A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 Hong Kong   601111 Shanghai   AIRC London

Annual Report 2019

中國國際航空股份有限公司 (short name: **中國國航**) (English name: **Air China Limited**, short name: **Air China**) is the only national flag carrier of China.

As the old saying goes, "Phoenix, a bird symbolizing benevolence" and "The whole world will be at peace once a phoenix reveals itself". The corporate logo of Air China is composed of an artistic phoenix figure, the Chinese characters of "中國國際航空公司" in calligraphy written by Mr. Deng Xiaoping, by whom the China's reform and opening-up blueprint was designed, and the characters of "AIR CHINA" in English. Signifying good auspices in the ancient Chinese legends, phoenix is the king of all birds. It "flies from the eastern Happy Land and travels over mountains and seas and bestows luck and happiness upon all parts of the world". At the core of the "Phoenix Spirit" advocated by Air China is the will to "serve the world, to lead and move forward to higher goals". By virtue of the immense historical heritage, Air China strives to create perfect travel experience and help passengers to stay safe by upholding the spirit of phoenix of being a practitioner, promoter and leader for the development of the Chinese civil aviation industry. The Company is also committed to leading the industrial development by establishing itself as a "National Brand", at the same time pursuing outstanding performance through innovative and excelling efforts.

Air China was listed on The Stock Exchange of Hong Kong Limited (stock code: 0753) and the London Stock Exchange (stock code: AIRC) on 15 December 2004, and was listed on the Shanghai Stock Exchange (stock code: 601111) on 18 August 2006.

Headquartered in Beijing, Air China has set up branches in Southwest China, Zhejiang, Chongqing, Tianjin, Shanghai, Hubei, Guizhou, Tibet and Wenzhou, and a base in Southern China. As at the end of the Reporting Period, the major subsidiaries of Air China are 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., Aircraft Maintenance and Engineering Corporation, Air China Import and Export Co., Ltd., Chengdu Falcon Aircraft Engineering Service Co., Ltd., Air China Shantou Industrial Development Company; and its joint ventures mainly include GA Innovation China Co., Ltd. and Sichuan Services Aero-Engine Maintenance Co., Ltd. Moreover, the associates of Air China are Tibet Airlines Co., Ltd., Cathay Pacific Airways Limited and Shandong Airlines Co., Ltd.. It is also the largest shareholder of Shandong Aviation Group Co., Ltd.

With the goal of becoming "the world's leading airline", Air China is actively implementing the strategic objectives of "globally leading competitive advantages, constantly enhanced development capability, excellent and unique customer experience, and steadily improved interests and benefits". Air China is dedicated to serving passengers with credibility, convenience, comfort and choice. "Air China Miles" is the oldest frequent flier programme in China, under which all members of the frequent flier programmes under various brands of its subsidiaries and associates have been consolidated into the brand of "Phoenix Miles". As at the end of the Reporting Period, the total number of "Phoenix Miles" members amounted to 63.5953 million.

As at the end of the Reporting Period, the Group had a total of 699 aircraft of various types, with an average age of 6.96 years. The Group operated a total of 770 passenger routes, including 137 international routes, 27 regional routes and 606 domestic routes. Through cooperation with members of Star Alliance, the Company has further expanded its service coverage to 1,317 destinations in 195 countries and regions.

Our Global Footprint

CONTENTS

3 Corporate Information

4 Chairman's Statement

6 Chronicle of Events

10 Summary of Financial Information

12 Summary of Operating Data

14 Fleet Information

17 Business Overview

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

42 Corporate Governance Report

54 Report of the Directors

74 Profile of Directors, Supervisors and Senior Management

83 Prizes and Awards

Financial Statements Prepared under International Financial Reporting Standards

85 Independent Auditor's Report

90 Consolidated Statement of Profit or Loss

91 Consolidated Statement of Profit or Loss and Other Comprehensive Income

92 Consolidated Statement of Financial Position

94 Consolidated Statement of Changes in Equity

95 Consolidated Statement of Cash Flows

97 Notes to the Consolidated Financial Statements

207 Supplementary Information

208 Glossary of Technical Terms

209 Definitions

CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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28 Tianzhu Road
Airport Industrial Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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12 Tung Fai Road
Hong Kong International Airport
Hong Kong

WEBSITE:

www.airchina.com.cn

DIRECTORS:[1]

Cai Jianjiang
Song Zhiyong
Patrick Healy
Xue Yasong
Wang Xiaokang
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:[2]

Zhao Xiaohang
He Chaofan
Xiao Yanjun
Li Guixia

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:

Zhou Feng
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:

Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:

DeHeng Law Offices *(as to PRC Law)*

DLA Piper Hong Kong *(as to Hong Kong and English Law)*

INTERNATIONAL AUDITOR:

Deloitte Touche Tohmatsu

H SHARE REGISTRAR AND TRANSFER OFFICE:

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

Hong Kong, London and Shanghai

1 For details of changes in Directors of the Company during the Reporting Period and up to the date of this annual report, please refer to P.62 of this annual report.
2 For details of changes in Supervisors of the Company during the Reporting Period and up to the date of this annual report, please refer to P.62 of this annual report.

CHAIRMAN'S STATEMENT

Cai Jianjiang
Chairman

2019 was a crucial year for completing the building of a moderately prosperous society in all respects. Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Group faithfully fulfilled its political and social responsibilities as a central enterprise. In doing so, the Group earnestly studied and implemented the important instructions of General Secretary Xi Jinping, resolutely carried out the decisions and arrangements of the Central Committee of the Party and the State Council, and adhered to new development philosophy and requirements of high-quality development. With a commitment to becoming a world's leading enterprise, the Group capitalized on opportunities and surmounted difficulties to maintain safe and stable operation and improved its service quality on a continuous basis. Thus, the Group stayed at the forefront of the industry in terms of operating performance with strengthened competitive advantages. At the same time, positive and stable development was sustained in all aspects and new progress in high-quality development was achieved.

In 2019, the Group's revenue amounted to RMB136,181 million with a profit before tax of RMB9,120 million. Net profit attributable to equity shareholders of the Company was RMB6,420 million. The Group recorded 2.285 million accident-free flight hours, representing a year-on-year increase of 4.12%; traffic measured by RTK reached 25,364 million tonne kilometres, representing a year-on-year increase of 3.50%; 115 million passengers were carried, representing a year-on-year increase of 4.81%; the volume of cargo and mail carried amounted to 1,434.2 thousand tonnes, down by 1.83% on a year-on-year basis.

The Group stayed committed to the overarching principle of pursuing progress while ensuring stability. Amidst the increasingly complicated operating environment, the Group continued to push forward and deepen its reform and enhanced its growth momentum steadily, industry leading operating result was thus maintained. The Group continued to optimise the operation of the entire fleet in order to eliminate the impact of insufficient capacity, and continued to align its investments closely with market demand, thereby improving its resource utilization efficiency. Focusing consistently on the establishment of world-class hubs, the Group has delivered satisfactory results in the quick-profiting projects with solid progress achieved in network expansion. The Group continued to strengthen its marketing control capacity and deepen the transformation of its business model while reinforcing the refined management of yield and enhancing its competitive edges in marketing quality. In advancing its premium brand strategy, the Group has enhanced the synergy of its service provision with a focus on flight punctuality management, which significantly improved the quality of its operation and services. Meticulous arrangements have been made for the first flight and commencement of operation at Daxing Airport, ensuring safe and smooth operation in the two airports in Beijing. In response to the "Belt and Road" Initiative, the Group newly launched 9 international and regional routes such as Beijing-Nice, Shanghai-London and Hangzhou-Rome, and continued to extend the breadth and frequency of the route network of Beijing Hub. The Group also pushed forward the digital transformation and formed a leadership role in experience-oriented services. The Group has garnered 63.5953 million "Phoenix Miles" members, with a 5% year-on-year increase in revenue contributed by frequent fliers; while the number of mobile client users and the relevant sales revenue exceeded 10 million and RMB10 billion, respectively. The Group has devoted greater efforts in brand communication, and participated in the second China International Import Expo and supported the organization of Beijing Winter Olympic Games and International Horticultural Exhibition. The Group also carried out joint marketing and promotion, thereby significantly enhancing the brand recognition and influence of the Company.

