A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 Hong Kong 601111 Shanghai AIRC London

INTERIM REPORT 2019

Air China is the only national flag carrier of China and the only Chinese civil aviation enterprise listed in "The World's 500 Most Influential Brands".

Air China is headquartered in Beijing, the capital of China, with three increasingly important 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. The Group operated 676 passenger aircraft (including business jets), and has the largest wide-body aircraft fleet in China.

Air China is dedicated to serve 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 "being ahead in the global aviation business, constantly enhancing development capacity, providing excellent and unique customer experience, and striving to increase interests and benefits steadily".

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

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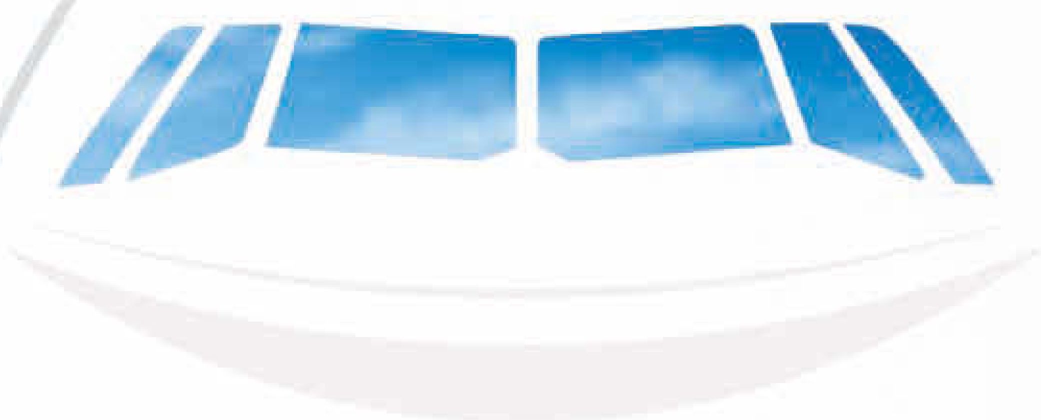

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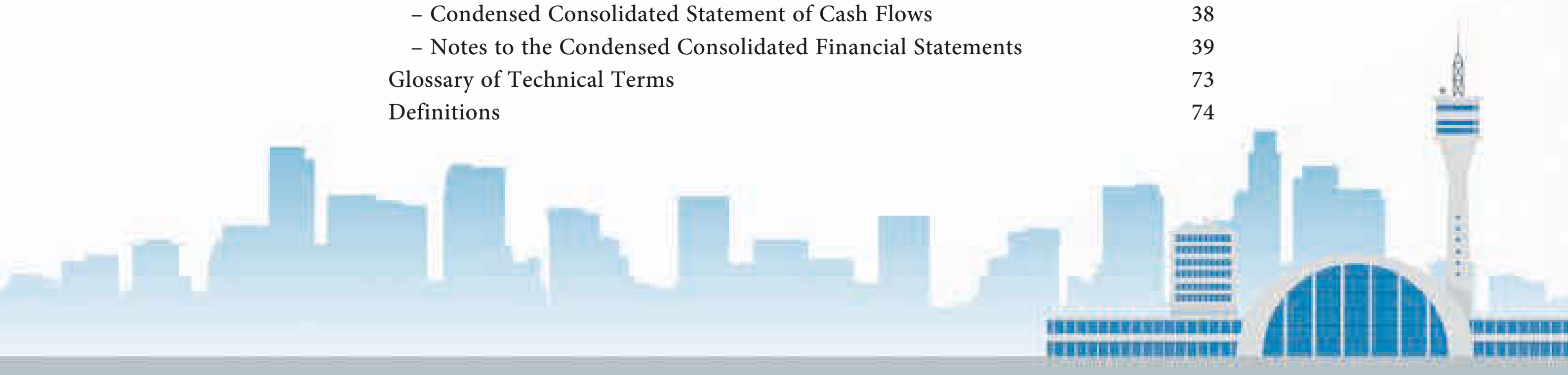

CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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

WEBSITE:

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DIRECTORS[1]:

Cai Jianjiang
Song Zhiyong
Cao Jianxiong
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
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LISTING VENUES:

Hong Kong, London and Shanghai

1 Mr. Cao Jianxiong was elected as a non-executive Director at the 2018 annual general meeting of the Company.

(RMB'000)	Six months ended 30 June 2019	Six months ended 30 June 2018	Change
Revenue	**65,313,087**	64,242,322	1.67%
Profit from operations	**6,742,370**	6,641,435	1.52%
Profit before taxation	**4,505,149**	5,006,051	(10.01%)
Profit after taxation (including profit attributable to non-controlling interests)	**3,500,354**	3,904,498	(10.35%)
Profit attributable to non-controlling interests	**356,135**	428,341	(16.86%)
Profit attributable to equity shareholders of the Company	**3,144,219**	3,476,157	(9.55%)
EBITDA[1]	**17,045,104**	13,666,512	24.72%
EBITDAR[2]	**17,928,312**	17,743,032	1.04%
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.2289**	0.2531	(9.56%)
Return on equity attributable to equity shareholders of the Company (%)	**3.53**	3.93	(0.40 ppt)

[1] EBITDA represents earnings before finance income and finance costs, net exchange gain/loss, income tax expense, share of results of associates and joint ventures, depreciation and amortisation as computed under IFRSs.

[2] EBITDAR represents EBITDA before deducting lease expenses on aircraft and engines as well as other lease expenses.

(RMB'000)	At 30 June 2019	At 31 December 2018	Change
Total assets	**285,454,432**	243,657,108	17.15%
Total liabilities	**188,486,559**	143,159,074	31.66%
Non-controlling interests	**7,358,653**	7,340,693	0.24%
Equity attributable to equity shareholders of the Company	**89,609,220**	93,157,341	(3.81%)
Equity attributable to equity shareholders of the Company per share (RMB)	**6.17**	6.41	(3.81%)

The Group has applied IFRS 16 *Leases* ("New Lease Standard") since 1 January 2019. Adjustments had been made to the items in the financial statements at the date of initial application (i.e. 1 January 2019), while the comparative information was not restated. The changes of each item in the financial statements in the above table compared with those as of the end of last year include the impact of the application of New Lease Standard at the beginning of the year.

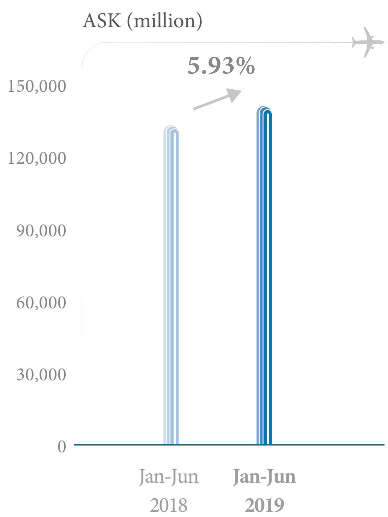
SUMMARY OF OPERATING DATA

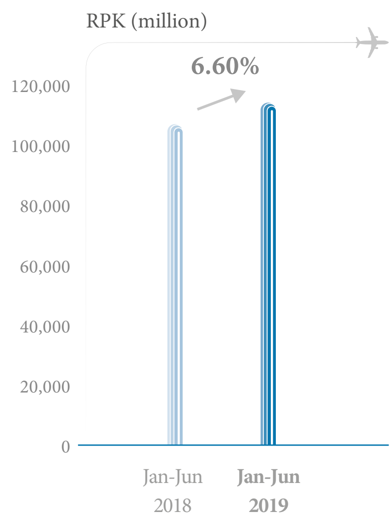
The following is the operating data summary of the Company, Shenzhen Airlines (including Kunming Airlines), Air Macau, Beijing Airlines, Dalian Airlines and Air China Inner Mongolia.

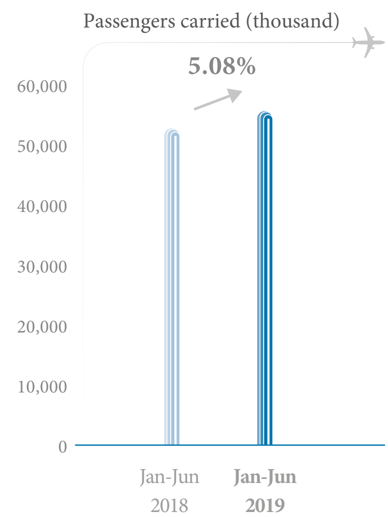
	January to June 2019	January to June 2018	Increase/ (decrease)
Capacity			
ASK (million)	**141,728.21**	133,799.77	5.93%
International	**54,504.05**	50,093.75	8.80%
Mainland China	**81,574.22**	78,868.08	3.43%
Hong Kong SAR, Macau SAR and Taiwan, China	**5,649.94**	4,837.94	16.78%
AFTK (million)	**5,534.23**	5,349.36	3.46%
International	**3,300.41**	3,088.06	6.88%
Mainland China	**2,084.05**	2,134.34	(2.36%)
Hong Kong SAR, Macau SAR and Taiwan, China	**149.78**	126.96	17.97%
ATK (million)	**18,319.41**	17,419.72	5.16%
Traffic			
RPK (million)	**114,784.17**	107,679.81	6.60%
International	**43,132.60**	38,876.94	10.95%
Mainland China	**67,083.22**	64,951.22	3.28%
Hong Kong SAR, Macau SAR and Taiwan, China	**4,568.34**	3,851.65	18.61%
RFTK (million)	**2,333.48**	2,385.29	(2.17%)
International	**1,555.17**	1,585.44	(1.91%)
Mainland China	**734.73**	756.48	(2.87%)
Hong Kong SAR, Macau SAR and Taiwan, China	**43.57**	43.38	0.46%
Passengers carried (thousand)	**56,483.19**	53,752.20	5.08%
International	**8,577.62**	7,458.54	15.00%
Mainland China	**45,003.00**	43,831.04	2.67%
Hong Kong SAR, Macau SAR and Taiwan, China	**2,902.57**	2,462.62	17.86%
Cargo and mail carried (tonnes)	**688,714.87**	700,086.55	(1.62%)
Kilometres flown (million)	**716.28**	680.43	5.27%
Block hours (thousand)	**1,129.22**	1,082.02	4.36%
Number of flights	**364,211**	349,528	4.20%
International	**49,153**	44,352	10.82%
Mainland China	**294,523**	287,128	2.58%
Hong Kong SAR, Macau SAR and Taiwan, China	**20,535**	18,048	13.78%
RTK (million)	**12,476.08**	11,933.68	4.55%
Load factor			
Passenger load factor (RPK/ASK)	**80.99%**	80.48%	0.51 ppt
International	**79.14%**	77.61%	1.53 ppt
Mainland China	**82.24%**	82.35%	(0.11 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**80.86%**	79.61%	1.25 ppt

	January to June 2019	January to June 2018	Increase/ (decrease)
Cargo and mail load factor (RFTK/AFTK)	**42.16%**	44.59%	(2.43 ppt)
International	**47.12%**	51.34%	(4.22 ppt)
Mainland China	**35.26%**	35.44%	(0.18 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**29.09%**	34.17%	(5.08 ppt)
Overall load factor (RTK/ATK)	**68.10%**	68.51%	(0.41 ppt)
Utilisation			
Daily utilisation of aircraft (block hours per day per aircraft)	**9.71**	9.56	0.15 hour
Yield			
Yield per RPK (RMB)	**0.5214**	0.5282	(1.29%)
International	**0.4086**	0.4084	0.05%
Mainland China	**0.5830**	0.5902	(1.22%)
Hong Kong SAR, Macau SAR and Taiwan, China	**0.6821**	0.6928	(1.54%)
Yield per RFTK (RMB)	**1.2128**	1.2145	(0.14%)
International	**1.2675**	1.2846	(1.33%)
Mainland China	**0.9969**	0.9729	2.47%
Hong Kong SAR, Macau SAR and Taiwan, China	**2.9031**	2.8650	1.33%
Unit cost			
Operating cost per ASK (RMB)	**0.4269**	0.4298	(0.67%)
Operating cost per ATK (RMB)	**3.3026**	3.3013	0.04%

Note: As at 28 December 2018, the Company completed the transfer of 51% equity interest in Air China Cargo to China National Aviation Capital Holding Co., Ltd., and since then the Company ceased to hold any equity interest in Air China Cargo. Thus, from January 2019, the periodic reports of the Company would no longer contain fleet information of Air China Cargo and the operating data would only include freight data of the bellyhold space of passenger aircraft. The freight data, yield and unit cost of the previous period would no longer contain Air China Cargo's freight data of all freighters, and shall be adjusted to a comparable basis.







During the Reporting Period, the Group's ASKs and RPKs reached 141,728 million and 114,784 million, representing a year-on-year increase of 5.93% and 6.60%, respectively. The passenger load factor was 80.99%, representing a year-on-year increase of 0.51 ppt. The Group's AFTKs reached 5,534 million, representing a year-on-year increase of 3.46%, and RFTKs was 2,333 million, representing a year-on-year decrease of 2.17%. The Group's cargo and mail load factor was 42.16%, representing a year-on-year decrease of 2.43 ppt.

DEVELOPMENT OF FLEET

During the Reporting Period, the Group introduced 19 aircraft including four A350-900, one A330-300, two B737-8MAX, ten A320NEO and two A321NEO, and phased out 12 aircraft including eight B737-800, one A319 and three A320. As at the end of the Reporting Period, the Group operated a fleet of 676 aircraft with an average age of 6.81 years, of which the Company operated a fleet of 415 aircraft with an average age of 7.02 years. The Company introduced 14 aircraft and phased out 8 aircraft, among which two were sold to Air Macau, one was sold to Dalian Airlines and one was sold to Air China Inner Mongolia.

