Other payables	6,553,085	–	–	–	–	–	6,553,085	6,553,085
Obligations under finance leases	8,690,029	8,149,776	7,847,898	7,326,397	7,258,642	20,676,553	59,949,295	52,973,681
Interest-bearing bank and other borrowings	27,797,710	2,366,181	6,976,150	866,062	7,155,036	343,103	45,504,242	42,780,382
Long-term payable	29,104	13,851	26,640	–	–	–	69,595	68,890
	57,796,356	10,529,808	14,850,688	8,192,459	14,413,678	21,019,656	126,802,645	117,102,466

49. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	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	7,982,938	–	–	–	–	–	7,982,938	7,982,938
Obligations under finance leases	7,459,416	6,453,959	6,046,343	5,839,642	5,411,742	18,104,668	49,315,770	44,143,281
Interest-bearing bank and other borrowings	30,218,672	8,213,681	2,196,686	5,408,769	1,055,858	7,998,481	55,092,147	51,254,386
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

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.

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49. 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)

	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Equity instruments at FVTOCI	**268,071**	**–**	**–**	**268,071**
Debt instruments at FVTOCI	**1,040,419**	**359,913**	**680,506**	**–**
Total financial assets at fair value	**1,308,490**	**359,913**	**680,506**	**268,071**

	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	680,759	257,267

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil).

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of debt instruments at FVTOCI and financial assets at FVTPL were estimated by reference to the quoted prices in a non-active market.

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of equity instruments at FVTOCI was mainly estimated by reference to the quoted prices in an active market with an adjustment of discount for lack of marketability.

49. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

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 2018 RMB'000	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	**16,794,176**	18,949,853	**16,381,689**	18,231,547

Fair value hierarchy as at 31 December 2018

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities				
– corporate bonds (fixed rate)	–	**16,381,689**	–	**16,381,689**

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

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50. 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 flows 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 39 RMB'000	Corporate bonds Note 39 RMB'000	Obligations under finance leases Note 38 RMB'000	Total RMB'000
At 1 January 2018	**30,679,284**	**20,575,102**	**44,143,281**	**95,397,667**
Financing cash flows	**(7,929,460)**	**(349,853)**	**(8,494,990)**	**(16,774,303)**
New finance leases	**–**	**–**	**19,314,919**	**19,314,919**
Foreign exchange translation	**432,761**	**–**	**1,446,168**	**1,878,929**
Others	**12,538**	**(419)**	**–**	**12,119**
Disposal of a subsidiary	**(700,966)**	**–**	**(3,520,195)**	**(4,221,161)**
Accrued interest	**24,567**	**36,828**	**84,498**	**145,893**
At 31 December 2018	**22,518,724**	**20,261,658**	**52,973,681**	**95,754,063**

51. 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 RMB19,315 million (2017: RMB9,823 million).

52. 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

	2018 RMB'000	2017 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**10,061**	14,964
Sale of cargo space	**92,470**	65,140
Government charter flights	**558,254**	440,821
Ground services income	**4,904**	3,004
Air catering income	**17,485**	17,053
Income from advertising media business	**14,305**	14,281
Others	**116,318**	7,754
	813,797	563,017
Service provided by the CNAHC Group		
Sales commission expenses	**755**	1,379
Air catering charges	**1,242,086**	1,098,518
Airport ground services, take-off, landing and depot expenses	**1,011,329**	794,142
Repair and maintenance costs	**14,953**	15,342
Management fees	**133,077**	139,108
Lease charges for land and buildings	**143,491**	151,034
Other procurement and maintenance	**131,444**	127,512
Aviation communication expenses	**606,777**	550,250
Interest expenses	**5,546**	3,975
Media advertisement expenses	**165,289**	157,405
Construction management expenses	**16,626**	1,068
Aircraft and flight equipment leasing fees	**123,718**	22,282
Others	**17,257**	48,301
	3,612,348	3,110,316

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52. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) Transactions with related parties (continued)

	2018 RMB'000	2017 RMB'000
Finance leases with CNAHC Group:		
Inception of finance lease	**7,349,754**	114,665
Disposal of a subsidiary with CNAHC Group:		
Disposal of a subsidiary	**2,438,838**	–
Loans to the CNAHC Group by CNAF:		
Net (repayment)/granting of loans	**(135,000)**	35,000
Interest income	**29,781**	42,150
Deposits from the CNAHC Group received by CNAF:		
Decrease in deposits received	**777,529**	442,516
Interest expenses	**34,827**	56,164
Service provided to joint ventures and associates		
Sales commission income	**27,254**	28,547
Ground services income	**155,359**	161,270
Aircraft maintenance income	**94,762**	84,410
Air catering income	**4,460**	3,842
Frequent-flyer programme income	**330,931**	47,883
Others	**4,283**	7,611
	617,049	333,563

52. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) Transactions with related parties (continued)

	2018 RMB'000	2017 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	**3,558**	7,561
Air catering charges	**26,680**	26,189
Airport ground services, take-off, landing and depot expenses	**490,184**	464,078
Repair and maintenance costs	**1,055,086**	667,911
Aircraft and flight equipment leasing fees	**1,093**	147,921
Other procurement and maintenance	**6,609**	8,743
Aviation communication expenses	**5,975**	6,008
Interest expenses	**20,253**	–
Frequent-flyer programme expenses	**65,099**	3,486
Airline joint venture expenses	**53,848**	58,106
Lease charges for land and buildings	**890**	–
	1,729,275	1,390,003
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	**29,600**	29,600
Interest income	**9,350**	10,814
Deposits from joint ventures and associates received by CNAF:		
Increase/(decrease) in deposits received	**34,922**	(171,447)
Interest expenses	**64**	357

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.

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52. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(ii) Balances with related parties

	2018 RMB'000	2017 RMB'000
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**205,358**	134,444
Amounts due from associates	**131,523**	203,112
Amounts due from joint ventures	**3,670**	66
Amounts due from other related companies	**3,103,136**	14,602
Amount due to the ultimate holding company	**53,248**	76,934
Amounts due to associates	**138,094**	577,452
Amounts due to joint ventures	**292,113**	237,999
Amounts due to other related companies	**9,721,010**	810,195

* 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.

	2018 RMB'000	2017 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing borrowings:		
– Due to the ultimate holding company	**1,500,000**	–
– Due to an associate	**–**	980,000

52. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(ii) Balances with related parties (continued)

	2018 RMB'000	2017 RMB'000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**1,025,000**	1,160,000
Deposits received	**3,053,582**	3,179,474
Interest payable to related parties	**11,618**	11,362
Interest receivable from related parties	**1,169**	1,368
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**222,000**	251,600
Deposits received	**47,022**	12,100
Interest payable to related parties	**11**	2
Interest receivable from related parties	**273**	309

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:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**17,128**	12,737
Retirement benefits	**1,411**	1,124
Emoluments for key management personnel	**18,539**	13,861
Expense for SARs (Note 45)	**–**	(470)
	18,539	13,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

52. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

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

	2018 RMB'000	2017 RMB'000
Directors and supervisors	**2,543**	1,405
Senior management	**15,996**	12,456
	18,539	13,861

Further details of the remuneration of the Directors and supervisors are included in Note 13 to the financial statements.

(c) Guarantee with related parties

Amount of guaranty at 31 December 2018:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2018 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**	**1,500,000**	**16/08/2013**	**16/02/2024**

52. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties (continued)

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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

52. 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.

53. EVENT AFTER THE REPORTING PERIOD

The final dividend of RMB1.0328 per ten ordinary shares (including tax) in respect of the year ended 31 December 2018 amounting to approximately RMB1,500 million in aggregate has been approved at the meeting of board of directors held on 27 March 2019, which is subject to approval by the shareholders at the forthcoming annual general meeting.

54. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with current year's presentation.

55. 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 2018 RMB'000	31 December 2017 RMB'000
Non-current assets		
Property, plant and equipment	**123,914,566**	114,862,113
Lease prepayments	**2,185,323**	2,228,252
Intangible assets	**11,572**	11,857
Interests in subsidiaries	**18,562,980**	21,476,446
Interests in associates	**2,881,367**	2,669,369
Interests in joint ventures	**1,311,092**	1,239,396
Advance payments for aircraft and flight equipment	**12,049,805**	12,928,552
Deposits for aircraft under operating leases	**477,016**	449,913
Entrusted loans to subsidiaries	**–**	1,020,000
Available-for-sale securities	**–**	22,110
Equity instruments at fair value through other comprehensive income	**22,110**	–
Deferred tax assets	**2,405,116**	2,104,502
Other non-current assets	**294,316**	312,285
	164,115,263	159,324,795
Current assets		
Non-current assets held for sale	**–**	284,169
Inventories	**90,329**	97,900
Accounts receivable	**4,399,059**	3,534,850
Prepayments, deposits and other receivables	**2,400,347**	4,526,783
Restricted bank deposits	**30,311**	–
Cash and cash equivalents	**7,149,360**	3,172,520
Other current assets	**1,986,693**	1,173,376
	16,056,099	12,789,598
Total assets	**180,171,362**	172,114,393

55. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2018 RMB'000	31 December 2017 RMB'000
Current liabilities		
Air traffic liabilities	**(7,409,435)**	(6,276,702)
Accounts payable	**(12,249,455)**	(11,363,190)
Other payables and accruals	**(9,776,040)**	(9,718,004)
Current taxation	**(883,324)**	(851,979)
Obligations under finance leases	**(4,882,131)**	(4,464,865)
Interest-bearing bank loans and other borrowings	**(13,468,700)**	(15,828,832)
Provision for major overhauls	**(543,724)**	(612,360)
Contract liabilities	**(767,900)**	–
	(49,980,709)	(49,115,932)
Net current liabilities	**(33,924,610)**	(36,326,334)
Total assets less current liabilities	**130,190,653**	122,998,461
Non-current liabilities		
Obligations under finance leases	**(30,729,202)**	(23,638,515)
Interest-bearing bank loans and other borrowings	**(12,023,388)**	(16,371,198)
Provision for major overhauls	**(2,180,490)**	(1,933,084)
Provision for early retirement benefit obligations	**(3,105)**	(4,711)
Contract liabilities	**(2,654,793)**	–
Deferred income	**(371,494)**	(2,935,541)
Long-term payables	**(80,189)**	–
	(48,042,661)	(44,883,049)
NET ASSETS	**82,147,992**	78,115,412
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	14,524,815
Reserves	**67,623,177**	63,590,597
TOTAL EQUITY	**82,147,992**	78,115,412

SUPPLEMENTARY INFORMATION

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

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

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 tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
"available seat kilometres" or "ASK(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown

TRAFFIC MEASUREMENTS

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

EFFICIENCY MEASUREMENTS

"overall load factor"	RTK expressed as a percentage of ATK
"passenger load factor"	RPK expressed as a percentage of ASK
"cargo and mail load factor"	RFTK expressed as a percentage of AFTK
"Block hour"	whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

YIELD MEASUREMENTS

"passenger yield" / "yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield" / "yield per RFTK"	revenues from cargo operations divided by RFTKs

DEFINITIONS

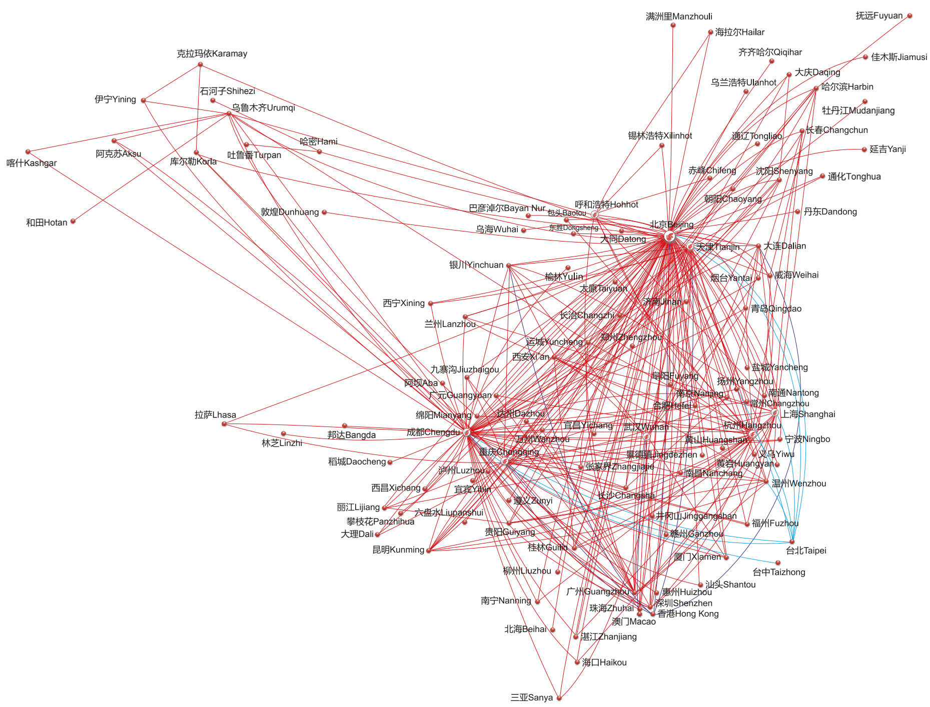
In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd., a subsidiary of the Company before the completion of Disposal. For details of the Disposal, please refer to page 33 of this annual report
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd., a subsidiary of the Company
"Air Macau"	Air Macau Company Limited, a subsidiary of the Company
"AMECO"	Aircraft Maintenance and Engineering Corporation, a subsidiary of the Company
"Articles of Association"	the articles of association of the Company, as amended from time to time
"A Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
"Beijing Airlines"	Beijing Airlines Company Limited, a subsidiary of the Company
"Board"	the board of directors of the Company
"CASs"	China Accounting Standards for Business Enterprises
"Capital Holding"	China National Aviation Capital Holding Co., Ltd., a wholly-owned subsidiary of CNAHC
"Cathay Dragon"	Hong Kong Dragon Airlines Limited, a subsidiary of Cathay Pacific
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"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, a subsidiary of the Company
"CNAHC"	China National Aviation Holding Corporation Limited
"CNAHC Group"	CNAHC and its subsidiaries
"CNAMC"	China National Aviation Media Co., Ltd, a subsidiary of CNAHC
"Company, "We", or "Air China"	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited, a subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange as primary listing venue and have been admitted into the Official List of the UK Listing Authority as secondary listing venue
"International Financial Reporting Standards" or "IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines

DEFINITIONS

"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Reporting Period"	from 1 January 2018 to 31 December 2018
"RMB"	Renminbi, the lawful currency of the PRC
"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., a subsidiary of Shandong Aviation Group Corporation
"Shandong Aviation Group Corporation"	Shandong Aviation Group Company Limited, an associate of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a subsidiary of the Company
"Supervisor(s)"	The supervisor(s) of the Company
"Supervisory Committee"	The supervisory committee of the Company
"US dollars"	United States dollars, the lawful currency of the United States

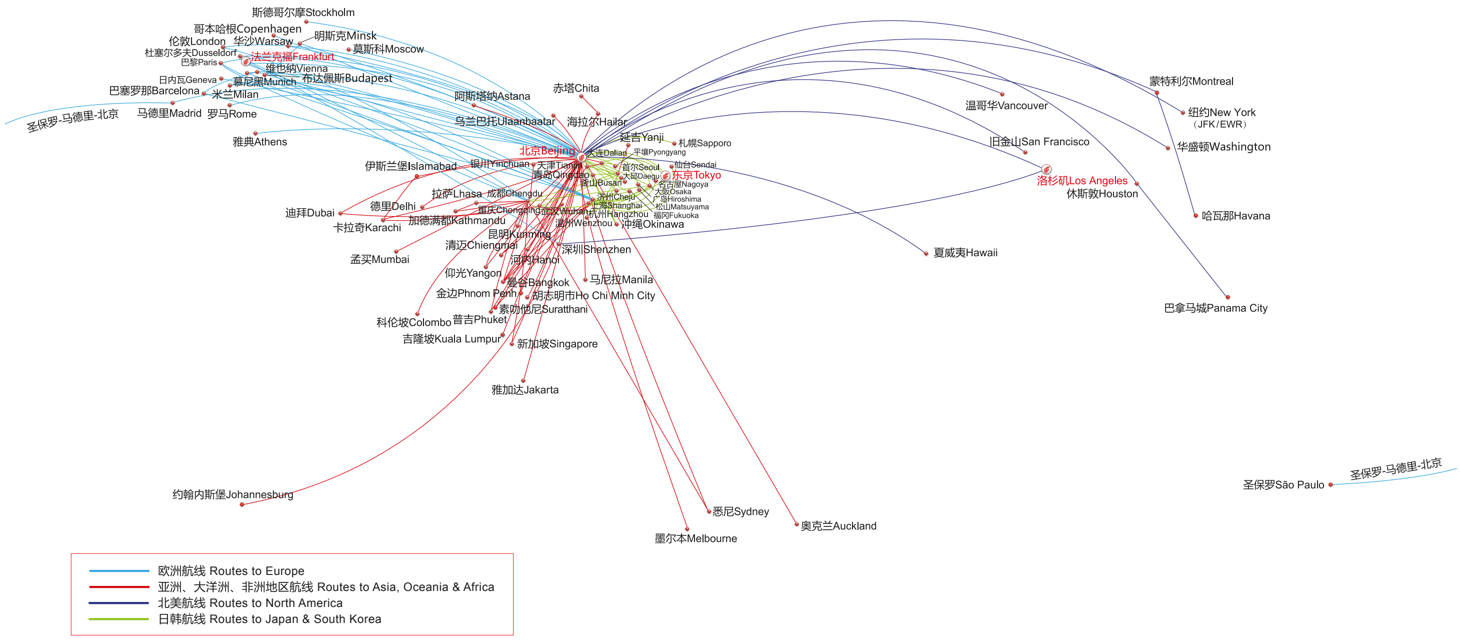
中国国际航空股份有限公司国内及地区航线
AIR CHINA'S DOMESTIC & REGIONAL ROUTES



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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