The Group forged ahead in the three critical battles and achieved positive progress. Owing to the Group's full devotion to poverty alleviation, Sonid Right Banner, an aid recipient county, has been lifted from poverty, while Zhaoping county has attained its annual target for poverty alleviation. The Group was rated "Excellent", the highest grade, in the assessment of its targeted poverty alleviation work by the central government for two consecutive years. To actively prevent and control material risks, the Group enhanced its capability in risk compliance management, reinforced the foundation for system management and further promoted the development of its internal audit system. The construction of rule of law progressed smoothly. Law-based corporate governance and compliant operation became the general consensus among all staff members. With a commitment to winning the Blue Sky Defense War, the Group optimized its energy-saving and environmental protection management system, and propelled the implementation of energy-saving and emission reduction projects. The Company won the 10th China Environmental Award, and was distinguished as an exemplary company in the special industry inspection.

With a focus on tasks in relation to the state-owned enterprise reform, the Group implemented the requirements under the "two principles that must be consistently adhered to" (「兩個一以貫之原則」) to facilitate the incorporation of the guidance of the Communist Party into its corporate governance and step up the efforts in the regulated development of the Board, with a view to ensuring the coordinated operation, scientific decision-making and stable development of various governance bodies. The Board of the Company was once again honoured with the "Best Board of Directors" award of the 15th Golden Round Table Award of the Board of Directors of Chinese Listed Companies, and won the "Best Listed Company in terms of Corporate Governance" and "Listed Company with Best Investment Value" awards from the 9th Golden Bauhinia Awards for Hong Kong and China Securities.

In response to the successive outbreak of novel coronavirus pneumonia pandemic in various regions at the beginning of 2020, the Group spared no effort in prevention and control of the pandemic in the bid to maximize the protection of health and safety of its passengers and employees. The Group earnestly performed its social responsibilities at the same time to contribute to this battle against the pandemic. The Group also strived to minimize the impact of the pandemic by adjusting its capacity structure, optimizing yield management, strengthening cost control, and placing more emphasis on risk management and control. We believe that, under the leadership of the Central Committee of the Party and with the nationwide endeavors of the public on a united front, we will surely be able to triumph over this battle of containing the pandemic.

The year of 2020 is the finale year for the 13th Five-year Plan, as well as a critical year for completing the building of a moderately prosperous society in all respects and achieving the first centenary goal. Faced with the missions, risks and challenges posed by the current situation, the Group will unite more closely around the Central Committee of the Party with President Xi Jinping at the core, and make concerted and aggressively excelling efforts to drive the modernization of its governance system and capability. The Group will also leverage its remarkable operation performance to lay a solid foundation for establishing itself as a top-tier global aviation transportation group, and make greater contributions to the great accomplishment of completing the building of a moderately prosperous society in all respects.

蔡剑江

Chairman

Beijing, PRC
31 March 2020

CHRONICLE OF EVENTS

JANUARY

On 7 January, the Company newly launched the Beijing-Phnom Penh route. In response to the "Belt and Road" Initiative, the Group actively established the new "Air Silk Road" between China and Cambodia. Air China continued to expand the global coverage of its route network with Beijing as the hub. While accelerating the expansion of air passage between China and Southeast Asian countries, the Company also devoted considerable efforts in expanding the coverage of its route network in regional major cities.

FEBRUARY

The Group completed the 40-day guarantee work for Spring Festival transportation, and achieved the established goals of safety, smoothness and high quality. The Company has optimized the overall capacity deployment structure and provided a series of convenient travel services such as "Self-service Boarding System (全自助出行)" and "Joint Ground and Air Transport Product (地空聯運)". "Spring Festival Transportation with Youth (青年與春運同行)", the youth volunteer services programme, was launched at the terminals with a view to providing comprehensive security services for passengers going back home. During the Spring Festival, a total of 34,343 flights were secured, carrying 5.9072 million passengers, representing a year-on-year increase of 4.01%.

MARCH

With the arrival of the blooming spring, a new semester of "Air China Class" has begun. As an important part of the Group's targeted poverty alleviation work, the "Air China Class" has received positive feedbacks from the society since its launch in 2017, and was well-received by children in the targeted poverty alleviation regions.

APRIL

On 29 April, with the official opening of the 2019 Beijing International Horticultural Exhibition, the "Wings of Dream (夢之翼)" exhibition hall of Air China was officially opened. The "Wings of Dream (夢之翼)" exhibition hall is a micro illustration of the construction of social ecological civilisation of Air China. In the future, the Company will adopt more innovative technologies to provide aviation services with better quality to facilitate low-carbon travel of the public, thereby joining hands with the public to "Fly Green Dream, Build Green Planet (護航綠色夢想 ，共築美好家園)".

MAY

BRANDZ™ Most Valuable Chinese Brands
最具价值中国品牌100强
2019

Air China was enlisted in the "BrandZ Top 100 Most Valuable Chinese Brands 2019" with a brand value of USD4,965 million, which is the highest ranking among aviation companies in China.

On 13 May, a Boeing 747-8 wide-body aircraft of Air China smoothly landed on the eastern runway of Beijing Daxing International Airport, marking the successful trial flight of Air China at Beijing Daxing International Airport.

JUNE

Air China entered into a strategic cooperation agreement with the National Image Research Centre of Tsinghua University, pursuant to which both parties will commence in-depth cooperation and exchanges in areas such as national image, public welfare communication, corporate brand and the "Go Global" strategy of Chinese culture. As the only national flag carrier in China, every aircraft of the Company represents a national brand. Air China will fulfill its social responsibilities and establish a positive brand image, at the same time striving to build up the national image by telling good Chinese stories.

JULY

On 11 July, the Company signed a contract with Airbus SE for the acquisition of 20 Airbus A350-900 aircraft. Air China's business class on A350-900 passenger aircraft adopts a 1-2-1 layout, and are equipped with lie-flat seats in the layout of "reverse herringbone" for the first time. The newly introduced A350-900 passenger aircraft will be deployed in a number of domestic and international routes to offer more comfortable flights for passengers.

AUGUST

As the only airline company being the official partner of "Two Olympic Games", namely 2008 Beijing Summer Olympic Games and 2022 Beijing Winter Olympic Games, Air China hosted the themed event "Support the Green Winter Olympics and Build a Beautiful Home Together (助力綠色冬奧，共建美麗家園)" in August 2019 to celebrate the 2nd anniversary of signing with Winter Olympics. Air China will fully demonstrate its own advantages and resources to popularize the spirit of the Olympic Games and support the 2022 Beijing Winter Olympics and Winter Paralympics.

On 30 August, the Company entered into an agreement with Commercial Aircraft Corporation of China, Ltd. for the acquisition of 35 ARJ21-700 domestically manufactured regional aircraft. Through this transaction, the carrying capacity of the Group's fleet will be expanded, which would be complementary to the carrying capacity of regional aircraft and hence facilitate effective connection of the Company's domestic and regional routes, thereby further optimizing the overall layout of the Company's route network, enhancing its market competitiveness and satisfying the popularized air travel demand of passengers.

SEPTEMBER

The Company launched marketing activities under the theme of "10 Million Gifts for 10 Million Members, You Must Be One of the 10 Million (千萬會員千萬禮，1,000萬不能沒有你)" to celebrate the number of registered member of Air China APP exceeding the 10 million threshold. The activity has attracted user hit rate of 2.226 million times.

On 25 September, Air China CA9597 flight took off from Beijing Daxing International Airport, marking the successful completion of the preparation for operation and the maiden flight at Beijing Daxing International Airport. With the commencement of operation of Beijng Daxing International Airport, the Company will expand into more route networks by leveraging the operation under "two airports in one city".

OCTOBER

On 18 October, Air China was awarded the "Best Main Board Listed Company (最佳主板上市公司)" at the 14th Award Presentation Ceremony and Summit Forum for Competitiveness and Creditworthiness Survey of Chinese Listed Companies (第十四屆中國上市公司競爭力公信力調查評選頒獎高峰論壇) under the theme of "Celebrate the 70th anniversary of the establishment of New China, Seek for New Economic Growth Drivers (致敬新中國70華誕 尋找經濟增長新動能)".