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

	30 June 2019				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Airbus	**342**	**139**	**101**	**102**	**7.10**
A319	44	32	6	6	12.02
A320/A321	223	79	77	67	6.42
A330	65	28	8	29	7.15
A350	10	0	10	0	0.54
Boeing	**329**	**143**	**93**	**93**	**6.50**
B737	277	119	73	85	6.72
B747	10	8	2	0	9.97
B777	28	4	18	6	5.21
B787	14	12	0	2	2.36
Business jets	**5**	**1**	**0**	**4**	**6.90**
Total	**676**	**283**	**194**	**199**	**6.81**

	Introduction Plan			Phase-out Plan		
	2019	2020	2021	2019	2020	2021
Airbus	**43**	**40**	**31**	**6**	**3**	**1**
A319	–	–	–	2	2	–
A320/A321	38	35	24	4	1	1
A330	1	–	–	–	–	–
A350	4	5	7	–	–	–
Boeing	**12**	**50**	**5**	**9**	–	–
B737	12	50	5	9	–	–
COMAC	–	**3**	**6**	–	–	–
ARJ21	–	3	6	–	–	–
Total	**55**	**93**	**42**	**15**	**3**	**1**

HUB NETWORK

The Company adhered to the strategy of developing our diamond-shaped hub network and devoted balanced efforts to the development of both international and domestic route networks. The Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China", which has unique location advantage and has one of the best local government and corporate customer bases. During the Reporting Period, the Company actively promoted the renovation project for Terminal 3 of Beijing Capital International Airport, and completed the planning for relevant route networks and the planning for the operation of "one airport and two terminals", and formulated the plan for the overall renovation of premium lounges. The Company also facilitated the implementation of projects such as the construction of the fourth runway and the construction of landside integrated transportation hub. The Company will continue to concentrate our resources and advantages to develop its principal base in Beijing into a world-class aviation hub with global competitiveness.

In response to the "Belt and Road" Initiative, Beijing Hub launched domestic routes such as Beijing-Kashgar and Beijing-Changzhi and international routes such as Beijing-Phnom Penh and Beijing-Shenzhen-Johannesburg. The Company also optimised the flight schedule and aircraft models for international and domestic routes such as Beijing-London, Beijing-Manila and Beijing-Guangzhou, and optimised flights and interlining services via Beijing Hub. The Company newly opened all entrusted baggage through check services for routes from 24 cities in 11 countries to China via Beijing, covering 96% of total passengers who transit to China from the abroad via Beijing. The number of passengers who used interlining services in Beijing Hub recorded a year-on-year increase of 11%. The size of flights increased continually, and the commercial value of Beijing Hub improved steadily.

The Company continuously expanded route network and developed its hubs. The newly launched or resumed routes included domestic routes such as Shanghai-Hohhot-Xilinhot, Chengdu-Zhengzhou-Changchun and Chengdu-Bazhong-Shanghai and international routes such as Hangzhou-Rome, Hangzhou-Osaka and Tianjin-Osaka. We also increased flight frequencies to Chengdu-Harbin, Shanghai-Xi'an, Shanghai-Paris and other domestic and international routes. With the joint venture cooperation, Shanghai International Gateway has built up more domestic and international route network connection. Leveraging the upcoming completion of Chengdu Tianfu International Airport, Chengdu International Hub is expected to deploy more extensive route network. Shenzhen International Gateway launched the "Belt and Road" routes and supported the development of Guangdong-Hong Kong-Macau Greater Bay Area.

As at the end of 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 28 domestic and international routes, and operated a total of 766 passenger routes, including 605 domestic routes, 132 international routes and 29 regional routes. The Company's passenger routes reached 41 countries and regions and 190 cities, including 120 domestic cities, 67 international cities and 3 regions. The Company proactively carried out international cooperation and 36 global partners offered 15,436 code sharing flights per week. Through cooperation with members of Star Alliance, our service covered 1,317 destinations in 193 countries.

BRAND AND MARKETING

During the Reporting Period, the Company optimised the operation of the entire fleet and improved capacity allocation, and increased the daily utilisation of aircraft by 0.15 hour. The improvement of efficiency and capacity allocation contributed gains of about RMB400 million. We conducted accurate marketing to achieve better alignment between capacity and demand, matching of products and customers, and recorded a year-on-year growth of 0.51 ppt in average passenger load factor. We also refined the policies for premium services on different routes and saw a year-on-year growth of 4.3% in revenue from premium cabins. By introducing products such as the A350 Premium Economy Class, the accumulated sales revenue of our ancillary services and products has increased year-on-year by 73% to RMB160 million. We also stepped up the transformation of business model and further exploited innovative marketing. We improved the sales function and user experience of our mobile platform, and the number of registered users of our application has reached 9.37 million, contributing sales revenue of RMB3,590 million. We enriched ecosystem of our application by launching a payment method by which mileage credits can be used for payment with cash and be spent in various traveling-related scenarios, which has increased the loyalty of our customers. Our program "Phoenix Miles" has a total of 60.09 million members, and its contributed revenue has increased by 6.3% as compared with the corresponding period of last year.

Our brand construction continued to proceed while our brand value steadily increased. We conducted comprehensive, systematic and multi-dimensional brand communication in major European markets, thereby significantly improving brand recognition. Furthermore, we endeavoured to maximise our brand value through the exhibition hall featuring "Wings of Dream (夢之翼)" of Beijing International Horticultural Exhibition, and the "Beijing Cross-Country Skiing Competition (北京越野滑雪大獎賽)" of Beijing 2022 Winter Olympic Games. Our brand communication had won numerous awards, such as the nomination of the "Best Enterprise Brand Communication on the Global Award List" by the PR Week (《公關週刊》全球榜單最佳企業品牌傳播獎), representing the first airline in the world to be nominated with such honor. We also won awards such as the "Best VR/AR" of 2019 Asia Pacific PR Award (亞太公關大獎「最佳VR/AR」獎項) and the "Excellent Chinese Global Brand Award (中國出海品牌卓越獎)".

PRODUCTS AND SERVICES

Through upholding the doctrine of offering sincere service, we effectively enhanced our passengers' experience. We also implemented the "three-all" strategy of service to promote the high-quality development of our products and services. We kept abreast of global standards and strived to improve the competitiveness of services and products. We also continued to promote the benchmarking of service standard system with that of the Star Alliance and the implementation of digital system, "Move under One Roof" programme, Luggage Hub Center and other projects proposed by Star Alliance. Products such as aircraft seats, entertainment systems, compartments on narrow-body aircraft, cabin lightings and other products are continued to be optimised and upgraded. We created innovative aircraft tableware, toiletries and other products, and launched new eco-friendly tableware of economy class, and created a catering brand for the Belt and Road routes. We implemented the whole process management to improve the design ability of service standards. We established the whole process product and service standard system. By the end of the Reporting Period, a total of 75 product and service standards were released. We opened the information flow for the whole process of service. In the first half of the year, 10 aircraft including A320 and B777 were revamped with in-flight wifi. We made great efforts to improve the traveling experience of passengers in an all-round way. We fully promoted self-service check-in, self-service baggage check-in, face recognition and self-boarding, and other convenient travel products. We enriched transit products, expanded transit guidance services and transit lounge booking channels. We created aircraft cultural entertainment scenarios, providing more than 1,031 hours of aircraft entertainment in 28 languages for passengers in the first half of the year.

COORDINATION AND COOPERATION

The Company continued to strengthen the multi-brand strategic cooperation with its member airlines and improved the security audit and management system to cope with the large-scale and multi-brand operation model. We also planned our bases and market layouts as a whole to improve the strategic objective management system to promote the sharing of time slot resources, deploy capacity with market demand and deepen maintenance cost linkage. Furthermore, we constantly convert our strategic advantages into operational advantages by enhancing joint purchasing and implementing data assets consolidation.

We deepened the cooperation with Deutsche Lufthansa AG by strengthening our partnership in secondary markets, lounges and high-end services. We carried out collaboration with Air Canada and made progress in improving yield level of common flight routes, integrating channels and customers, and implementing code sharing, the synergistic effects of which have begun to appear. We continued to enhance the joint, bilateral and multilateral cooperation with airlines companies such as United Airlines, Air New Zealand, Singapore Airlines, and conducted code sharing cooperation with 19 enterprises in Star Alliance with a total of 36 aviation enterprises.

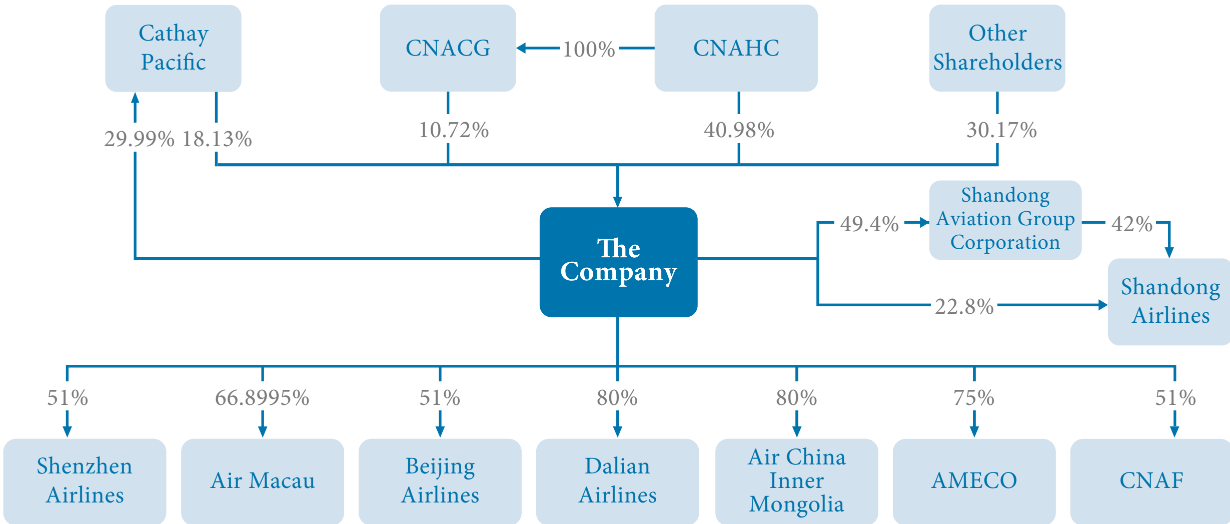
SAFE OPERATION

The Company further promoted the implementation of 30 measures aimed at the sustainable and safe development of the Group by firmly establishing the concept of safe development, holding the bottom line of safety, strictly implementing safety responsibilities and strengthening the whole production process control. We enhanced our ability to handle emergency under irregular conditions such as the prompt launch of consultation mechanism and emergency security. We always maintained high sensitivity to safety and actively responded to situations such as the grounding of B737MAX and technical problems of the aircraft engine of B787, so as to ensure the safe operation of flights. We continued to reinforce the safety foundation by promoting the development of a three-level risk management system and developing a new risk source database. We applied a new flight quality monitoring system which improved the timeliness of data monitoring. We also fully utilised the flight training system and improved the utilisation of training resources. Furthermore, we adopted the new Flight Standard Operating Procedure Manual (SOP) to unify flight procedures of our fleet. We promoted the integration of quality control system. AMECO was awarded the first maintenance license issued by the Civil Aviation Administration of China after the reform of "integrating certificates into one". During the Reporting Period, the Company recorded 1.1292 million safe flight hours and conducted safe take-offs and landings for nearly 410 thousand times.

PROSPECTS

In the second half of the year, the Group will continuously adhere to the important instructions of General Secretary Xi Jinping on civil aviation, stay committed to the underlying principle of pursuing progress while ensuring stability and adhere to the philosophy of high-quality development, so as to unswervingly develop Air China into a top-tier aviation group in the world. The Group will further enhance the management on flight safety, improve risk prevention and control capabilities, improve profitability, optimise the hub network and production organization, as well as improve service quality and passenger experience, so as to greet the 70th anniversary of the founding of the PRC with extraordinary achievements.

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 is owned as to 49.4% by the Company, while Shandong Airlines is owned as to 42% by Shandong Aviation Group Corporation. Accordingly, Shandong Airlines is directly and indirectly owned as to 43.548% by the Company.

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 209 aircraft with an average age of 6.36 years. During the Reporting Period, 2 aircraft were introduced and 7 aircraft were phased out.

During the Reporting Period, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 35,028 million, representing a year-on-year increase of 9.47%. Its RPKs reached 28,416 million, representing a year-on-year increase of 8.33%. Shenzhen Airlines (including Kunming Airlines) carried 18.4575 million passengers, representing a year-on-year increase of 6.36%. The average passenger load factor was 81.12%, representing a year-on-year decrease of 0.86 ppt.

In terms of air cargo, the AFTKs of Shenzhen Airlines (including Kunming Airlines) reached 644 million, representing a year-on-year increase of 11.09%. Its RFTKs reached 316 million, representing a year-on-year increase of 9.10%. The volume of cargo and mail carried by Shenzhen Airlines (including Kunming Airlines) was 0.1879 million tonnes, representing a year-on-year increase of 7.21%, while the cargo and mail load factor was 49.10%, representing a year-on-year decrease of 0.90 ppt.

During the Reporting Period, Shenzhen Airlines recorded a consolidated revenue of RMB15,610 million, representing a year-on-year increase of 3.70%, of which, air traffic revenue amounted to RMB15,145 million, representing a year-on-year increase of 3.19%. The profit attributable to equity shareholders of Shenzhen Airlines was RMB466 million, representing a year-on-year decrease of 11.57%.

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 22 aircraft with an average age of 7.10 years. In the first half of 2019, 5 aircraft were introduced and 1 aircraft was phased out.

During the Reporting Period, the ASKs of Air Macau reached 3,682 million, representing a year-on-year increase of 16.07%. Its RPKs reached 2,998 million, representing a year-on-year increase of 15.82%. It carried a total of 1.7994 million passengers, representing a year-on-year increase of 17.90%, with an average passenger load factor of 81.42%, representing a year-on-year decrease of 0.17 ppt.

In terms of air cargo, the AFTKs of Air Macau reached 57.6694 million, representing a year-on-year increase of 14.41%. Its RFTKs reached 12.2869 million, representing a year-on-year decrease of 21.83%. 7,442.21 tonnes of cargo and mail were carried, representing a year-on-year decrease of 23.34%; the cargo and mail load factor was 21.31%, representing a year-on-year decrease of 9.87 ppt.

During the Reporting Period, Air Macau recorded a revenue of RMB1,853 million, representing a year-on-year increase of 12.85%, of which, air traffic revenue amounted to RMB1,839 million, representing a year-on-year increase of 12.96%. The profit after taxation was RMB71 million, representing a year-on-year decrease of RMB45 million.

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 6.90 years. During the Reporting Period, Beijing Airlines completed 146 flights for business charter service, representing a year-on-year decrease of 35.9%. It completed 519 flying hours, representing a year-on-year decrease of 33.5%. It carried a total of 1,002 passengers during the Reporting Period, representing a year-on-year decrease of 19.6%.