NOVEMBER

On 7 November, the self-operated lounge of the Company at Hangzhou Xiaoshan International Airport was officially put into operation. The new lounge occupies a total area of 332.19 square meters with about 100 seats. The optimized functional layout of the lounge will provide passengers with better services and experience in aspects such as leisure, food and beverages and entertainment.

DECEMBER

On 31 December, Mr. Cai Jianjiang, the Chairman, and Mr. Song Zhiyong, the Vice Chairman and President, welcomed the last flight crew of this year at Beijing Daxing International Airport and Beijing Capital International Airport respectively, wrapping up Air China's achievement of a safe flight year of 2019. The Group achieved a total of 2.285 million safe flight hours, safely travelled 1,454.24 million kilometers and transported 115 million passengers safely throughout the year.

SUMMARY OF FINANCIAL INFORMATION

(RMB'000)

	2019	2018	2017	2016	2015
Revenue	**136,180,690**	136,774,403	121,362,899	115,144,692	110,057,034
Profit from operations	**14,641,918**	14,346,331	11,755,712	17,532,575	15,551,622
Profit before taxation	**9,120,263**	9,977,017	11,486,232	10,212,902	9,355,251
Profit after taxation (including profit attributable to non-controlling interests)	**7,263,764**	8,214,871	8,641,449	7,758,681	7,509,487
Profit attributable to non-controlling interests	**843,470**	864,210	1,397,128	949,522	446,140
Profit attributable to equity shareholders of the Company	**6,420,294**	7,350,661	7,244,321	6,809,159	7,063,347
EBITDA[(1)]	**35,921,002**	28,850,007	25,352,031	31,006,295	28,562,383
EBITDAR[(2)]	**37,452,389**	37,133,039	33,740,737	38,261,866	34,725,582
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.47**	0.54	0.54	0.55	0.57
Return on equity attributable to equity shareholders of the Company (%)	**6.87**	7.89	8.42	9.90	11.82

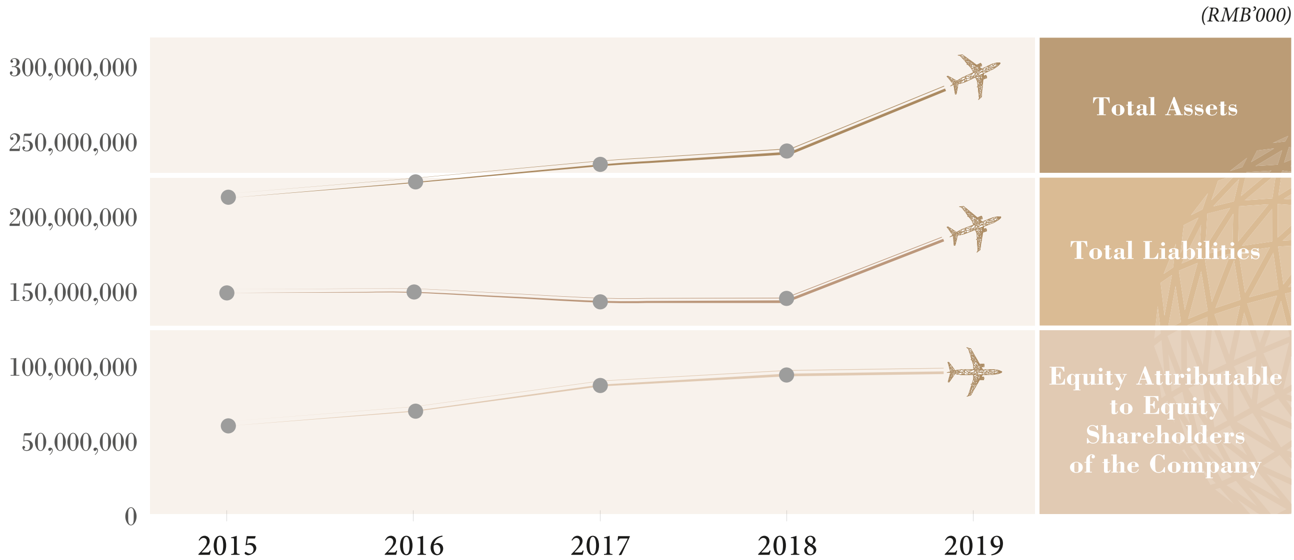
Notes:

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

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

(RMB'000)

	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Total assets	**294,206,373**	243,657,108	235,644,584	224,050,951	213,631,150
Total liabilities	**192,876,910**	143,159,074	140,785,986	147,654,552	147,108,397
Non-controlling interests	**7,870,786**	7,340,693	8,811,036	7,597,144	6,774,742
Equity attributable to equity shareholders of the Company	**93,458,677**	93,157,341	86,047,562	68,799,255	59,748,011
Equity attributable to equity shareholders of the Company per share (RMB)	**6.43**	6.41	5.92	5.26	4.57



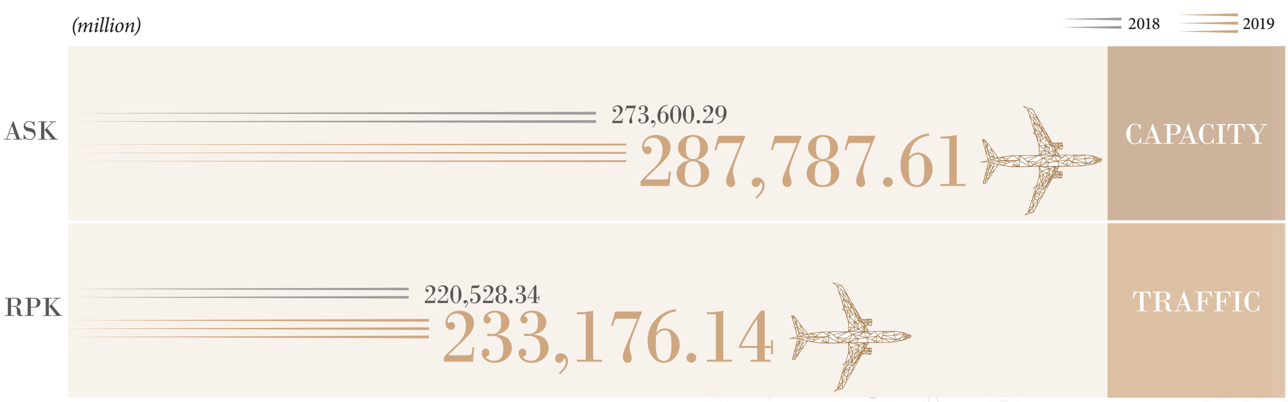
SUMMARY OF OPERATING DATA

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.

	Current period	Previous period	Increase/ (decrease)
Capacity			
ASK (million)	**287,787.61**	273,600.29	5.19%
International	**109,336.78**	103,475.62	5.66%
Mainland China	**167,662.03**	160,134.78	4.70%
Hong Kong SAR, Macau SAR and Taiwan, China	**10,788.80**	9,989.88	8.00%
AFTK (million)	**10,951.75**	10,710.56	2.25%
International	**6,471.54**	6,318.43	2.42%
Mainland China	**4,222.84**	4,139.15	2.02%
Hong Kong SAR, Macau SAR and Taiwan, China	**257.38**	252.99	1.74%
ATK (million)	**36,917.59**	35,390.26	4.32%
Traffic			
RPK (million)	**233,176.14**	220,528.34	5.74%
International	**86,618.30**	80,390.72	7.75%
Mainland China	**138,193.52**	132,102.72	4.61%
Hong Kong SAR, Macau SAR and Taiwan, China	**8,364.31**	8,034.91	4.10%
RFTK (million)	**4,778.74**	4,957.96	(3.61%)
International	**3,150.59**	3,324.61	(5.23%)
Mainland China	**1,555.56**	1,543.72	0.77%
Hong Kong SAR, Macau SAR and Taiwan, China	**72.59**	89.63	(19.01%)
Passengers carried (thousand)	**115,006.12**	109,726.59	4.81%
International	**17,096.11**	15,365.15	11.27%
Mainland China	**92,550.97**	89,257.14	3.69%
Hong Kong SAR, Macau SAR and Taiwan, China	**5,359.05**	5,104.30	4.99%
Cargo and mail carried (tonnes)	**1,434,203.10**	1,460,956.40	(1.83%)
Kilometres flown (million)	**1,454.24**	1,386.70	4.87%
Block hours (thousand)	**2,285.05**	2,194.53	4.12%
Number of flights	**742,923**	710,037	4.64%
International	**97,785**	90,904	7.57%
Mainland China	**604,863**	582,223	3.89%
Hong Kong SAR, Macau SAR and Taiwan, China	**40,275**	36,910	9.12%
RTK (million)	**25,363.67**	24,506.93	3.50%