As at the end of the Reporting Period, Beijing Airlines operated a fleet of three aircraft with an average age of 9.58 years. During the Reporting Period, the ASKs of Beijing Airlines reached 393 million. Its RPKs reached 328 million and it carried a total of 0.3661 million passengers during the Reporting Period, with an average passenger load factor of 83.45%. In terms of air cargo, the AFTKs of Beijing Airlines reached 4.7426 million. Its RFTKs reached 1.8863 million. It carried a total of 2,286.58 tonnes of cargo and mail during the Reporting Period, and the cargo and mail load factor was 39.77%.

During the Reporting Period, Beijing Airlines recorded a revenue of RMB367 million, representing a year-on-year increase of RMB312 million, of which, air traffic revenue amounted to RMB349 million, representing a year-on-year increase of RMB316 million. The profit after taxation was RMB48 million, as compared to the loss after taxation of RMB17 million in the same period last year.

Dalian Airlines

Dalian Airlines was established in 2011 and completed capital contribution by shareholders at the end of April 2019, with its registered capital increased from RMB1 billion to RMB3 billion. Air China holds 80% of its equity interest.

As at the end of the Reporting Period, Dalian Airlines operated a fleet of 12 aircraft with an average age of 5.65 years. One aircraft was introduced during the first half of 2019.

During the Reporting Period, the ASKs of Dalian Airlines reached 1,674 million, representing a year-on-year increase of 7.58%. Its RPKs reached 1,420 million, representing a year-on-year increase of 8.04%. It carried a total of 1.2336 million passengers, representing a year-on-year increase of 4.94%, with an average passenger load factor of 84.82%, representing a year-on-year increase of 0.37 ppt.

In terms of air cargo, the AFTKs of Dalian Airlines reached 19.9291 million, representing a year-on-year increase of 3.13%. Its RFTKs reached 8.2704 million, representing a year-on-year increase of 12.06%. It carried a total of 6,989.72 tonnes of cargo and mail, representing a year-on-year increase of 2.42%. Its cargo and mail load factor was 41.50%, representing a year-on-year increase of 3.31 ppt.

During the Reporting Period, Dalian Airlines recorded a revenue of RMB864 million, representing a year-on-year increase of 7.73%, of which, air traffic revenue amounted to RMB863 million, representing a year-on-year increase of 8.01%. Profit after taxation was RMB68 million, representing a year-on-year decrease of 15.00%.

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 10 aircraft with an average age of 7.45 years. One aircraft was introduced during the first half of 2019.

During the Reporting Period, the ASKs of Air China Inner Mongolia reached 1,382 million, representing a year-on-year increase of 38.54%. Its RPKs reached 1,118 million, representing a year-on-year increase of 38.61%. It carried a total of 1.0240 million passengers, representing a year-on-year increase of 24.11%, with an average passenger load factor of 80.91%, representing a year-on-year increase of 0.04 ppt.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 16.9117 million, representing a year-on-year increase of 12.32%. Its RFTKs reached 5.6517 million, representing a year-on-year increase of 4.08%. The amount of cargo and mail carried by Air China Inner Mongolia was 5,396.68 tonnes, representing a year-on-year increase of 3.56%, with a cargo and mail load factor of 33.42%, representing a year-on-year decrease of 2.65 ppt.

During the Reporting Period, Air China Inner Mongolia recorded a revenue of RMB814 million, representing a year-on-year increase of 33.22%, of which, air traffic revenue amounted to RMB806 million, representing a year-on-year increase of 33.44%. Profit after taxation was RMB106 million, representing a year-on-year increase of 58.21%.

AMECO

AMECO was established in 1989 and 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 RMB3,912 million, representing a year-on-year increase of 11.17%. Profit after taxation amounted to RMB97 million, representing a year-on-year increase of 36.62%.

CNAF

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

During the Reporting Period, CNAF recorded a revenue of RMB140 million, representing a year-on-year increase of 50.54%, and recorded profit after taxation of RMB53 million, remaining stable as compared to the corresponding period of last year.

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 216 aircraft.

During the Reporting Period, the ASKs of Cathay Pacific reached 80,814 million, representing a year-on-year increase of 6.7%. Its RPKs reached 68,078 million, representing a year-on-year increase of 6.7%. A total of 18.261 million passengers were carried, representing a year-on-year increase of 4.4%, with an average passenger load factor of 84.2%, remaining stable as compared to the corresponding period of last year.

In terms of air cargo, the AFTKs of Cathay Pacific reached 8,635 million, representing a year-on-year increase of 1.1%. Its RFTKs reached 5,477 million, representing a year-on-year decrease of 6.1%. It carried a total of 0.979 million tonnes of cargo and mail, representing a year-on year decrease of 5.7%. The cargo and mail load factor was 63.4%, representing a year-on-year decrease of 4.9 ppt.

During the Reporting Period, Cathay Pacific recorded a consolidated revenue of RMB47,011 million, representing a year-on-year increase of 5.50%, of which, air traffic revenue amounted to RMB42,972 million, representing a year-on-year increase of 5.71%. The profit attributable to equity shareholders of Cathay Pacific was RMB1,183 million, as compared with loss of RMB221 million attributable to equity shareholders of Cathay Pacific for the corresponding period of last year.

Shandong Airlines

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

As at the end of the Reporting Period, Shandong Airlines operated a fleet of 124 aircraft with an average age of 5.80 years. 2 aircraft were introduced during the first half of 2019.

During the Reporting Period, the ASKs of Shandong Airlines reached 21,869 million, representing a year-on-year increase of 3.28%. Its RPKs reached 18,368 million, representing a year-on-year increase of 3.48%. It carried a total of 12.3910 million passengers, representing a year-on-year increase of 1.66%, with an average passenger load factor of 83.99%, representing a year-on-year increase of 0.16 ppt.

In terms of air cargo, the AFTKs of Shandong Airlines reached 390 million, representing a year-on-year increase of 11.01%. Its RFTKs reached 146 million, representing a year-on-year increase of 3.59%. It carried a total of 0.0858 million tonnes of cargo and mail, representing a year-on-year increase of 1.58%. The cargo and mail load factor was 37.49%, representing a year-on-year decrease of 2.69 ppt.

During the Reporting Period, Shandong Airlines recorded a consolidated revenue of RMB8,989 million, representing a year-on-year increase of 2.98%, of which air traffic revenue amounted to RMB8,630 million, representing a year-on-year increase of 2.52%. The loss attributable to equity shareholders of Shandong Airlines was RMB27 million, as compared with profit of RMB204 million attributable to equity shareholders of Shandong Airlines for the corresponding period of last year.

PARTICULARS OF EMPLOYEES

As at the end of the Reporting Period, the Company had a total of 28,261 employees, and the subsidiaries of the Company had a total of 57,341 employees.

Upholding the concept of "paying salary with reference to the value of job, personal ability as well as performance appraisal" and focusing 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. During the Reporting Period, the Company continued to develop its market benchmark system for position compensation and promote the pilot reform of talent mechanism for market-oriented remuneration, and has fully mobilised the enthusiasm and creativity of our employees.

The following discussion and analysis are based on the Group's interim condensed consolidated financial statements and notes thereto prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules and are designed to assist the readers in further understanding the information provided in this announcement so as to better understand the financial conditions and results of operations of the Group as a whole.

PROFIT ANALYSIS

During the Reporting Period, the Group's profit from operations increased year-on-year by 1.52% to RMB6,742 million. In the first half of 2019, the air transport market of the PRC showed a general balance between supply and demand where there was a strong need for domestic travel and a modest need for international/regional travel. However, the relatively fast-growing transport capacity has surpassed the growing demand. The Group acted in accordance with the market condition and further strengthened the advantages of economies of scale of our core air transport business by adopting measures including optimising operational arrangement, stabilising the yield level and refining cost control. For the Reporting Period, the Group has achieved relatively satisfactory results despite the impact factors such as oil price, exchange rate fluctuation.

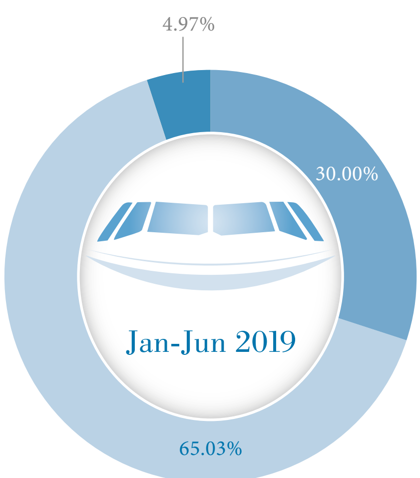
REVENUE

During the Reporting Period, the Group's revenue was RMB65,313 million, representing a year-on-year increase of RMB1,071 million or 1.67%. Among which, air traffic revenue was RMB62,681 million, representing a year-on-year increase of RMB712 million or 1.15%. Other operating revenue was RMB2,632 million, representing a year-on-year increase of RMB359 million or 15.79%.

REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**19,595,260**	**30.00%**	19,827,425	30.86%	(1.17%)
Mainland China	**42,475,188**	**65.03%**	41,551,486	64.68%	2.22%
Hong Kong SAR, Macau SAR and Taiwan, China	**3,242,639**	**4.97%**	2,863,411	4.46%	13.24%
Total	**65,313,087**	**100.00%**	64,242,322	100.00%	1.67%

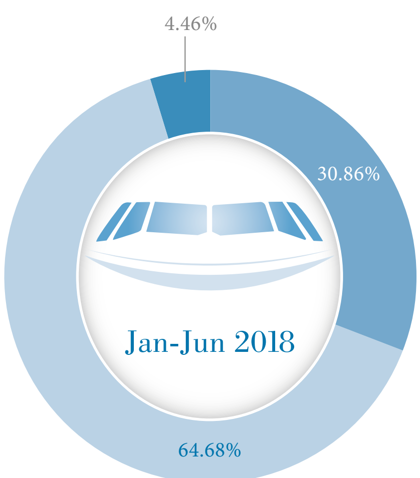
Proportion of Revenue Contributed by Geographical Segments in Graph



International

Mainland China

Hong Kong SAR, Macau SAR and Taiwan, China



AIR PASSENGER REVENUE

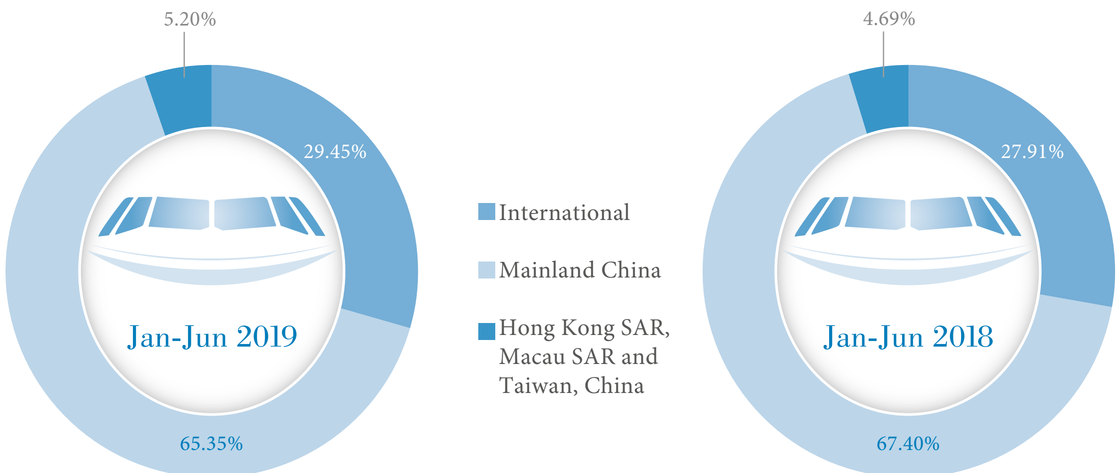
During the Reporting Period, the Group recorded an air passenger revenue of RMB59,851 million, representing an increase of RMB2,957 million or 5.20% over that of the same period of 2018. Among the air passenger revenue, the increase of capacity contributed an increase in revenue of RMB3,371 million, the increase of passenger load factor contributed an increase in revenue of RMB382 million, while the decrease of passenger yield resulted in a decrease in revenue of RMB796 million. The capacity, passenger load factor and yield per RPK of air passenger business during the Reporting Period are as follows:

	For the six months ended 30 June		
	2019	2018	Change
Available seat kilometres (million)	**141,728.21**	133,799.77	5.93%
Passenger load factor (%)	**80.99**	80.48	0.51ppt
Yield per RPK (RMB)	**0.5214**	0.5282	(1.29%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**17,624,133**	**29.45%**	15,877,693	27.91%	11.00%
Mainland China	**39,110,239**	**65.35%**	38,347,915	67.40%	1.99%
Hong Kong SAR, Macau SAR and Taiwan, China	**3,116,139**	**5.20%**	2,668,322	4.69%	16.78%
Total	**59,850,511**	**100.00%**	56,893,930	100.00%	5.20%

Proportion of Air Passenger Revenue Contributed by Geographical Segments in Graph



AIR CARGO AND MAIL REVENUE

During the Reporting Period, the Group's air cargo and mail revenue was RMB2,830 million, representing a decrease of RMB2,245 million as compared with that of the same period of 2018. Excluding the impact of deconsolidation of Air China Cargo, air cargo and mail revenue decreased by RMB67 million year-on-year. Among the air cargo and mail revenue, the increase of capacity contributed an increase in revenue of RMB100 million, while the decrease of cargo and mail load factor resulted in a decrease in revenue of RMB163 million, and the decrease of yield of cargo and mail resulted in a decrease in revenue of RMB4 million. The capacity, cargo and mail load factor and yield per RFTK of air cargo and mail business during the Reporting Period are as follows:

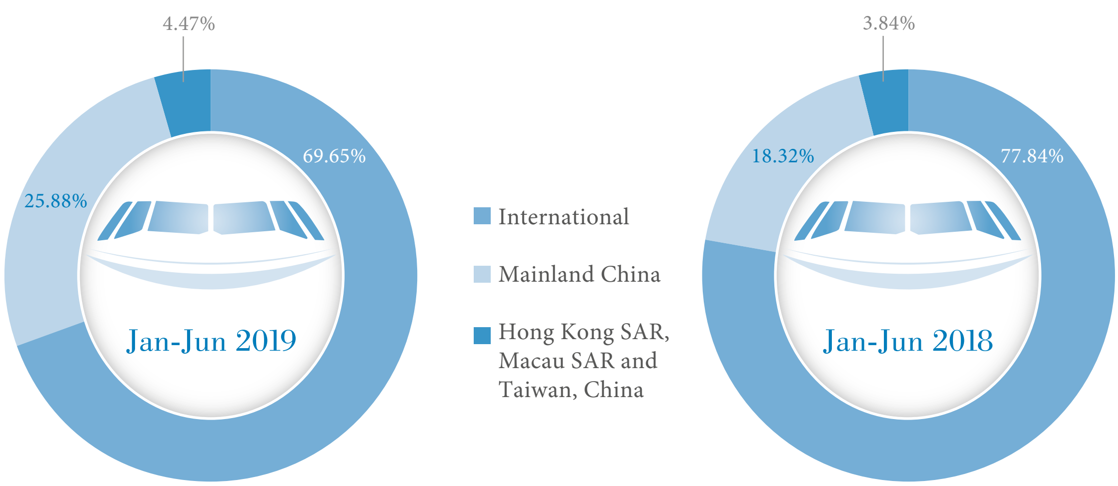
	For the six months ended 30 June		
	2019	2018	Change
Available freight tonne kilometres (million)	**5,534.23**	5,349.36	3.46%
Cargo and mail load factor (%)	**42.16**	44.59	(2.43ppt)
Yield per RFTK (RMB)	**1.2128**	1.2145	(0.14%)

Note: Data of the six months ended 30 June 2018 excluding the freight transportation data of freighters of Air China Cargo.