	Current period	Previous period	Increase/ (decrease)
Load factor			
Passenger load factor (RPK/ASK)	**81.02%**	80.60%	0.42 ppt
International	**79.22%**	77.69%	1.53 ppt
Mainland China	**82.42%**	82.49%	(0.07 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**77.53%**	80.43%	(2.90 ppt)
Cargo and mail load factor (RFTK/AFTK)	**43.63%**	46.29%	(2.66 ppt)
International	**48.68%**	52.62%	(3.93 ppt)
Mainland China	**36.84%**	37.30%	(0.46 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**28.20%**	35.43%	(7.23 ppt)
Overall load factor (RTK/ATK)	**68.70%**	69.25%	(0.55 ppt)
Utilisation			
Daily utilisation of aircraft (block hours per day per aircraft)	**9.72**	9.53	0.19 hour
Yield			
Yield per RPK (RMB)	**0.5340**	0.5461	(2.22%)
International	**0.4303**	0.4376	(1.67%)
Mainland China	**0.5902**	0.6028	(2.09%)
Hong Kong SAR, Macau SAR and Taiwan, China	**0.6813**	0.6998	(2.64%)
Yield per RFTK (RMB)	**1.1995**	1.2818	(6.42%)
International	**1.2689**	1.3590	(6.63%)
Mainland China	**0.9778**	1.0148	(3.65%)
Hong Kong SAR, Macau SAR and Taiwan, China	**2.9382**	3.0139	(2.51%)
Unit cost			
Operating cost per ASK (RMB)	**0.4364**	0.4460	(2.15%)
Operating cost per ATK (RMB)	**3.4021**	3.4481	(1.33%)

Note: As at 28 December 2018, the Company completed the relevant matters in relation to 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 no longer contained fleet information of Air China Cargo and the operating data would only include freight data of the bellyhold space of passenger aircraft. Also, the freight data, yield and unit cost of the previous period would no longer contain Air China Cargo's freight data of its freighters, and shall be adjusted to a comparable basis.



FLEET INFORMATION

During the year of 2019, the Group introduced a total of 48 aircraft, including four A350, one A330-300, two B737-8MAX, four B737-800, thirty A320NEO and seven A321NEO, among which one was bought with our own funds, 27 were introduced under finance leases and 20 were introduced under operating leases. On the other hand, the Group phased out 18 aircraft, including twelve B737-800, four A320 and two A319.

As at the end of 2019, the Group had a total of 699 passenger aircraft including business jets, with an average age of 6.96 years. Among the aircraft set out above, the Company operated a fleet of 426 aircraft in total, with an average age of 7.25 years. The Company introduced 29 aircraft and phased out 12 aircraft, among which two were sold to Air Macau, two were sold to Dalian Airlines and two were sold to Air China Inner Mongolia.

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

	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Passenger aircraft	**694**	**285**	**207**	**202**	**6.96**
Airbus	**365**	**141**	**115**	**109**	**7.06**
A319	43	32	6	5	12.40
A320/A321	247	81	91	75	6.22
A330	65	28	8	29	7.65
A350	10	0	10	0	1.04
Boeing	**329**	**144**	**92**	**93**	**6.84**
B737	277	120	72	85	7.03
B747	10	8	2	0	10.47
B777	28	4	18	6	5.71
B787	14	12	0	2	2.86
Business jets	**5**	**1**	**0**	**4**	**7.41**
Total	**699**	**286**	**207**	**206**	**6.96**

Passenger aircraft	Introduction Plan 2020	2021	2022	Phase-out Plan 2020	2021	2022
Airbus	**34**	**41**	**8**	**3**	**1**	**5**
A319	–	–	–	2	–	3
A320/A321	29	34	–	1	1	2
A350	5	7	8	–	–	–
Boeing	–	–	–	**1**	–	**5**
B737	–	–	–	1	–	5
COMAC	**3**	**6**	**8**	–	–	–
ARJ21	3	6	8	–	–	–
Total	**37**	**47**	**16**	**4**	**1**	**10**

Note: Please refer to the actual operation for the introduction and phase-out of the Group's fleet in the future.


Bring
THE WORLD
Closer

BUSINESS OVERVIEW

In 2019, the Group recorded a revenue of RMB136,181 million, a profit before tax of RMB9,120 million and a net profit attributable to equity shareholders of the Company of RMB6,420 million. The competitiveness of our core business was consolidated and improved. We have steadily expanded the fleet investment scale, strengthened the restructuring of operation resources, continuously enhanced the capacity input, diligently exploited the potential of production and insisted on "optimising the operation of the entire fleet", and continued to enhance aircraft utilization efficiency. By insisting on new development concepts and focusing on high quality development, the Company continuously improved the operating quality, strengthened the refined cost management, and continued to maintain its leading advantages in the industry.

In 2019, the Group's ASKs and RPKs reached 287,788 million and 233,176 million, representing a year-on-year increase of 5.19% and 5.74%, respectively. The passenger load factor was 81.02%, representing a year-on-year increase of 0.42 ppt. The Group's AFTKs and RFTKs reached 10,952 million and 4,779 million, representing a year-on-year increase of 2.25% and a year-on-year decrease of 3.61%, respectively. The Group's cargo and mail load factor was 43.63%, representing a year-on-year decrease of 2.66 ppt.

SAFE OPERATION

- We are well aware that safety responsibility is also a kind of political responsibility, and the guarantee for safe flight underlies the foundation of the Group's original aspiration and mission. We further promoted the implementation of 30 measures aiming at ensuring sustainable and safe development by firmly establishing the concept of safe development and holding the bottom line of safety.

- The Company devoted greater efforts in the development of systems and mechanisms in order to reinforce the foundation of its safe development. We have optimized the security risk management and control mechanism by promoting the development of a three-level risk management and control system. We have also improved the flight training system through the adoption of the new Flight Standard Operating Procedure Manual (SOP), thereby consolidating our business foundation on a continuous basis. A new system for AGS flight quality supervision has been applied to further enhance the management and control capability over the operation process. Moreover, the Company optimized the aircraft maintenance system by promoting the integration of maintenance quality management system and improving the preventive maintenance services. AMECO was awarded the maintenance license issued by the Civil Aviation Administration of China after the reform of "integrating certificates into one". Meanwhile, the Company also optimized the operational system by enhancing the function of its system operation control (SOC) system more rapidly, and by facilitating the upgrade of dynamic management model and flight dispatch and release model in an orderly manner.

- During the Reporting Period, the Group recorded 2.285 million safe flight hours, representing a year-on-year increase of 4.12%. 1,454.24 million safe flight kilometres were recorded, representing a year-on-year increase of 4.87%; 115 million passengers were transported safely, representing a year-on-year increase of 4.81%. The Company had successfully safeguarded the provision of important transportation services involved in various events such as the second "Belt and Road" Forum for International Cooperation, Beijing International Horticultural Exhibition, Conference on Dialogue of Asian Civilizations and the celebration of the 70th anniversary of the founding of the People's Republic of China.

HUB NETWORK

- The Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China", which has a unique and prime location advantage. During the Reporting Period, we actively promoted the renovation project for Terminal 3 and other construction projects including the fourth runway and the landside integrated transportation hub, with a view to establishing Beijing Capital International Airport as a world-class hub with unwavering efforts.