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**1,971,127**	**69.65%**	3,949,732	77.84%	(50.09%)
Mainland China	**732,437**	**25.88%**	929,866	18.32%	(21.23%)
Hong Kong SAR, Macau SAR and Taiwan, China	**126,500**	**4.47%**	195,089	3.84%	(35.16%)
Total	**2,830,064**	**100.00%**	5,074,687	100.00%	(44.23%)

Proportion of Air Cargo and Mail Revenue Contributed by Geographical Segments in Graph

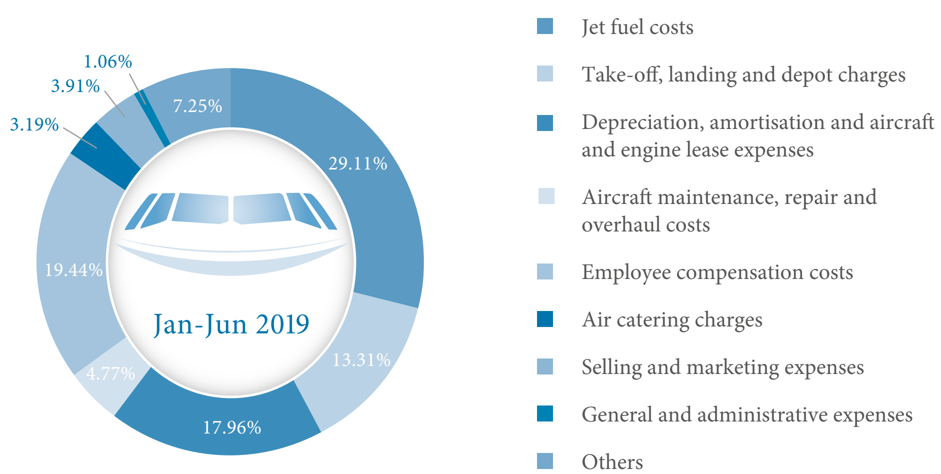


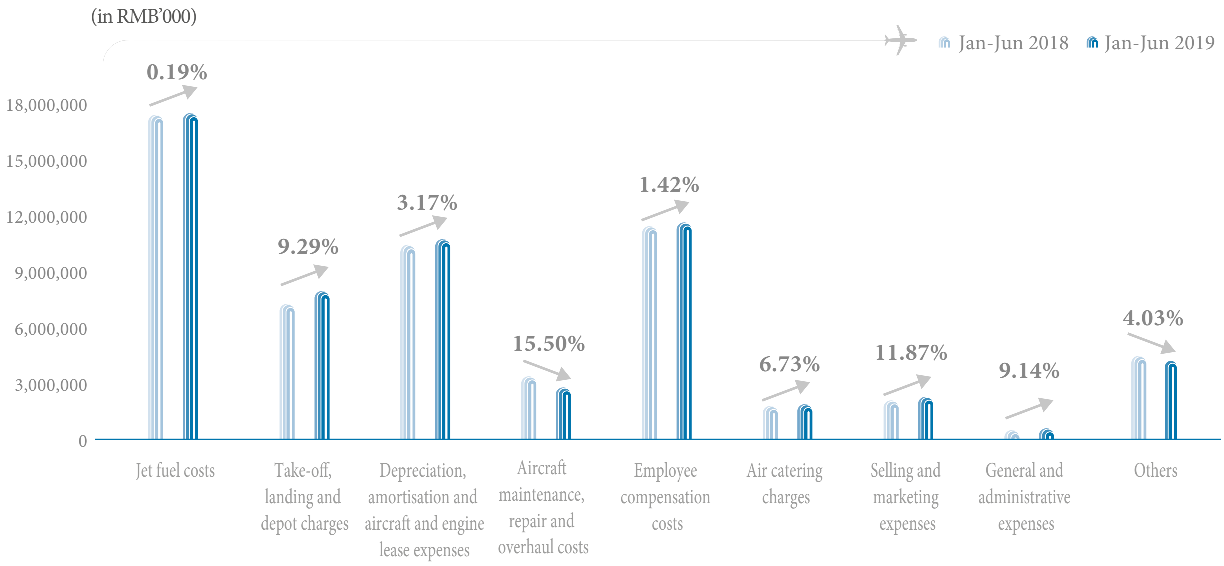
OPERATING EXPENSES

During the Reporting Period, the Group's operating expenses were RMB60,502 million, representing an increase of 1.56% from RMB59,574 million in the same period of previous year. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**17,614,613**	**29.11%**	17,581,987	29.51%	0.19%
Take-off, landing and depot charges	**8,055,126**	**13.31%**	7,370,150	12.37%	9.29%
Depreciation, amortisation and aircraft and engine lease expenses	**10,862,757**	**17.96%**	10,528,849	17.67%	3.17%
Aircraft maintenance, repair and overhaul costs	**2,886,110**	**4.77%**	3,415,660	5.73%	(15.50%)
Employee compensation costs	**11,760,502**	**19.44%**	11,596,358	19.47%	1.42%
Air catering charges	**1,928,614**	**3.19%**	1,806,920	3.03%	6.73%
Selling and marketing expenses	**2,365,467**	**3.91%**	2,114,512	3.55%	11.87%
General and administrative expenses	**643,591**	**1.06%**	589,720	0.99%	9.14%
Others	**4,385,384**	**7.25%**	4,569,491	7.68%	(4.03%)
Total	**60,502,164**	**100.00%**	59,573,647	100.00%	1.56%

- Jet fuel costs increased by RMB33 million or 0.19% on a year-on-year basis.
- Take-off, landing and depot charges increased by RMB685 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.
- Depreciation, amortisation and aircraft and engine lease expenses increased by RMB334 million on a year-on-year basis, mainly due to the increase in the number of self-owned and leased aircraft.
- Aircraft maintenance, repair and overhaul costs decreased by RMB530 million on a year-on-year basis, mainly due to the impact of implementing New Lease Standard during the Reporting Period.
- Employee compensation costs increased by RMB164 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 RMB122 million on a year-on-year basis, mainly due to the increase in the number of passengers.
- Selling and marketing expenses increased by RMB251 million on a year-on-year basis, mainly due to the impact of no longer consolidating Air China Cargo into account and the increase in booking fees resulting from the increase in the number of passengers during the Reporting Period.
- Other operating expenses mainly included contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from the core air traffic business, which decreased by 4.03% on a year-on-year basis.





NET EXCHANGE LOSS AND FINANCE COSTS

During the Reporting Period, the Group recorded a net exchange loss of RMB119 million, representing a year-on-year decrease of RMB399 million. The Group incurred finance costs of RMB2,440 million (excluding those capitalised) during the Reporting Period, representing a year-on-year increase of RMB1,070 million, mainly due to the impact of adopting New Lease Standard.

SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the Group's share of profits of its associates was RMB146 million, representing a year-on-year increase of RMB69 million. Among which, the Group recorded a gain on investment of Cathay Pacific of RMB199 million during the Reporting Period, as compared with the loss on investment of RMB157 million for the same period of previous year.

During the Reporting Period, the Group's share of profits of its joint ventures was RMB112 million, representing a year-on-year decrease of RMB3 million, mainly due to the slight decrease in the profits of joint ventures during the Reporting Period.

ASSETS STRUCTURE ANALYSIS

Since the adoption of New Lease Standard, the total assets of the Group as at 1 January 2019 was RMB280,374 million, representing an increase of RMB36,717 million from that as at 31 December 2018. As at the end of the Reporting Period, the total assets of the Group was RMB285,454 million, representing an increase of 1.81% from that as at 1 January 2019. Among which, the current assets accounted for RMB25,587 million or 8.96% of the total assets, while the non-current assets accounted for RMB259,867 million or 91.04% of the total assets.

Among the current assets, cash and cash equivalents were RMB7,625 million, representing an increase of 12.74% from that as at 1 January 2019.

Among the non-current assets, the net book value of property, plant and equipment and right-of-use assets as at the end of the Reporting Period was RMB214,787 million, representing an increase of 1.67% from that as at 1 January 2019.

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 RMB79,577 million (approximately RMB85,514 million as at 31 December 2018) and land use rights with net book value of approximately RMB28 million (approximately RMB28 million as at 31 December 2018). In addition, the Group had restricted bank deposits of approximately RMB750 million (approximately RMB1,044 million as at 31 December 2018), which were mainly reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

During the Reporting Period, the Group's capital expenditure amounted to a total of RMB9,667 million, of which the total investment in aircraft and engines was RMB8,965 million. Other capital expenditure investment amounted to RMB702 million, mainly including investment in expensive rotable parts, 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 RMB14,369 million, representing an increase of 2.07% from that as at 1 January 2019. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB12,225 million, RMB1,055 million and RMB522 million, respectively. Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines recorded a net profit attributable to the parent of RMB1,183 million, a net profit attributable to the parent of RMB17 million and a net loss attributable to the parent of RMB27 million, respectively, for the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,408 million, representing a decrease of 1.35% from that as at 1 January 2019.

DEBT STRUCTURE ANALYSIS

As at the end of the Reporting Period, the total liabilities of the Group amounted to RMB188,487 million, representing an increase of 1.36% from those as at 1 January 2019, among which current liabilities were RMB77,791 million and non-current liabilities were RMB110,696 million, accounting for 41.27% and 58.73% of the total liabilities, respectively.

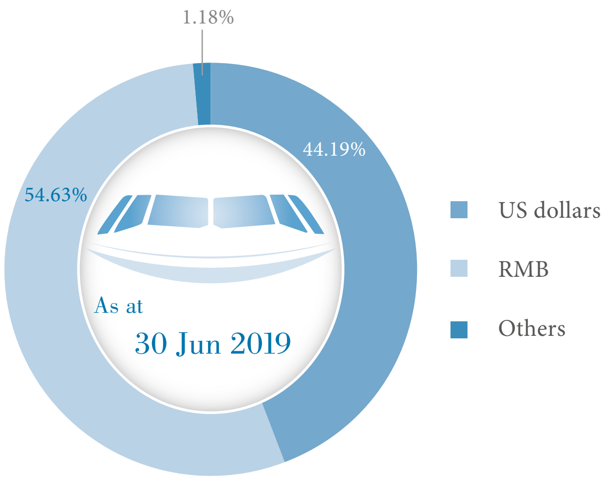
Among the current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and lease liabilities) amounted to RMB36,894 million, representing a decrease of 6.41% from that as at 1 January 2019, mainly due to the decrease of working capital loans of the Group.

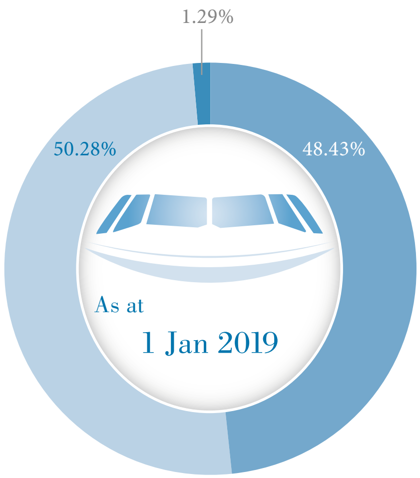
Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and lease liabilities) amounted to RMB99,808 million, representing an increase of 2.99% from that as at 1 January 2019.

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

(in RMB'000)	30 June 2019 Amount	30 June 2019 Percentage	1 January 2019 Amount	1 January 2019 Percentage	Change
US dollars	**60,410,706**	**44.19%**	66,022,894	48.43%	(8.50%)
RMB	**74,682,473**	**54.63%**	68,549,101	50.28%	8.95%
Others	**1,608,696**	**1.18%**	1,757,348	1.29%	(8.46%)
Total	**136,701,875**	**100.00%**	136,329,343	100.00%	0.27%

Proportion of Interest-bearing Debts by Currency in Graph





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 24.43% from RMB39,269 million as at 31 December 2018 to RMB29,677 million as at the end of the Reporting Period. The Group's investment commitments, which were mainly used in the investment agreements, amounted to RMB59 million as at the end of the Reporting Period, which was basically flat with that as at 31 December 2018.

Details of the Group's contingent liabilities are set out in note 19 of the condensed consolidated financial statements included in this interim report.

GEARING RATIO

The Group implemented New Lease Standard from 1 January 2019, and gearing ratio (total liabilities divided by total assets) at the beginning of the year increased by 7.58 percentage points from that as at 31 December 2018 to 66.33%. As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 66.03%, representing a decrease of 0.30 percentage point from the gearing ratio as at 1 January 2019. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a 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 RMB52,203 million, representing a decrease of RMB2,269 million from that as at 1 January 2019. The Group's current ratio (current assets divided by current liabilities) was 0.33, representing an increase as compared to that of 0.30 as at 1 January 2019.

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 RMB13,075 million, representing an increase of 11.64% from RMB11,712 million for the corresponding period in 2018, which is mainly because operating lease expenses paid during the Reporting Period were included in financing activities as repayment of lease liabilities according to the New Lease Standard. Net cash outflow from investing activities was RMB3,456 million, representing a decrease of 59.11% from RMB8,451 million for the corresponding period in 2018, 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 RMB8,703 million, as compared with the net cash inflow from financing activities of RMB120 million for the same period of previous year, mainly due to the improved efficiency of funds use, the optimised debt structure and the impact of implementing New Lease Standard by the Group.