- Beijing World-class Hub newly launched international and domestic routes such as Beijing-Phnom Penh, Beijing-Nice, Beijing-Kashi and Beijing-Changzhi. Flight frequencies of Beijing-Shanghai, Beijing-Guangzhou and other routes were increased. The total OD connected by Beijing Hub increased to 6,332 and the number of persons who has received interlining services provided by the hub increased by 7% year-on-year. The all entrusted baggage through check services business covered 96% of total passengers who transit to China from the abroad via Beijing. Travel products for 144-hour visa-free transit in Beijing and the "Transit in Beijing" product package have been launched; and the number of product line under the joint transport product combining flight and ground transportation had increased to 33.

- Chengdu International Hub newly launched Chengdu-Bazhong-Shanghai, Chengdu-Wuyishan and other routes. Currently, there is a total of 39 navigation points for transiting to overseas countries via Chengdu. Various measures including priority security check channels for transit were launched, which led to a year-on-year increase of 6% in the number of transit passengers. Leveraging the opportunities arising from the development of Chengdu New Tianfu International Airport (成都新天府機場), the Company has formulated plans for operation and route network for "two airports in one city", striving towards its development goal of becoming a top-tier aviation hub in the world.

- The Company newly launched international and regional routes such as Shanghai-London, Hangzhou-Rome, Tianjin-Osaka, Yinchuan-Hong Kong, Chongqing-Tokyo, Chongqing-Okinawa, Hohhot-Ulaanbaatar and Wenzhou-Bangkok, as well as domestic routes such as Hohhot-Shenyang, Chongqing-Changchun, Zhengzhou-Yinchuan and Guiyang-Fuzhou.

- 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 operated a total of 770 passenger routes, including 137 international routes, 27 regional routes and 606 domestic routes. The Company's passenger routes reached 43 countries and regions and 187 cities, including 65 international cities, 3 regions and 119 domestic cities. Through cooperation with members of Star Alliance, the Company has further expanded its service coverage to 1,317 destinations in 195 countries and regions.

- In 2020, the Company intends to launch new international and domestic routes such as Chongqing-San Francisco, Hangzhou-Tokyo, Beijing-Yan'an and Shanghai (Pudong)-Shenyang.

PRODUCTS AND SERVICES

- The Company upheld the doctrine of offering sincere services and focused on the goal of building a "world-class model enterprise". During the Reporting Period, the Company further deepened the "three orientations" in terms of values, customers and issues, and implementing the "three comprehensive strategies" of global benchmarking, full-process governance and full-chain capacity. Refined measures such as raising the standards of service systems, improving the quality of hardware regarding service provision, upgrading soft services and products and developing professional service teams were implemented.

- From governance of business to governance of standard: With a commitment to keep abreast of global standards, the Company has comprehensively improved the quality of its three "principal products". The standards for allocation of aircraft seats and entertainment systems were released, striving to strengthen the management on its principal in-flight products throughout the product lifecycle at the system level. The Company also released the "General Rules for Standard System of Products and Services at Touchpoints throughout the Whole Process (《全流程接觸點產品服務標準體系總則》)" with 106 standards for whole process product and service and the "Manual of Standards for Products and Services at Touchpoints throughout the Whole Process (《全流程接觸點產品服務標準手冊》)", signifying the completion of the establishment of whole process product standard system.

- The Company has enhanced its internal and external synergistic coordination as well as management and control over various key aspects with a focus on flight punctuality management. The flight punctuality rate of the Company reached 81.83%.

- The renovation of old lounges and construction of new lounges have commenced and the lounge at Hangzhou airport was put into trial operation. Leveraging the resources of CNAHC, the Company has established a global catering supply management center and a cultural and entertainment brand under Air China, thereby improving the quality of its catering and aircraft entertainment in an all-rounded manner.

- Beijing Hub has realized a new smart service model of "self-service-oriented, manual assisted" by setting up a "Self-service Area" for domestic routes, which was equipped with 40 self-service baggage check-in devices and facial recognition-based self-boarding devices. It has also promoted the "paperless" convenient travel service in full swing by putting into service the QR code e-boarding pass clearance service in 105 cities within China. Moreover, the first international route adopting "paperless" travel services was launched, i.e. the Beijing-Australia route.

- The Company has enriched the functions of Air China APP by launching various new functions, such as Air China's wallet and credit payment (國航錢包信用付), non-voluntary self-service flight-ticket changing, air-rail and air-bus interline operations, cross-platform ticket sales between Air China and Shenzhen Airlines, and irregular flight services, which have integrated the whole service chain of and increased the scenarios through which services are provided on the APP.

- The Company has provided whole process training with full coverage to its service team to facilitate the improvement of their professionalism through mediums such as positional and vocational skill system and vocational skills contests.

SALES AND MARKETING

- The Company continued to explore potentials of its core resources. Adhering to the general guidelines of optimizing the operation of the entire fleet, we have strengthened the management over fleet value and established fixed flight cycle. Under the combined effects of various factors such as capacity shortage, sluggish international (regional) markets and major events, the daily utilisation of aircraft reached 9.72 hours, representing a year-on-year growth of 0.19 hours.

- The Company has strengthened the refined management of yield and optimized the pricing management system. Sales revenue recorded a year-on-year growth of 2.1%, while the revenue from its premium cabins services saw a 2.4% year-on-year increase. We strenuously promoted the Phase 2 business model transformation project and realized scenario-based payment services based on frequent fliers' credit points. To keep pace with the rapid upgrade of e-commerce platforms and websites, we also carried out over 30 iterative developments with over 1,900 improved and new functions, boosting the number of registered users of Air China APP to over 10 million with sales revenue exceeding RMB10 billion, representing a year-on-year growth of 39%.

- The Company launched paid upgrade product at departure gates at 52 domestic airports and 16 international airports, and introduced products such as the Premium Economy Class for in-flight upgrade of economy class on the new A350 aircraft. We have also expanded the sales channel of paid seat selection and prepaid luggage. The number of persons who has received our travelling products and services increased by 52.4% year-on-year. During the Reporting Period, the accumulated sales revenue contributed by aviation-related income from ancillary products amounted to RMB360 million, representing a year-on-year increase of 57%, and the revenue generated from upgrade product, paid seat selection and prepaid luggage recorded a year-on-year growth of 103%, 21% and 33%, respectively.

- The Company has accelerated the application of innovative marketing and further promoted the transformation of its business models. New segments such as commission-based collaboration, attributable tenants and mileage payment were added to the loyalty point platform. Mileage payment business was introduced to 1,155 tenants or duty-free shops, marking continuous expansion of Air China's travel ecosystem.

- "Phoenix Miles" won the "Best Quality Frequent-flyer Program (最佳品質常旅客計劃)" award from Xinhua Net. As at the end of the Reporting Period, the total number of "Phoenix Miles" members amounted to 63.5953 million. With the all-round upgrade of services offered to the frequent fliers, customer loyalty and stickiness also increased remarkably, leading to a year-on-year growth of 5% in the revenue contributed by frequent fliers.

BRAND VALUE

- Air China positioned its brand as "professional and reliable with both international quality and Chinese temperament". By virtue of the immense historical heritage, we strive to create perfect travel experience and help passengers to stay safe by upholding the spirit of phoenix of being a practitioner, promoter and leader for the development of the Chinese civil aviation industry. The Company is also committed to leading the industrial development by establishing itself as a "National Brand", at the same time pursuing outstanding performance through innovative and excelling efforts.

- The Company fulfilled its social and political responsibilities by participating in an array of activities, including the exhibition hall featuring "Wings of Dream (夢之翼)" of Beijing International Horticultural Exhibition, the Beijing 2022 Winter Olympic Games, the 2nd China International Import Expo and the maiden flight of Beijing Daxing International Airport. The new version of "Panda" inflight safety instructions video was launched in an effort to reinforce a younger brand image of Air China. The brand culture was communicated and well-received by the public, which contributed to the enhancement of the Company's brand value. The brand communication project of Air China titled "Landing with Dreams" and the cultural innovation work in relation to the brand's IP image "Panda" have received a number of domestic and international awards, including the "2018 Brand Innovation Achievement of Chinese Enterprises – Innovative Brand Culture and Innovative Brand Communication Award (2018年中國企業品牌創新成果品牌文化創新和品牌傳播創新獎)" from China Association for Quality, the 10th Tiger Roar Award – Silver Prize (第10屆虎嘯獎銀獎), the "Excellent Chinese Global Brand Award (中國出海品牌卓越獎)" for the thematic activity of "China Home (中國之家)" at Cannes Lions International Festival of Creativity, the "Best VR/AR" of 2019 Asia Pacific PR Award (亞太公關大獎「最佳VR/AR」獎), and nomination for 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」) for 2019.

- Air China ranked 21st in the list of "Top 500 Most Valuable Chinese Brands 2019" released at the "16th World Brand Convention" of World Brand Lab with a brand value of RMB167.876 billion, which is the highest ranking among civil aviation companies in China. Air China also ranked 281st among global brands in the "The World's 500 Most Influential Brands (世界品牌500強排行榜) released by World Brand Lab, up by 6 rankings as compared with last year, and was the only Chinese civil aviation company on the list. Meanwhile, Air China received the "China No.1 Brand Award for Year 2019 (Aviation Services Industry) (2019中國品牌年度大獎NO.1 (航空服務行業)" and a special award named "2019 Cultural Brand Award (2019年文化品牌大獎)".

THREE CRITICAL BATTLES

- Leveraging the resources of CNAHC, the Company shouldered its corporate social responsibilities by implementing the "8+2" designated poverty alleviation plan. During the Reporting Period, the Company provided nil-consideration supporting funds of over RMB38.51 million to the designated poverty alleviation regions and carried out various supporting projects such as infrastructure construction as well as poverty alleviation through industry, education, health and ecological protection. Special surveys and researches for poverty alleviation have been conducted with poverty alleviation cadres being assigned to these projects. The Company also encouraged its staff to participate in poverty alleviation through consumption. The amount of product purchased for the purpose of poverty alleviation amounted to RMB45.37 million, and the assisted sales of poverty alleviation-related products amounted to RMB4.93 million. Meanwhile, the Company introduced 12 partners in relation to poverty alleviation and commenced collaborative poverty alleviation work in various fields. We helped nurture over 1,000 talents for the poverty-stricken regions and recruited an aggregate of 62 staff members from the poverty alleviation regions. The voluntary supporting education activity of "Air China Class" had been carried out with over 200 volunteers giving a total of over 1,300 class hours, and the trial program of poverty alleviation through aesthetic education has been implemented. During the Reporting Period, Sonid Right Banner, Xilingol League, Inner Mongolia Autonomous Region, an aid recipient county, has been lifted from the status as a national-level poverty-stricken county, while Zhaoping county, Hezhou City, Guangxi Zhuang Autonomous Region has attained its annual target for poverty alleviation.

- The Company has enhanced its capability in risk compliance management, reinforced the foundation for system management and issued the relevant requirements on comprehensive risk management of the Company. The "Year for Enhancement of Compliance Management" activity was carried out, pursuant to which regular management on statutory self-inspection has been achieved. We have accelerated the development of the compliance management system with increased efforts put in compliance training. The rule of law construction of Air China progressed smoothly with law-based corporate governance and compliant operation becoming the general consensus among all staff members. We also further promoted the development of the internal control and audit system and completed 107 internal audit items. Moreover, the Company has enhanced the level of operation management and its risk prevention capability on a continuous basis with a view to actively preventing, controlling and eliminating major operational risks.

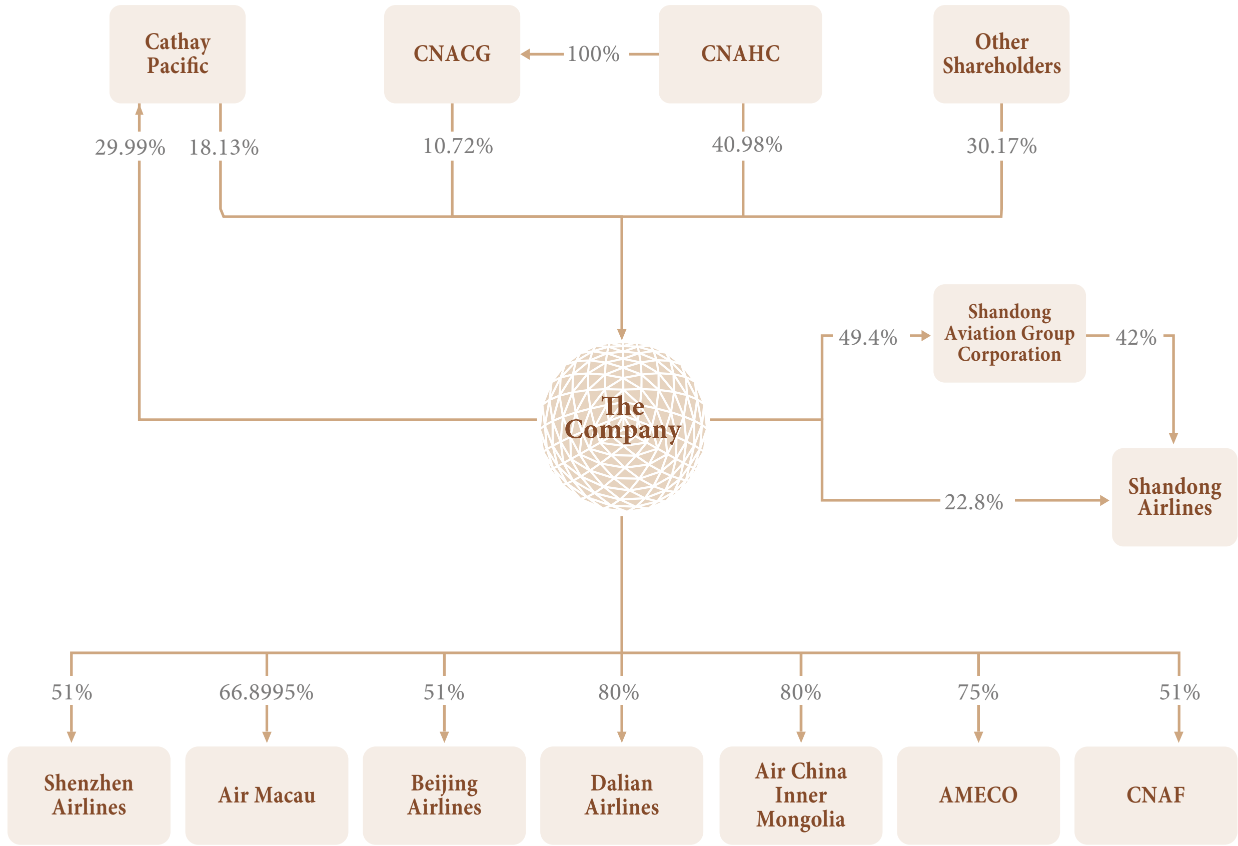
- Adhering to the development concept of "green operation for sustainable development", the Company is fully committed to winning the Blue Sky Defense War. To this end, the Company has optimized its energy-saving and environmental protection management system by issuing the "Implementation Rules for Energy Saving, Environmental Protection, Education and Training (《節能環保及教育培訓實施細則》). It has also propelled the "fuel to electricity" project for vehicles within the airports by introducing 97 electric commuter buses, increasing the number of electric vehicles owned by the Company to over 200. Moreover, the Company has commenced the upgrade and transformation of its carbon emission system, through which it has strengthened the monitoring and analysis of carbon emission-related data. Besides, the Company actively participated in promotional activities for environmental protection and charitable purposes. On 5 June, the World Environment Day, we organized a flight event under the theme of "Joining Hands to Build a Green Environment (共建綠水青山)". The Company won the 10th China Environmental Award, as the first aviation company awarded with such honour.