The Company has obtained bank facilities of up to RMB131,216 million granted by several banks in the PRC, among which approximately RMB18,183 million has been utilised. The remaining amount is sufficient to meet our demands on working capital and future capital commitments.

POTENTIAL RISKS

Risks of External Environment

Market Fluctuation

The demand in the air transport market is closely linked to the economic growth and the level of national income. The economic growth rate of China for the year of 2019 is expected to remain at 6.0% to 6.5%. With the continuous deepening of structural adjustment of economy, China's economic growth will continue to stay within a reasonable range. However, due to the interlaced impacts of the structural and cyclical factors and other external uncertainties, the pressure of economic slowdown and risk of market volatility still exist.

Oil Price Fluctuation

At present, the oil price remains at a relatively stable level. In the future, with material uncertainties in respect of factors such as slowdown of global economy, crude oil supply and geopolitics, it is expected that there still exist certain risks of oil price fluctuation. Jet fuel constitutes one of the major components of the Group's operating costs, and 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 RMB881 million.

Exchange Rate Fluctuation

Since the beginning of the year, due to the further slowdown of global economy and the overall downturn of developed countries' economy, the monetary policies of major economies around the world all show a loose trend at present. The general market expects the Federal Reserve to lower the interest rates again in the second half of the year, and the Euro Area and Japan continue to adhere to a loose monetary policy. Since the Chinese economy was still underpinned by strong fundamentals, the progress and stability of its economic development has been ensured, while the sufficient tool and room for policy adjustments established a solid foundation for the RMB exchange rate which is expected to maintain a two-way fluctuation around a reasonable and balanced level.

Certain lease liabilities and bank and other loans of the Group are primarily denominated in US dollar, Euro and Japanese Yen. Some of the revenue and expenses of the Group's international operations are denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and shareholders' equity as at the end of the Reporting Period by RMB480 million, respectively; the appreciation or depreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and shareholders' equity as at the end of the Reporting Period by RMB5.86 million; and the appreciation or depreciation of RMB against Japanese Yen by 1% due to the changes in the exchange rate will result in an increase or decrease in the Group's net profit and shareholders' equity as at the end of the Reporting Period by RMB10.77 million, respectively.

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 may decelerate their penetration in some global market including the US market due to the impact of international situations, an increasing number of medium-sized domestic airlines are actively applying for flying medium- and long-haul international routes, and as a result, it will be harder to get the international air traffic rights. Due to the previous industry deregulation, competition in the domestic market has further intensified, which may result in reduced yield for the Company.

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 provides customers with 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, as high-speed railway transportation and civil aviation may actually cooperate and compete, the air-rail interline operation can provide strong support for the construction of international hubs. As for the domestic routes, as the Company's 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.

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 to America, Europe, Australia and Africa as an example, in 2009, international long-haul routes were only operated in three second-tier cities in China, but as of June 2019 the number has increased to 24. 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.

DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

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

Mr. John Robert Slosar is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H Shares of the Company as at the end of the Reporting Period, which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Cathay Dragon. Mr. Cai Jianjiang, the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, the executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and 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 of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which shall be disclosed under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and chief executive of the Company, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Type and number of shares held	Percentage of the total issued shares of the Company	Percentage of the total issued A Shares of the Company	Percentage of the total issued H Shares of the Company	Short position
CNAHC[1]	Beneficial owner	5,952,236,697 A Shares	40.98%	59.75%	–	–
	Interest of controlled corporation	1,332,482,920 A Shares	9.17%	13.38%	–	–
	Interest of controlled corporation	223,852,000 H Shares	1.54%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A Shares	9.17%	13.38%	–	–
	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]	Interest of controlled corporation	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited[2]	Interest of controlled corporation	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons Limited[2]	Interest of controlled corporation	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 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 55.12% equity interest and 64.12% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% equity 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.

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 any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

TOTAL NUMBER OF SHAREHOLDERS

Total number of holders of ordinary shares as at the end of the Reporting Period (account)	159,245 accounts, of which 3,248 accounts are registered holders of H Shares

INFORMATION OF SHAREHOLDERS

Unit: Share

Shareholdings of the top 10 shareholders							
					Shares pledged or frozen		
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	Status	Number	Nature of shareholder
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	359,969	1,688,108,428	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	-1,902,600	466,583,102	3.21	0	Nil	0	State-owned legal person
China Securities Finance Corporation Limited	0	311,302,365	2.14	0	Nil	0	State-owned legal person
Zhongyuan Equity Investment Management Co., Ltd.	-128,369,700	128,369,705	0.88	0	Unknown	128,369,705	State-owned legal person
Hong Kong Securities Clearing Company Limited	27,297,238	75,066,323	0.52	0	Nil	0	Foreign legal person
China Merchants Bank Co., Ltd. – Bosera CSI Central- SOEs' Structural Reform Index ETF	15,770,505	37,660,905	0.26	0	Nil	0	Domestic non-state-owned legal person
China Merchants Bank Co., Ltd. – Everbright PGIM Advantage Allocation Hybrid Fund	31,119,800	31,119,800	0.21	0	Nil	0	Domestic non-state-owned legal person

Unit: Share

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	1,688,108,428	Overseas listed foreign shares	1,688,108,428
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares	1,332,482,920
		Overseas listed foreign shares	223,852,000
China National Aviation Fuel Group Corporation	466,583,102	RMB ordinary shares	466,583,102
China Securities Finance Corporation Limited	311,302,365	RMB ordinary shares	311,302,365
Zhongyuan Equity Investment Management Co., Ltd.	128,369,705	RMB ordinary shares	128,369,705
Hong Kong Securities Clearing Company Ltd.	75,066,323	RMB ordinary shares	75,066,323
China Merchants Bank Co., Ltd. – Bosera CSI Central-SOEs' Structural Reform Index ETF	37,660,905	RMB ordinary shares	37,660,905
China Merchants Bank Co., Ltd. – Everbright PGIM Advantage Allocation Hybrid Fund	31,119,800	RMB ordinary shares	31,119,800
Explanation on the related parties or concerted parties' relations of the Shareholders above	CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC 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 1,688,108,428 H shares held by it in the Company do not include the 166,852,000 shares held by it as nominee of CNACG.

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

Unit: Share

Shareholdings of the top 10 shareholders subject to selling restrictions and conditions of selling restrictions					
		Number of shares held subject to selling restrictions	Listing and trading of shares subject to selling restrictions		
No.	Name of shareholder 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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Reporting Period.

COMPLIANCE WITH THE MODEL CODE

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

ENVIRONMENTAL PROTECTION INFORMATION

The Company attached great importance to energy saving and emission reduction as well as ecological and environmental protection. Hence, it has always combined its development with the construction of social ecological civilisation. In accordance with CNAHC's "Three-Year Action Plan to Win the Battle for a Blue Sky", the Company has conducted comprehensive energy saving and emission reduction programmes from air to ground and has kept on accelerating its progress in green development in order to maintain its leading position in terms of energy saving and emission reduction in the industry and become a resource-saving and environmental-friendly enterprise.

The structure of the fleet has been optimised to enhance the performance and efficiency. During the Reporting Period, the Group continued to introduce new aircraft models with better performance in fuel saving and environmental protection. With the introduction of the 19 aircraft, including the new A350-900 and A320NEO series, the structure and fuel efficiency of the aircraft fleet were constantly improved.

In-depth fuel saving measures are being carried out to reinforce management and control over fuel saving programmes. The Company adopted measures such as deepening redispatch, prompting the monitoring and management of aircraft performance, executing aircraft weight-reduction, enhancing the accuracy in the preloading of flights, furthering the selection and optimising of international air routes, optimising domestic air route structure and implementing EFB (Electronic Flight Bag) paperless operation. During the Reporting Period, we saved fuel of 6,609.9 tonnes and reduced carbon dioxide emissions by 20,821.2 tonnes.

The Company continuously promoted the fuel saving programmes by replacing APU with ground equipment, and completed bridge programmes in various airports in China. During the Reporting Period, the Company's utilisation rate of ground equipment in replace of APU reached over 85% in domestic airports.

The Company vigorously promotes the doctrine "fuel to electricity" on a large scale to facilitate the changes in energy consumption on the ground and has become one of the leading domestic airlines in terms of possession of electric vehicles. Most internally-used special vehicles in airports such as aircraft tractors, large shuttle buses, mobile aircraft stairways and baggage tractors are now powered by electricity instead of diesel. The Company also collaborated with various parties to build numerous types of charging equipment for electric vehicles in main operating areas. Meanwhile, the Company actively explores and develops electric taxiing systems that allow aircraft to taxi without requiring the use of aircraft engines which reduce fuel volumes used by aircraft. Also, the method to control aircraft tractors remotely is implemented to digitalise ground equipment further. As a result, the Company reduced greenhouse gas emission during ground operations and optimised flight procedures, increasing its efficiency.

The Company actively promoted the carbon emission reduction works and continued to take part in the trading of carbon emissions with the European Union and Beijing, actively promoted the construction of carbon emission system, and strived to enhance the level of the scientific management of carbon emissions. Meanwhile, the Company took part in the research and discussion on the relevant policies on carbon emissions of the CAAC and the ICAO, the organisation of carbon emission work conferences of the CATA and the IATA for continuously enhancing its handling ability in carbon emissions.

The Company performs its corporate social responsibilities by promoting energy saving and environmental protection. With the themes such as "green development, putting a priority on energy saving" (綠色發展，節能先行) and "I am an activist in winning the Battle for a Blue Sky", the Company performed various promotion activities consecutively through different channels such as the internal and external publications of the Company, social media and themed flights to actively make use of its function as a service window for delivering green environmental protection concept to travelers, promoting "energy saving, consumption reduction and low carbon life" among travelers and practicing the Eco-Environmental Code of Conduct for Citizens (《公民生態環境行為規範》).

In the future, the Company will continue to profoundly explore the concept of "Green mountains and clear water are equal to mountains of gold and silver" to build an industrial system of green low-carbon circulating development. The Company insists on the development concept of "green operation, sustainable development" and follows the development ways featuring "green, low-carbon, circulating, and sustainable" to reduce unit energy consumption for realising growth with low carbon, promote green upgrading by optimising consumption structure, guarantee environmental standards by implementing systematic management and control, and enhance environmental and public welfare for demonstrating its undertakings as a state-owned enterprise.

USE OF THE PROCEEDS RAISED IN THE NON-PUBLIC ISSUANCE OF A SHARES

On 10 March 2017, the Company completed the non-public issuance 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
Purchase of 15 Boeing B787 aircraft	7,450	–	7,450	–
Upgrade of e-commerce direct sale project	100	21.4497	65.0798	34.9202
On-board WIFI (first phase) project	50.4185	–	–	50.4185
Replenish the working capital	3,600	–	3,600	–
Total:	11,200.4185	21.4497	11,115.0798	85.3387

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 RMB131.997 million, where the outstanding amount of net proceeds to be invested in the projects was RMB85.3387 million, and the interest income of the net proceeds was RMB46.6583 million.

CHANGES IN THE INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

On 27 March 2019, Mr. Cao Jianxiong ceased to act as the Vice President of the Company. After being reviewed by the Nomination and Remuneration Committee under the Board, Mr. Cao Jianxiong was nominated as non-executive Director of the Company at the 10th meeting of the fifth session of the Board. On 30 May 2019, after being approved at the 2018 Annual General Meeting of the Company, Mr. Cao Jianxiong was elected as non-executive Director of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company (the term "securities" has the meaning ascribed to it under paragraph 1 of Appendix 16 to the Listing Rules).

INTERIM DIVIDEND

No interim dividend will be paid by the Company for the six months ended 30 June 2019.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The Audit and Risk Control Committee of the Company had reviewed the Company's interim report for the six months ended 30 June 2019, the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

OTHER INFORMATION

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed herein, the Company confirms that the current information of the Company in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2018 Annual Report.

SUBSEQUENT EVENTS

On 11 July 2019, the Company and Air China Import and Export Co., Ltd. (國航進出口有限公司) (a wholly-owned subsidiary of the Company) entered into an aircraft purchase agreement with Airbus Company, pursuant to which the Company has agreed to purchase 20 A350-900 aircraft from Airbus Company. For details, please refer to the announcement of the Company dated 11 July 2019.