INNOVATION AND DIGITALIZATION

- The Company has continuously uplifted its information technology level and accelerated the application of innovative management. We have completed the top-level design for digital transformation with constantly improved self-development capability and increased effort in the development of the information security and protection system. The "Lounge Service Management System" has been launched and put into service at 33 self-operated lounges at 12 airports across the country, while the "Luggage Service Information System" developed by the Ground Service Department of the Company has received the "QIC-V Grade Technological Achievement Award (QIC-V級技術成果獎)", the top award of the National Quality Innovation Competition (全國質量創新大賽). Furthermore, the "Human Resources Information System Application Project" and the "Wing of Air China", which is both the corporate mobile application platform and the standard APP for staff members, received the First Prize and Second Prize at the 17th Innovative Achievements in the Management Modernisation of National Transport Enterprises Award respectively. The Company also put great efforts in aligning with the digitalization strategy of the Star Alliance and received the Star Alliance CEO Award in the field of digitalization and passenger experience.

- The Company has stepped up its efforts in the development of innovative management systems and mechanisms. The Company has commenced its innovation laboratory work in full swing by setting up 2 company-level innovation laboratories and 7 laboratories for special fields. The Company published Administration Measures for Innovation Laboratories/Engineering Technology Centers《創新實驗室/工程技術中心管理辦法》and promoted the development of talent, incentive and procurement mechanisms to ensure quality and efficient operation of laboratory work. The Company has pushed forward the cooperation mechanism for innovation studio projects and integrated flight safety assurance, improving service quality, facilitating the enhancement of effectiveness and inspiring designated poverty alleviation. In this regard, 10 innovation laboratories and 30 innovation studios have been set up, among which, the "Innovation Laboratory for QAR Data Application" was awarded the title of "Labor Model Innovation Studio for High-skilled Talents of Chinese Civil Aviation Companies (全國民航勞模高技能人才創新工作室)".

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



Notes:

1. CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.
2. 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.

During the Reporting Period, the operating results of the major subsidiaries and associates of the Company were as follows:

	Shenzhen Airlines	Air Macau	Beijing Airlines	Dalian Airlines	Air China Inner Mongolia	AMECO	CNAF	Cathay Pacific	Shandong Airlines
Year of establishment	1992	1994	2011	2011	2013	1989	1994	1946	1999
Place of domicile	Shenzhen	Macau	Beijing	Dalian	Inner Mongolia	Beijing	Beijing	Hong Kong	Shandong
Principal business	Air passenger and air cargo services	Air passenger and air cargo services	Business charter and public air passenger and air cargo services	Air passenger and air cargo services	Air passenger and air cargo services	Repair and overhaul of aircraft, engines and components	Provision of financial services to CNAHC Group and the Group	Air passenger and air cargo services	Air passenger and air cargo services
Registered capital	RMB5,360,000,000	MOP442,042,000	RMB1,000,000,000	RMB3,000,000,000	RMB1,000,000,000	USD300,052,800	RMB1,127,961,864	3,933,844,572 shares in issue	RMB400,000,000
Percentage of shareholding by the Company	51%	66.8995%	51%	80%	80%	75%	51%	29.99%	22.8%
Revenue (RMB)	31,879 million (on a consolidated basis)	3,681 million	760 million	1,860 million	1,714 million	9,048 million	296 million	94,777 million (on a consolidated basis)	18,990 million (on a consolidated basis)
Year-on-year changes (%)	2.44	9.16	324.58	9.73	22.69	15.26	-1.33	-0.31	1.19
Air traffic revenue (RMB)	30,984 million	3,649 million	759 million	1,857 million	1,694 million	N/A	N/A	86,645 million	18,257 million
Year-on-year changes (%)	2.17	9.19	328.81	9.82	22.66	N/A	N/A	-0.22	1.09
Profit after taxation (RMB)	1,152 million	113 million	79 million	141 million	202 million	238 million	105 million	1,498 million	361 million
Year-on-year changes (%)	25.49	-37.22	Loss of RMB4 million	10.16	35.57	35.23	14.13	-36.98	4.03
Profit attributable to equity shareholders (RMB)	1,157 million	113 million	79 million	141 million	202 million	238 million	105 million	1,498 million	361 million
Year-on-year changes (%)	26.45	-37.22	Loss of RMB4 million	10.16	35.57	35.23	14.13	-25.36	4.03

The fleet information and operating data of the major subsidiaries and associates of the Company were as follows:

As at the end of the Reporting Period/ During the Reporting Period	Shenzhen Airlines	Air Macau	Beijing Airlines*	Dalian Airlines	Air China Inner Mongolia	Cathay Pacific	Shandong Airlines
Fleet size (unit)	218 (on a consolidated basis)	23	3	13	11	212	124
Average age (year)	6.40	6.53	10.08	6.24	7.47	10.5	6.20
Aircraft introduced (unit)	14	7	0	2	2	9	2
Aircraft phased out (unit)	10	2	0	0	0	9	0
ASK (billion)	70.658	7.754	0.782	3.625	2.779	163.244	44.812
Year-on-year changes (%)	7.77	17.50	–	16.89	29.62	5.1	2.02
RPK (billion)	57.877	6.131	0.650	3.023	2.272	134.397	37.654
Year-on-year changes (%)	7.47	15.07	–	15.74	30.30	2.9	2.17
Passengers carried (thousand)	37,850.7	3,663.5	727.3	2,553.1	2,142.7	35,233	25,837.6
Year-on-year changes (%)	6.53	15.82	–	6.00	19.67	-0.7	1.48
Average passenger load factor (%)	81.91	79.07	83.17	83.39	81.75	82.3	84.03
Year-on-year changes (ppt)	-0.23	-1.67	–	-0.83	0.42	-1.8	0.13
AFTK	1,310 million	121.5276 million	8.3610 million	37.2461 million	31.8638 million	17,558 million	768 million
Year-on-year changes (%)	14.75	16.07	–	0.61	6.45	-0.3	8.24
RFTK	681 million	26.0299 million	3.8691 million	19.5924 million	11.9994 million	11,311 million	309 million
Year-on-year changes (%)	13.59	-18.26	–	30.58	3.90	-6.7	7.81
Volume of cargo and mail carried (tonnes)	0.4072 million	15,776.38	4,654.34	15,890.90	11,467.30	2.022 million	0.1822 million
Year-on-year changes (%)	8.66	-20.21	–	12.71	2.12	-6.0	7.07
Cargo and mail load factor (%)	51.99	21.42	46.28	52.60	37.66	64.4	40.29
Year-on-year changes (ppt)	-0.53	-8.99	–	12.07	-0.92	-4.4	-0.15

*Note: 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 7.41 years. During the Reporting Period, Beijing Airlines completed 373 flights for business charter service, representing a year-on-year increase of 1.36%. It completed 1,432 flying hours, representing a year-on-year increase of 3.10%. It carried a total of 3,228 passengers, representing a year-on-year increase of 37.95%.

OPERATIONAL PLAN

The Company has established its operational focuses of 2020, including (1) strengthening operation safety to consolidate the foundation of quality development; (2) enhancing competitiveness and innovation to build organic impetus for quality development; (3) scientifically planning top-level design to draw a picture of quality development; and (4) continuously improving Party building to serve as a strong guarantee for quality development.

OUTLOOK FOR FUTURE

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

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

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

In 2020, it is expected that there will be no change in the fundamentals of the Chinese economy, and the basic trend of steady growth and positive long-term outlook of the economy will remain unchanged. China's aviation market demand will remain strong in the long run, and the market potential is huge. The trend of changes in market structure will continue. The Civil Aviation Administration of China published Certain Policies and Measures on Controlling the Total Traffic and Adjusting Flight Structure to Improve the Punctuality Rate of Flights, aiming at strictly controlling the airport capacity and optimizing the allocation of time resources. In the central and western regions, most airports have not been affected by this policy and can still maintain relatively high growth. In the long run, business travel and holiday tours continue to be drivers of the development of the aviation industry, and air travel will become increasingly individualized and popularized. Affected by the relaxation on policies of overseas study, immigration, visa and other factors, the growth in outbound passenger traffic will outpace that in domestic passenger traffic.