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF AIR CHINA LIMITED
(中國國際航空股份有限公司)
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 72, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 August 2019

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4A	**65,313,087**	64,242,322
Other income and gains	5	**1,931,447**	1,972,760
		67,244,534	66,215,082
Operating expenses			
Jet fuel costs		**(17,614,613)**	(17,581,987)
Employee compensation costs		**(11,760,502)**	(11,596,358)
Depreciation and amortisation		**(10,302,734)**	(7,025,077)
Take-off, landing and depot charges		**(8,055,126)**	(7,370,150)
Aircraft maintenance, repair and overhaul costs		**(2,886,110)**	(3,415,660)
Air catering charges		**(1,928,614)**	(1,806,920)
Aircraft and engine lease expenses		**(560,023)**	(3,503,772)
Other lease expenses		**(323,185)**	(572,748)
Other flight operation expenses		**(4,071,682)**	(4,180,080)
Selling and marketing expenses		**(2,365,467)**	(2,114,512)
General and administrative expenses		**(643,591)**	(589,720)
Net impairment gains under expected credit loss model		**9,483**	183,337
		(60,502,164)	(59,573,647)
Profit from operations	6	**6,742,370**	6,641,435
Finance income		**63,462**	59,682
Finance costs	7	**(2,439,582)**	(1,370,145)
Share of results of associates		**145,741**	77,487
Share of results of joint ventures		**112,021**	115,289
Exchange loss, net		**(118,863)**	(517,697)
Profit before taxation		**4,505,149**	5,006,051
Income tax expense	8	**(1,004,795)**	(1,101,553)
Profit for the period		**3,500,354**	3,904,498
Attributable to:			
– Equity shareholders of the Company		**3,144,219**	3,476,157
– Non-controlling interests		**356,135**	428,341
Profit for the period		**3,500,354**	3,904,498
Earnings per share			
– Basic and diluted	10	**RMB22.89 cents**	RMB25.31 cents

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	**3,500,354**	3,904,498
Other comprehensive (expense) income for the period		
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	**(46,092)**	(11,203)
– Income tax relating to items that will not be reclassified to profit or loss	**12,424**	2,801
– Remeasurement of net defined benefit liability	**225**	(8,030)
– Share of other comprehensive income/(expense) of associates and joint ventures	**135,529**	(1,436)
Items that may be reclassified subsequently to profit or loss:		
– Fair value (losses)/gains on investments in debt instruments measured at fair value through other comprehensive income	**(2,276)**	5,234
– Income tax relating to items that may be reclassified subsequently to profit or loss	**569**	(1,299)
– Share of other comprehensive income of associates and joint ventures	**181,405**	936,330
– Exchange differences on translation of foreign operations	**79,873**	171,814
Other comprehensive income for the period (net of tax)	**361,657**	1,094,211
Total comprehensive income for the period	**3,862,011**	4,998,709
Attributable to:		
– Equity shareholders of the Company	**3,520,756**	4,569,603
– Non-controlling interests	**341,255**	429,106
Total comprehensive income for the period	**3,862,011**	4,998,709

At 30 June 2019

	NOTES	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**101,152,337**	171,662,659
Right-of-use assets	11	**113,634,928**	–
Lease prepayments		**–**	2,599,058
Investment properties		**665,661**	650,786
Intangible assets		**36,679**	36,913
Goodwill		**1,099,975**	1,099,975
Interests in associates	12	**14,369,471**	15,253,744
Interests in joint ventures		**1,407,803**	1,427,063
Advance payments for aircraft and flight equipment		**20,182,538**	21,303,650
Deposits for aircraft under leases		**629,131**	613,346
Equity instruments at fair value through other comprehensive income		**203,180**	268,071
Debt instruments at fair value through other comprehensive income		**1,207,308**	1,040,419
Deferred tax assets		**4,263,691**	2,840,321
Other non-current assets		**1,014,398**	1,134,996
		259,867,100	219,931,001
Current assets			
Inventories		**2,286,569**	1,877,494
Accounts receivable	13	**7,386,958**	5,373,972
Bills receivable		**648**	403
Prepayments, deposits and other receivables	14	**3,564,913**	4,220,036
Restricted bank deposits		**749,993**	1,044,389
Cash and cash equivalents		**7,624,501**	6,763,183
Other current assets		**3,973,750**	4,446,630
		25,587,332	23,726,107
Total assets		**285,454,432**	243,657,108

	NOTES	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Current liabilities			
Air traffic liabilities		**(8,759,018)**	(8,886,274)
Accounts payable	15	**(16,821,400)**	(14,726,428)
Dividends payable		**(1,616,491)**	–
Other payables and accruals	16	**(10,737,443)**	(10,833,540)
Current taxation		**(263,467)**	(1,023,938)
Lease liabilities/obligations under finance leases	17	**(13,040,177)**	(7,125,586)
Interest-bearing bank loans and other borrowings	18	**(23,853,667)**	(27,194,901)
Provision for return condition checks		**(1,348,893)**	(1,447,693)
Contract liabilities		**(1,350,239)**	(1,301,518)
		(77,790,795)	(72,539,878)
Net current liabilities		**(52,203,463)**	(48,813,771)
Total assets less current liabilities		**207,663,637**	171,117,230
Non-current liabilities			
Lease liabilities/obligations under finance leases	17	**(82,905,959)**	(45,848,095)
Interest-bearing bank loans and other borrowings	18	**(16,902,072)**	(15,585,481)
Provision for return condition checks		**(6,452,105)**	(4,174,398)
Provision for early retirement benefit obligations		**(2,494)**	(3,105)
Long-term payables		**(101,317)**	(154,171)
Contract liabilities		**(2,896,557)**	(3,062,739)
Defined benefit obligations		**(254,736)**	(263,862)
Deferred income		**(487,092)**	(647,973)
Deferred tax liabilities		**(693,432)**	(879,372)
		(110,695,764)	(70,619,196)
NET ASSETS		**96,967,873**	100,498,034

At 30 June 2019

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	14,524,815
Treasury shares	**(3,047,564)**	(3,047,564)
Reserves	**78,131,969**	81,680,090
Total equity attributable to equity shareholders of the Company	**89,609,220**	93,157,341
Non-controlling interests	**7,358,653**	7,340,693
TOTAL EQUITY	**96,967,873**	100,498,034

		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 31 December 2018 (Audited)		**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**
Adjustments	3.1.2	**-**	**-**	**-**	**(456,307)**	**-**	**-**	**(5,104,546)**	**(5,560,853)**	**(528,826)**	**(6,089,679)**
As at 1 January 2019 (Restated)		**14,524,815**	**(3,047,564)**	**29,449,636**	**9,953,163**	**93,188**	**(1,705,555)**	**38,328,805**	**87,596,488**	**6,811,867**	**94,408,355**
Changes in equity for the six months ended 30 June 2019											
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**3,144,219**	**3,144,219**	**356,135**	**3,500,354**
Other comprehensive income/(expense)		**-**	**-**	**299,062**	**-**	**-**	**77,475**	**-**	**376,537**	**(14,880)**	**361,657**
Total comprehensive income		**-**	**-**	**299,062**	**-**	**-**	**77,475**	**3,144,219**	**3,520,756**	**341,255**	**3,862,011**
Capital contribution from a non-controlling shareholder of a subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**400,000**	**400,000**
Appropriation of discretionary reserve funds and others		**-**	**-**	**-**	**535,760**	**-**	**-**	**(543,661)**	**(7,901)**	**(2,631)**	**(10,532)**
Dividends paid/payable to non-controlling shareholders		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(191,838)**	**(191,838)**
Dividends declared in respect of the previous year	9	**-**	**-**	**-**	**-**	**-**	**-**	**(1,500,123)**	**(1,500,123)**	**-**	**(1,500,123)**
Disposal of an equity instrument at fair value through other comprehensive income		**-**	**-**	**(1,839)**	**-**	**-**	**-**	**1,839**	**-**	**-**	**-**
As at 30 June 2019 (Unaudited)		**14,524,815**	**(3,047,564)**	**29,746,859**	**10,488,923**	**93,188**	**(1,628,080)**	**39,431,079**	**89,609,220**	**7,358,653**	**96,967,873**
As at 1 January 2018 (Audited)		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 the six months ended 30 June 2018											
Profit for the period		-	-	-	-	-	-	3,476,157	3,476,157	428,341	3,904,498
Other comprehensive income		-	-	926,594	-	-	166,852	-	1,093,446	765	1,094,211
Total comprehensive income		-	-	926,594	-	-	166,852	3,476,157	4,569,603	429,106	4,998,709
Appropriation of discretionary reserve funds		-	-	-	695,805	-	-	(695,805)	-	-	-
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	(147,128)	(147,128)
Dividends declared in respect of the previous year	9	-	-	-	-	-	-	(1,669,918)	(1,669,918)	-	(1,669,918)
As at 30 June 2018 (Unaudited)		14,524,815	(3,047,564)	30,454,170	9,873,710	69,742	(2,545,102)	40,122,013	89,451,784	9,111,070	98,562,854

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating activities		
Cash generated from operations	**17,611,611**	15,774,727
Income tax paid	**(1,808,130)**	(2,579,805)
Interest paid	**(2,728,153)**	(1,482,920)
Net cash generated from operating activities	**13,075,328**	11,712,002
Investing activities		
Payment for the purchase of property, plant and equipment	**(1,929,276)**	(3,406,995)
Increase in advance payments for aircraft and flight equipment	**(2,657,158)**	(5,731,019)
Proceeds from sale of property, plant and equipment and held-for-sale assets	**608,842**	304,998
Purchases of		
– financial assets at fair value through profit or loss	**–**	(248,000)
– debt instruments at fair value through other comprehensive income	**(396,843)**	(330,846)
Proceeds from disposal of		
– financial assets at fair value through profit or loss	**–**	585,490
– equity instruments at fair value through other comprehensive income	**18,799**	–
– debt instruments at fair value through other comprehensive income	**227,650**	93,674
Disposal of investment in an associate	**–**	161,894
Dividends received from joint ventures and associates	**369,369**	264,007
Cash flows arising from other investing activities	**303,005**	(143,802)
Net cash used in investing activities	**(3,455,612)**	(8,450,599)
Financing activities		
Capital contribution from a non-controlling shareholder of a subsidiary	**400,000**	–
New bank loans and other loans	**1,155,425**	16,268,570
Proceeds from issuance of corporate bonds	**11,000,000**	3,500,000
Repayment of bank loans and other loans	**(10,723,608)**	(15,235,046)
Repayment of corporate bonds	**(3,400,000)**	(1,200,000)
Repayment of leases liabilities/obligations under finance leases	**(7,059,481)**	(3,066,487)
Dividends paid	**(75,470)**	(147,128)
Net cash (used in) generated from financing activities	**(8,703,134)**	119,909
Net increase in cash and cash equivalents	**916,582**	3,381,312
Cash and cash equivalents at 1 January	**6,763,183**	5,562,907
Effect of foreign exchanges rates changes	**(55,264)**	16,285
Cash and cash equivalents at 30 June	**7,624,501**	8,960,504

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 condensed 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

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34") issued by the International Accounting Standards Board (the "IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2018.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB52,203 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 RMB113,033 million as at 30 June 2019, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing these condensed consolidated financial statements for the six months ended 30 June 2019. Accordingly, these condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2018.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements.

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*

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

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

As a lessor

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

Sale and leaseback transactions

The Group acts as a seller-lessee

The Group applies the requirements of IFRS 15 *Revenue from Contracts with Customers* to assess whether sale and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as borrowing within the scope of IFRS 9 *Financial Instruments*.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB93,549 million and right-of-use assets of RMB108,880 million at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 3.90% to 4.89%.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

	Note	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018		51,395,439
Less: Value-added tax		6,067,742
Operating lease commitments excluding value-added tax		45,327,697
Lease liabilities discounted at relevant incremental borrowing rates		41,209,140
Less: Recognition exemption – short-term leases		633,655
Recognition exemption – low value assets		205
Lease liabilities relating to operating leases recognised upon application of IFRS 16		40,575,280
Add: Obligations under finance leases recognised at 31 December 2018	(d)	52,973,681
Lease liabilities as at 1 January 2019		93,548,961
Analysed as		
Current		12,224,913
Non-current		81,324,048
		93,548,961

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	(a)	34,107,831
Reclassified from prepayments for rental expense		559,580
Reclassified from other non-current assets and deferred income in respect of sale and operating leaseback transactions	(b)	(52,522)
Recognition of provisions in respect of final check costs		2,377,798
Reclassified from lease prepayments	(c)	2,599,058
Amount included in property, plant and equipment under IAS 17 – Assets previously under finance leases	(d)	69,288,713
		108,880,458
By class:		
Aircraft and engines		105,128,019
Land		2,599,058
Buildings		1,141,040
Others		12,341
		108,880,458

Notes:

(a) Upon application of IFRS 16, right-of-use assets of RMB34,108 million were recognised relating to operating leases under IAS 17. The associated right-of-use assets for aircraft and engines leases were measured on a retrospective basis as if IFRS 16 had been applied since the commencement date but discounted using the incremental borrowing rate of the relevant group entities at the date of initial application. Other right-of-use assets were measured at the amounts equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 31 December 2018 as described below.

(b) Right-of-use assets were adjusted by the deferred income of RMB147 million and other non-current assets of RMB94 million respectively in respect of sale and operating leaseback transactions applying IAS 17 immediately before the date of initial application of IFRS 16.

(c) Upfront payments for leasehold lands in the PRC were classified as lease prepayments as at 31 December 2018. Upon application of IFRS 16, lease prepayments amounting to RMB2,599 million were reclassified to right-of-use assets.

(d) In relation to assets previously obtained under finance leases, the Group re-categorised the carrying amount of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB69,289 million as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB7,126 million and RMB45,848 million to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application. Comparative information has not been restated.

Sales and leaseback transactions

The Group acts as a seller-lessee

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group applies the requirements of IFRS 15 to assess whether a sale and leaseback transaction constitutes a sale.

The following table summarises the impact of transition to IFRS 16 on retained earnings at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 RMB'000
Retained earnings	
Recognition of right-of-use assets relating to operating leases	34,107,831
Recognition of lease liabilities relating to operating leases	(40,575,280)
The impact arising from initial application of IFRS 16 by associates	(1,175,623)
Impact before tax	(7,643,072)
Tax effects	1,553,393
Reserve funds	456,307
Non-controlling interests	528,826
Impact at 1 January 2019	(5,104,546)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets				
Property, plant and equipment	(d)	171,662,659	(69,288,713)	102,373,946
Right-of-use assets		–	108,880,458	108,880,458
Lease prepayments	(c)	2,599,058	(2,599,058)	–
Interests in associates		15,253,744	(1,175,623)	14,078,121
Deferred tax assets		2,840,321	1,553,393	4,393,714
Other non-current assets	(b)	1,134,996	(93,994)	1,041,002
Current assets				
Prepayments, deposits and other receivables		4,220,036	(559,580)	3,660,456
Total assets		243,657,108	36,716,883	280,373,991
Current liabilities				
Lease liabilities		–	(12,224,913)	(12,224,913)
Obligations under finance leases	(d)	(7,125,586)	7,125,586	–
Net current liabilities		(48,813,771)	(5,658,907)	(54,472,678)
Total assets less current liabilities		171,117,230	31,617,556	202,734,786
Non-current liabilities				
Lease liabilities		–	(81,324,048)	(81,324,048)
Obligations under finance leases	(d)	(45,848,095)	45,848,095	–
Deferred income	(b)	(647,973)	146,516	(501,457)
Provision for return condition checks		(4,174,398)	(2,377,798)	(6,552,196)
NET ASSETS		100,498,034	(6,089,679)	94,408,355
CAPITAL AND RESERVES				
Reserves		81,680,090	(5,560,853)	76,119,237
Non-controlling interests		7,340,693	(528,826)	6,811,867
TOTAL EQUITY		100,498,034	(6,089,679)	94,408,355

4A. REVENUE

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue from contracts with customers	**65,164,538**	64,130,789
Rental income (included in revenue of airline operations segment)	**148,549**	111,533
Total revenue	**65,313,087**	64,242,322

Disaggregation of revenue from contracts with customers

	Six months ended 30 June 2019		Six months ended 30 June 2018	
Segments	**Airline operations RMB'000 (Unaudited)**	**Other operations RMB'000 (Unaudited)**	Airline operations RMB'000 (Unaudited)	Other operations RMB'000 (Unaudited)
Type of goods or services				
Airline operations				
Passenger	**59,850,511**	–	56,893,930	–
Cargo and mail	**2,830,064**	–	5,074,687	–
Ground service income	**358,834**	–	478,686	–
Others	**940,996**	–	1,023,959	–
	63,980,405	–	63,471,262	–
Other operations				
Aircraft engineering income	–	**959,212**	–	569,539
Import and export service income	–	**34,427**	–	39,788
Others	–	**190,494**	–	50,200
	–	**1,184,133**	–	659,527
Total	**63,980,405**	**1,184,133**	63,471,262	659,527
Geographical markets				
Mainland China	**41,142,506**	**1,184,133**	40,780,426	659,527
Hong Kong, Special Administrative Region ("SAR"), Macau SAR and Taiwan, China	**3,242,639**	–	2,863,411	–
Europe	**5,870,253**	–	6,278,529	–
North America	**4,200,578**	–	5,171,763	–
Japan and Korea	**4,120,203**	–	3,469,931	–
Asia Pacific and others	**5,404,226**	–	4,907,202	–
Total	**63,980,405**	**1,184,133**	63,471,262	659,527

4B. 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, import and export 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 prevailing market prices.

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the six months ended 30 June 2019 and 2018 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2019

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	64,128,954	1,184,133	–	65,313,087
Intersegment sales	24,143	3,724,697	(3,748,840)	–
Revenue for reportable segments under CASs and IFRSs	64,153,097	4,908,830	(3,748,840)	65,313,087
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,354,262	415,505	(270,967)	4,498,800
Effect of differences between IFRSs and CASs				6,349
Profit before taxation for the period under IFRSs				4,505,149

4B. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2018

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	63,582,795	659,527	–	64,242,322
Intersegment sales	99,649	3,651,791	(3,751,440)	–
Revenue for reportable segments under CASs and IFRSs	63,682,444	4,311,318	(3,751,440)	64,242,322
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,776,241	277,396	(57,770)	4,995,867
Effect of differences between IFRSs and CASs				10,184
Profit before taxation for the period under IFRSs				5,006,051

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2019 and 31 December 2018 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	**Other operations RMB'000**	**Elimination RMB'000**	**Total RMB'000**
Segment assets				
Total assets for reportable segments as at 30 June 2019 under CASs (unaudited)	**277,295,157**	**21,092,599**	**(12,879,188)**	**285,508,568**
Effect of differences between IFRSs and CASs				**(54,136)**
Total assets as at 30 June 2019 under IFRSs (unaudited)				**285,454,432**
Total assets for reportable segments as at 31 December 2018 under CASs (audited)	236,739,437	22,396,863	(15,420,294)	243,716,006
Effect of differences between IFRSs and CASs				(58,898)
Total assets as at 31 December 2018 under IFRSs (audited)				243,657,108

4B. SEGMENT INFORMATION (Continued)

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2019 and 2018, respectively:

For the six months ended 30 June 2019

	Mainland China RMB'000	**Hong Kong SAR, Macau SAR and Taiwan, China 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	**42,475,188**	**3,242,639**	**5,870,253**	**4,200,578**	**4,120,203**	**5,404,226**	**65,313,087**

For the six months ended 30 June 2018

	Mainland China RMB'000	Hong Kong SAR, Macau SAR and Taiwan, China 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	41,551,486	2,863,411	6,278,529	5,171,763	3,469,931	4,907,202	64,242,322

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.

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Co-operation routes income and subsidy income	**1,749,242**	1,679,916
Dividend income	**8,675**	2,053
Gain on disposal of		
– Interest in an associate	**–**	161,894
– Property, plant and equipment and non-current assets held for sale	**383**	72,184
Net gain arising on financial assets measured at fair value through profit or loss	**–**	2,058
Others	**173,147**	54,655
	1,931,447	1,972,760

6. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**4,704,949**	6,939,392
Depreciation of right-of-use assets	**5,585,175**	–
Depreciation of investment properties	**12,588**	31,786
Amortisation of lease prepayments	**–**	34,495
Amortisation of intangible assets	**22**	19,404

7. FINANCE COSTS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings and lease liabilities/obligations under finance leases	**2,708,665**	1,671,149
Less: Interest capitalised	**(269,083)**	(301,004)
	2,439,582	1,370,145

The interest capitalisation rates during the period range from 3.80% to 4.75% per annum (six months ended 30 June 2018: 2.67% to 4.57% per annum) relating to the costs of related specific borrowings during the period.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	**1,036,090**	1,345,774
– Hong Kong SAR and Macau SAR, China	**13,575**	18,173
Over – provision in respect of prior years	**(2,006)**	(3,367)
Deferred taxation	**(42,864)**	(259,027)
	1,004,795	1,101,553

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% (six months ended 30 June 2018: 15%) during the current period, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2018: 25%) during the current period. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 8.25% and 16.5% (six months ended 30 June 2018: 16.5%), and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (six months ended 30 June 2018: 12%).

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

9. DIVIDENDS

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

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

The Directors decided not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the current interim period, of RMB1.0328 per ten shares (including tax) (six months ended 30 June 2018: RMB1.1497 per ten shares (including tax))	**1,500,123**	1,669,918

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,144 million (six months ended 30 June 2018 (unaudited): RMB3,476 million) and the number of 13,734,960,921 ordinary shares (six months ended 30 June 2018: 13,734,960,921 shares) in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific Airways Limited ("Cathay Pacific") through reciprocal shareholding (Note 12).

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

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2019, the Group acquired aircraft and flight equipment with an aggregate cost of RMB1,631 million (six months ended 30 June 2018: RMB7,699 million). Property, plant and equipment with carrying amount of RMB612 million were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB123 million), resulting in a gain on disposal of RMB0.4 million (six months ended 30 June 2018: a gain on disposal of RMB9 million).

As at 30 June 2019, the Group's aircraft and flight equipment, buildings and machinery with an aggregate carrying amount of approximately RMB4,446 million (31 December 2018: RMB7,935 million) were pledged to secure certain bank loans of the Group (Note 18).

As at 30 June 2019, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying amount of approximately RMB3,617 million (31 December 2018: RMB3,696 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2019.

Upon application of IFRS 16 on 1 January 2019, right-of-use assets were recognised on the condensed consolidated statement of financial position, details of which are set out in Note 3.1.2 to these condensed consolidated financial statements.

During the current interim period, the Group entered into several lease agreements for the use of aircraft and engines, land, buildings and others. On lease commencement, the Group recognised right-of-use assets of RMB11,508 million.

As at 30 June 2019, the Group had future undiscounted lease payments under non-cancellable leases of RMB1,065 million, which was not recognised as lease liabilities since leases have yet to be commenced.

As at 30 June 2019, the Group's land use rights, which are recorded as part of right-of-use assets and all located in Mainland China, with an aggregate carrying amount of approximately RMB28 million (31 December 2018: RMB28 million) were pledged to secure certain bank loans of the Group (Note 18).

12. INTERESTS IN ASSOCIATES

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Share of net assets		
– Listed shares in the PRC	**454,753**	858,267
– Listed shares in Hong Kong SAR, China	**9,729,011**	9,831,096
– Unlisted investments	**1,476,474**	1,864,967
Goodwill	**2,709,233**	2,699,414
	14,369,471	15,253,744
Market value of listed shares	**12,911,152**	12,520,506

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 condensed consolidated financial statements, are set out below. The summarised financial information below represents amounts shown in the associate's condensed consolidated financial statements.

Cathay Pacific

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Gross amounts of the associate's		
Current assets	**23,426,225**	25,951,292
Non-current assets	**158,132,080**	140,784,311
Current liabilities	**(47,611,598)**	(42,359,889)
Non-current liabilities	**(78,907,261)**	(68,352,362)
Equity	**55,039,446**	56,023,352
– Equity attributable to equity shareholders of the associate	**55,036,808**	56,020,723
– Equity attributable to non-controlling interests of the associate's subsidiaries	**2,638**	2,629

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Revenue	**47,010,518**	44,559,246
Profit/(loss) for the period	**1,182,572**	(62,963)
Other comprehensive income	**365,219**	3,176,687
Total comprehensive income	**1,547,791**	3,113,724
Dividend received from the associate	**207,148**	49,513

12. INTERESTS IN ASSOCIATES (Continued)

Cathay Pacific (Continued)

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Reconciled to the Group's interests in the associate		
Gross amounts of net assets attributable to equity shareholders of the associate	**55,036,808**	56,020,723
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**16,505,539**	16,800,615
Elimination of reciprocal shareholding	**(6,776,528)**	(6,969,523)
Goodwill	**2,496,448**	2,486,629
Carrying amount	**12,225,459**	12,317,721

Aggregate information of associates that are not individually material:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Aggregate carrying amounts of individually immaterial associates in the condensed consolidated financial statements	**2,144,012**	2,936,023

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Aggregate amounts of the Group's share of those associates'		
– (Loss)/profit for the period	**(53,400)**	234,361
– Other comprehensive income/(expense) for the period	**139,582**	(1,107)
Total comprehensive income for the period	**86,182**	233,254

13. ACCOUNTS RECEIVABLE

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:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Within 30 days	**2,922,484**	2,548,148
31 to 60 days	**786,022**	696,437
61 to 90 days	**587,572**	514,171
Over 90 days	**3,090,880**	1,615,216
	7,386,958	5,373,972

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period, net of allowance for credit losses, was as follows:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Manufacturers' credits	**1,105,680**	821,725
Prepayments of aircraft lease rentals	**47,686**	652,846
Prepayments of jet fuel	**93,254**	71,983
Other prepayments	**599,205**	464,051
Others	**81,950**	210,041
	1,927,775	2,220,646
Deposits and other receivables	**1,637,138**	1,999,390
	3,564,913	4,220,036

As at 30 June 2019, 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. and its subsidiaries of RMB774,820,000 (31 December 2018: RMB774,820,000) and RMB649,486,000 (31December 2018: RMB649,486,000), respectively.

15. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable, based on the transaction date, as at the end of the reporting period was as follows:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Within 30 days	**8,309,844**	7,587,233
31 to 60 days	**1,874,902**	1,440,778
61 to 90 days	**1,083,603**	1,063,182
Over 90 days	**5,553,051**	4,635,235
	16,821,400	14,726,428

16. OTHER PAYABLES AND ACCRUALS

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

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Accrued salaries, wages and benefits	**2,609,451**	2,917,925
Accrued operating expenses	**324,923**	370,289
Other taxes payable	**300,227**	404,988
Deposits received from sales agents	**1,023,837**	789,871
Current portion of deferred income related to government grants	**38,713**	39,563
Current portion of long-term payables	**41,692**	29,104
Deposits received by China National Aviation Finance Co., Ltd. ("CNAF"), a subsidiary of the Company, from related parties	**3,128,157**	3,102,233
Others	**3,270,443**	3,179,567
	10,737,443	10,833,540

17. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under lease agreements expiring during the years from 2019 to 2033 (31 December 2018: obligations under finance leases expiring from 2019 to 2030). An analysis of the lease payments as at the end of the reporting period, together with the present values of the lease payments which are principally denominated in foreign currencies, is as follows:

	At 30 June 2019		At 31 December 2018	
	Lease payments RMB'000 (Unaudited)	**Present values of lease payments RMB'000 (Unaudited)**	Minimum lease payments RMB'000 (Audited)	Present values of minimum lease payments RMB'000 (Audited)
Amounts repayable				
– Within 1 year	**16,191,307**	**13,040,177**	8,690,029	7,125,586
– After 1 year but within 2 years	**15,244,334**	**12,533,532**	8,149,776	6,797,165
– After 2 years but within 5 years	**41,322,951**	**35,706,462**	22,432,938	19,617,952
– After 5 years	**37,155,688**	**34,665,965**	20,676,552	19,432,978
Total	**109,914,280**	**95,946,136**	59,949,295	52,973,681
Less: Amounts representing future finance costs	**(13,968,144)**		(6,975,614)	
Present values of lease payments/ minimum lease payments	**95,946,136**		52,973,681	
Less: Portion classified as current liabilities	**(13,040,177)**		(7,125,586)	
Non-current portion	**82,905,959**		45,848,095	

18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Bank and other loans:		
– Secured	**1,934,987**	3,017,063
– Unsecured	**10,932,598**	19,501,661
	12,867,585	22,518,724
Corporate bonds:		
– Secured	**6,684,056**	6,773,181
– Unsecured	**21,204,098**	13,488,477
	27,888,154	20,261,658
	40,755,739	42,780,382

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Bank and other loans repayable:		
– Within 1 year	**11,363,745**	19,333,243
– After 1 year but within 2 years	**439,230**	1,723,200
– After 2 years but within 5 years	**858,122**	1,173,090
– After 5 years	**206,488**	289,191
	12,867,585	22,518,724
Corporate bonds repayable:		
– Within 1 year	**12,489,922**	7,861,658
– After 1 year but within 2 years	**1,300,000**	–
– After 2 years but within 5 years	**14,098,232**	12,400,000
	27,888,154	20,261,658
Total interest-bearing bank loans and other borrowings	**40,755,739**	42,780,382
Less: Portion classified as current liabilities	**(23,853,667)**	(27,194,901)
Non-current portion	**16,902,072**	15,585,481

18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

As at 30 June 2019, the interest rates of the Group's bank loans and other loans ranged from 1.95% to 5.02% (31 December 2018: 2.17% to 5.47%) per annum.

As at 30 June 2019, the interest rates of the Group's corporate bonds ranged from 2.84% to 5.30% (31 December 2018: 2.84% to 5.30%) per annum.

The nominal amount of the Group's bank loans and corporate bonds of approximately RMB8,432 million as at 30 June 2019 (31 December 2018: RMB9,516 million) were secured by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate carrying amount of approximately RMB4,446 million as at 30 June 2019 (31 December 2018: RMB7,935 million) (Note 11); and land use rights with an aggregate carrying amount of approximately RMB28 million as at 30 June 2019 (31 December 2018: RMB28 million) (Note 11);

(b) As at 30 June 2019, corporate bonds issued by the Group with a face value of RMB6,500 million (31 December 2018: RMB6,500 million) were guaranteed by CNAHC.

As at 30 June 2019, corporate bonds with carrying amount of RMB13,020 million (31 December 2018: RMB5,422 million) were issued by Shenzhen Airlines Company Limited ("Shenzhen Airlines"), a subsidiary of the Company.

19. CONTINGENT LIABILITIES

As at 30 June 2019, the Group had the following contingent liabilities:

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

(b) In May 2011, Shenzhen Airlines received a summons issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loans borrowed by Huirun.

    As of the issuance date of these condensed consolidated 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 at 30 June 2019, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB1,460,000 (31 December 2018: RMB1,635,000). The Directors consider that the fair value of these guarantees are insignificant.

20. FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2019	Fair value measurements as at 30 June 2019 categorised into		
		Level 1	Level 2	Level 3
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Equity instruments at fair value through other comprehensive income ("FVTOCI")	**203,180**	–	–	**203,180**
Debt instruments at FVTOCI	**1,207,308**	–	**1,207,308**	–
Total financial assets at fair value	**1,410,488**	–	**1,207,308**	**203,180**

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
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

20. FINANCIAL INSTRUMENTS (Continued)

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

(i) Fair value hierarchy (Continued)

Due to changes in market conditions for certain debt securities, the quoted prices in the market were no longer active during the current period. Therefore, these securities were transferred from Level 1 to Level 2 of the fair value hierarchy as at the end of the reporting period. There was no transfer into or out of Level 3 during the current interim period. During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

All financial instruments classified within Level 2 of the fair value hierarchy are debt investments, the fair value of which were determined based upon the valuation conducted by the China Central Depository & Clearing Co., Ltd..

(iii) 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.

(b) 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 condensed consolidated financial statements approximate their fair values.

	Carrying amounts		**Fair values**	
	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)	**As at 30 June 2019 RMB'000 (Unaudited)**	As at 31 December 2018 RMB'000 (Audited)
Financial liabilities				
– Corporate bonds (fixed rate)	**19,824,572**	16,794,176	**19,565,393**	16,381,689

20. FINANCIAL INSTRUMENTS (Continued)

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

Fair value hierarchy as at 30 June 2019

	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Financial liabilities				
– Corporate bonds (fixed rate)	**–**	**19,565,393**	**–**	**19,565,393**

Fair value hierarchy as at 31 December 2018

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

21. 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:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
– Aircraft and flight equipment	**26,963,330**	38,297,480
– Buildings and others	**2,713,853**	971,571
Total capital commitments	**29,677,183**	39,269,051

21. COMMITMENTS (Continued)

(b) Investment commitments

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

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
– investment commitment to a joint venture	**24,061**	24,021
– investment commitment to an associate	**35,000**	35,000
Total investment commitments	**59,061**	59,021

22. RELATED PARTY TRANSACTIONS

(a) During the period, 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 its associates:

(i) Transactions with related parties

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Service provided to the CNAHC Group		
Sales commission income	**14**	4,321
Sale of cargo space	**2,442,058**	26,187
Government charter flights	**220,483**	178,332
Air catering income	**9,527**	8,192
Ground services income	**31,145**	3,830
Income from advertising media business	**6,518**	7,155
Aircraft maintenance income	**148,697**	–
Aircraft and flight equipment rental income	**17,334**	–
Land and buildings rental income	**69,459**	–
Others	**91,933**	28,120
	3,037,168	256,137

22. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(i) Transactions with related parties (Continued)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Service provided by the CNAHC Group		
Sales commission expenses	**180,377**	627
Air catering charges	**592,002**	557,536
Airport ground services, take-off, landing and depot expenses	**835,536**	485,658
Management fees	**63,659**	70,929
Aircraft and flight equipment leasing fees	**–**	16,459
Lease charges for land and buildings	**14,086**	74,365
Other procurement and maintenance	**72,207**	60,186
Aviation communication expenses	**325,854**	286,211
Interest expenses	**33,441**	–
Media advertisement expenses	**97,560**	80,016
Others	**23,716**	19,693
	2,238,438	1,651,680
Loans to the CNAHC Group by CNAF		
Net repayment of loans	**415,000**	215,000
Interest income	**16,888**	21,203
Deposits from the CNAHC Group received by CNAF		
Increase/(decrease) in deposits received	**92,840**	(1,055,655)
Interest expenses	**16,423**	16,755

22. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(i) Transactions with related parties (Continued)

	Six months ended 30 June 2019 RMB'000 (Unaudited)
Leases with CNAHC Group as a lessee	
Addition in right-of-use assets on new leases	**3,408,192**
Addition in lease liabilities on new leases	**3,408,192**
Lease payments paid	**514,643**
Interest on lease liabilities	**122,291**

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Service provided to joint ventures and associates		
Sales commission income	**9,124**	19,964
Aircraft maintenance income	**77,533**	42,585
Air catering income	**2,651**	2,224
Ground services income	**76,224**	68,896
Frequent-flyer programme income	**20,078**	22,835
Others	**1,610**	1,878
	187,220	158,382

22. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(i) Transactions with related parties (Continued)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Service provided by joint ventures and associates		
Sales commission expenses	**783**	2,442
Air catering charges	**27,430**	3,129
Airport ground services, take-off, landing and depot expenses	**184,705**	241,232
Repair and maintenance costs	**625,887**	439,825
Aircraft and flight equipment leasing fees	**2,933**	28
Other procurement and maintenance	**8,973**	42,039
Aviation communication expenses	**3,036**	2,987
Interest expenses	**–**	10,780
Airline joint operation expenses	**32,022**	16,575
Frequent-flyer programme expenses	**2,001**	2,072
Others	**–**	472
	887,770	761,581
Loans to joint ventures and associates by CNAF		
Net repayment of loans	**14,800**	14,800
Interest income	**4,215**	4,779
Deposits from joint ventures and associates received by CNAF		
Decrease in deposits received	**46,563**	10,633
Interest expenses	**334**	8

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 the Listing Rules.

22. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(ii) Balances with related parties

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**426,044**	205,358
Amounts due from associates	**145,385**	131,523
Amounts due from joint ventures	**4,959**	3,670
Amounts due from other related companies	**4,213,308**	3,103,136
Amount due to the ultimate holding company	**53,363**	53,248
Amounts due to associates	**233,110**	138,094
Amounts due to joint ventures	**415,632**	292,113
Amounts due to other related companies	**12,686,268**	9,721,010

* 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.

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Outstanding borrowing balances with related parties		
Interest-bearing bank loans and other borrowings		
– Due to the ultimate holding company	**1,501,631**	1,500,000

22. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(ii) Balances with related parties (Continued)

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Outstanding balances between CNAF and related parties		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**610,000**	1,025,000
Deposits received	**3,146,422**	3,053,582
Interest payable to related parties	**13,269**	11,618
Interest receivable from related parties	**663**	1,169
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**207,200**	222,000
Deposits received	**459**	47,022
Interest payable to related parties	**7**	11
Interest receivable from related parties	**231**	273

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:

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Short term employee benefits	**7,171**	6,946
Retirement scheme contributions	**705**	684
	7,876	7,630

22. RELATED PARTY TRANSACTIONS (Continued)

(b) (Continued)

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors and supervisors	**720**	649
Senior management	**7,156**	6,981
	7,876	7,630

(c) Guarantee with related parties

Amount of guaranty at 30 June 2019:

Name of guarantor	**Name of guarantee**	**Amount of guaranty at 30 June 2019 RMB'000 (Unaudited)**	**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**

Amount of guaranty at 31 December 2018:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2018 RMB'000 (Audited)	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

22. 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.

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

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

YIELD MEASUREMENTS

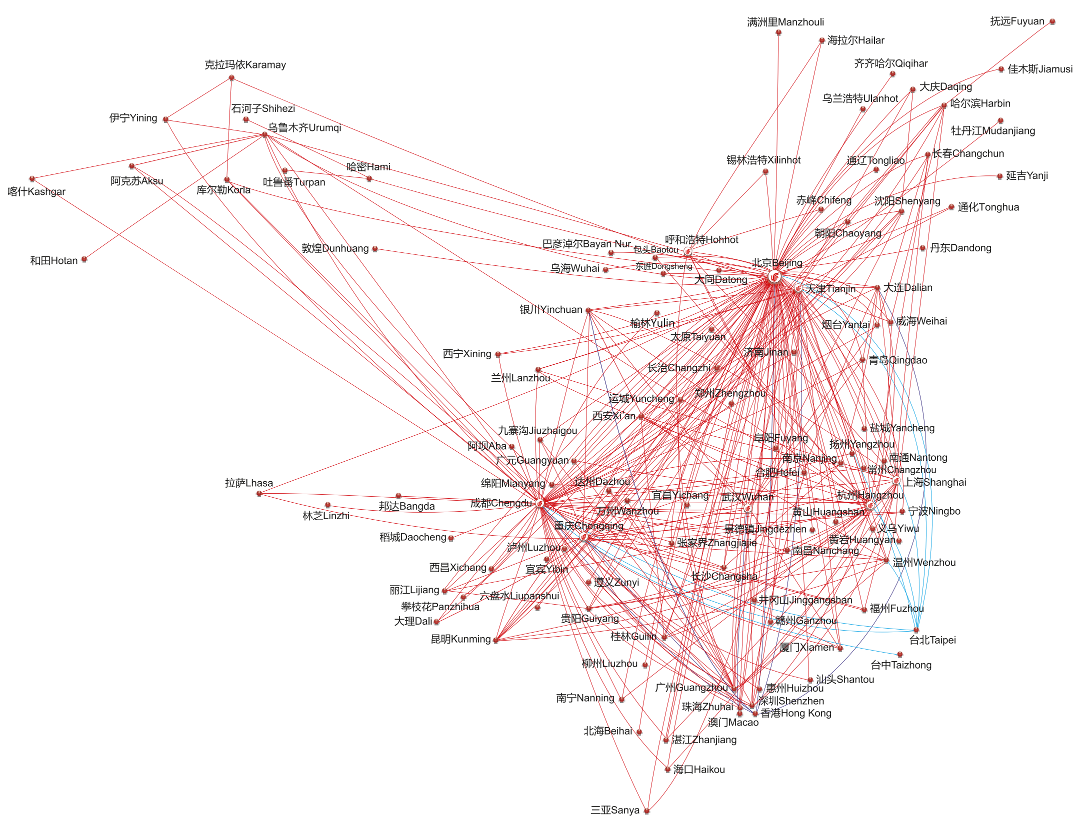
"passenger yield"/"yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield"/"yield per RFTK"	revenues from cargo operations divided by RFTKs

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

"Airbus Company"	Airbus S.A.S., a company established in Toulouse, France
"Air China Cargo"	Air China Cargo Co., Ltd., a subsidiary of CNAHC
"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 the 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
"Cathay Dragon"	Hong Kong Dragon Airlines Limited, a subsidiary of Cathay Pacific
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAF"	China National Aviation Finance Co., Ltd, a subsidiary of the Company
"CNACG Group"	CNACG and its subsidiaries
"CNAHC"	China National Aviation Holding Corporation Limited
"CNAHC Group"	CNAHC and its subsidiaries
"COMAC"	Commercial Aircraft Corporation of China, Ltd., a company incorporated in Shanghai, the PRC
"Company" 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 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)
"IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Reporting Period"	the period from 1 January 2019 to 30 June 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd., 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

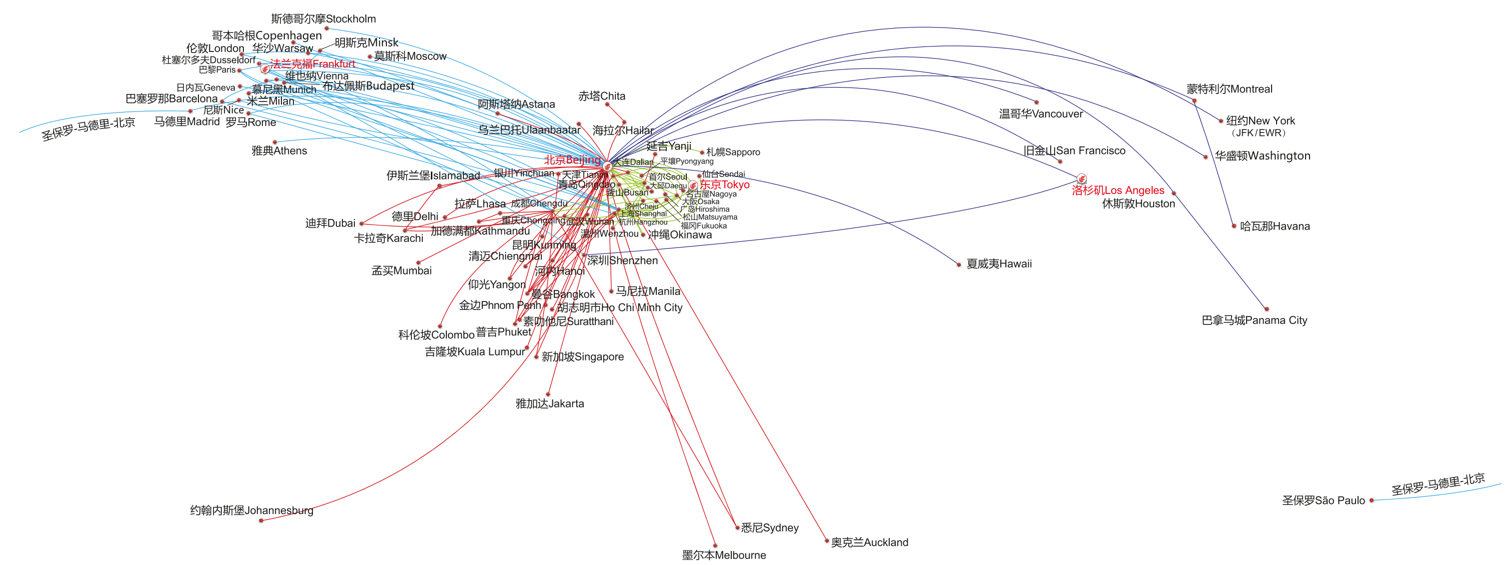


国内航线 Domestic Routes
地区航线 Regional Routes

注：扬州泰州共用同一机场
Note: The cities of Yangzhou and Taizhou share one airport.

截至 2019 年 6 月 30 日开航航线

中国国际航空股份有限公司国际航线
AIR CHINA'S INTERNATIONAL ROUTES



欧洲航线 Routes to Europe
亚洲、大洋洲、非洲地区航线 Routes to Asia, Oceania & Africa
北美航线 Routes to North America
日韩航线 Routes to Japan & South Korea