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

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

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

From the perspective of China's domestic market, private airlines generally show a rising trend and present increasingly fierce competition. When the market access in the early stage was relaxed, regional airlines shoot up in succession, and the wave of low-cost airlines is gradually rising, which will further intensify the fierce competition in the domestic market and reduce the yield level. Meanwhile, the impact from high-speed rail transportation for medium- and short-haul routes is manifested not only in the primary diversion by newly opened lines, secondary diversion will emerge through network operation, overall speed-up, frequency increase, and extended operation time of existing routes. In 2020, as affected by the novel coronavirus pneumonia pandemic, there will be a sharp short-term decline of the number of domestic and international passengers. Under the influence of such uncontrollable factor, it is estimated that the development of the aviation market will be affected within a certain period.

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

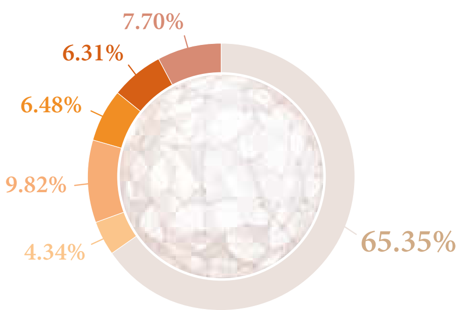
The following discussion and analysis are based on the Group's consolidated financial statements and the notes thereto prepared in accordance with the IFRSs and are designed to assist the readers in further understanding the information provided in this report so as to better understanding the financial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

REVENUE

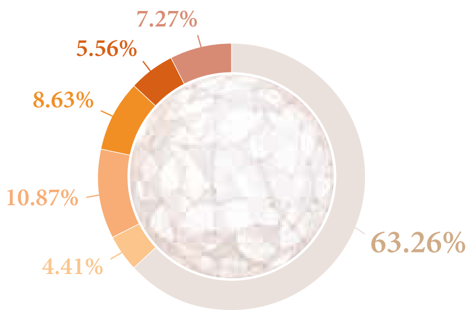
During the Reporting Period, the Group's revenue was RMB136,181 million, representing a decrease of RMB593 million or 0.43% as compared with last year. Among which, air traffic revenue was RMB130,257 million, representing a decrease of RMB1,579 million or 1.20% as compared with last year; other operating revenue was RMB5,924 million, representing a year-on-year increase of RMB986 million or 19.97%.

REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**89,000,172**	**65.35%**	86,520,847	63.26%	2.87%
Hong Kong SAR, Macau SAR and Taiwan, China	**5,911,532**	**4.34%**	6,029,445	4.41%	(1.96%)
Europe	**13,374,965**	**9.82%**	14,865,700	10.87%	(10.03%)
North America	**8,821,998**	**6.48%**	11,806,117	8.63%	(25.28%)
Japan and Korea	**8,592,855**	**6.31%**	7,607,451	5.56%	12.95%
Asia Pacific and others	**10,479,168**	**7.70%**	9,944,843	7.27%	5.37%
Total	**136,180,690**	**100.00%**	136,774,403	100.00%	(0.43%)



2019



2018

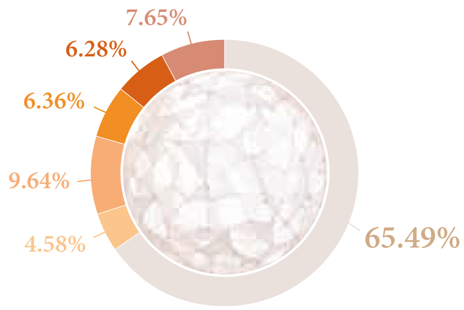
AIR PASSENGER REVENUE

During the Reporting Period, the Group recorded an air passenger revenue of RMB124,525 million, representing an increase of RMB4,095 million over the previous year. Among the air passenger revenue, the increase of capacity contributed an increase of RMB6,245 million to the revenue, and the increase of passenger load factor led to an increase of RMB662 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB2,812 million. The Group's capacity, passenger load factor and yield per RPK in 2019 are as follows:

	2019	2018	Change
ASK (million)	**287,787.61**	273,600.29	5.19%
Passenger load factor (%)	**81.02**	80.60	0.42 ppt
Yield per RPK (RMB)	**0.5340**	0.5461	(2.22%)

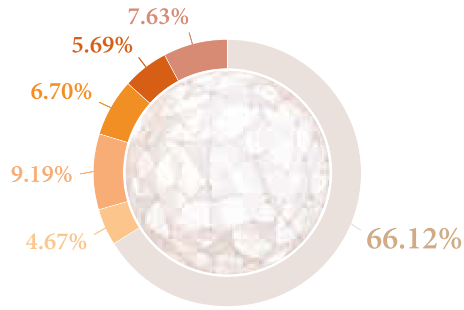
AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**81,555,227**	**65.49%**	79,627,346	66.12%	2.42%
Hong Kong SAR, Macau SAR and Taiwan, China	**5,698,251**	**4.58%**	5,622,473	4.67%	1.35%
Europe	**12,007,281**	**9.64%**	11,064,799	9.19%	8.52%
North America	**7,917,567**	**6.36%**	8,069,082	6.70%	(1.88%)
Japan and Korea	**7,817,141**	**6.28%**	6,854,749	5.69%	14.04%
Asia Pacific and others	**9,529,116**	**7.65%**	9,191,545	7.63%	3.67%
Total	**124,524,583**	**100.00%**	120,429,994	100.00%	3.40%



Mainland China
Hong Kong SAR, Macau SAR and Taiwan, China
Europe
North America
Japan and Korea
Asia Pacific and others

2019



2018

AIR CARGO AND MAIL REVENUE

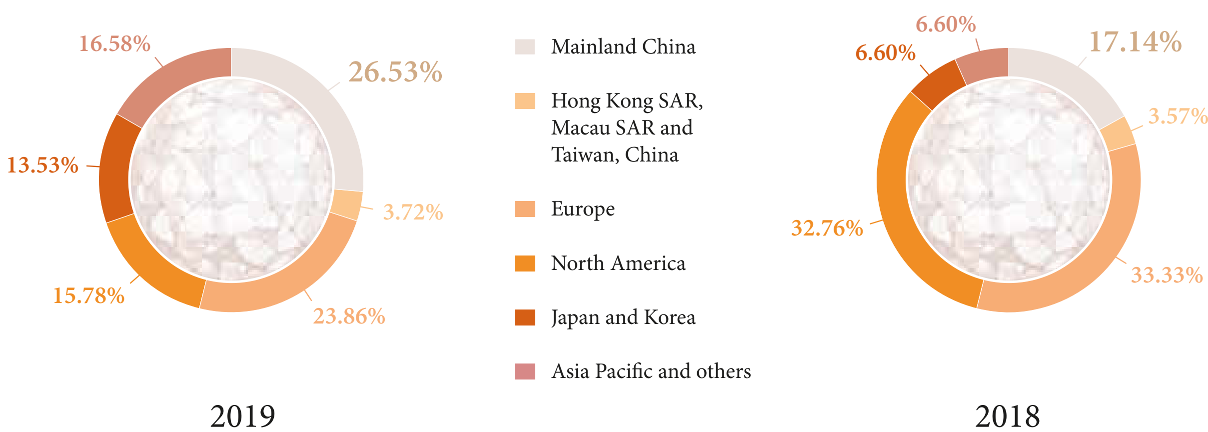
During the Reporting Period, the Group's air cargo and mail revenue was RMB5,732 million, representing a decrease of RMB5,673 million as compared with last year. Excluding the impact of deconsolidation of Air China Cargo, air cargo and mail revenue decreased by RMB623 million year-on-year, among which the increase of capacity contributed an increase of RMB143 million to the revenue, while the decrease of cargo and mail load factor resulted in a decrease in revenue of RMB373 million, and the decrease of yield of cargo and mail resulted in a decrease of RMB393 million to the revenue. The capacity, cargo and mail load factor and yield per RFTK in 2019 are as follows:

	2019	2018	Change
Available freight tonne kilometres (million)	**10,951.75**	10,710.56	2.25%
Cargo and mail load factor (%)	**43.63**	46.29	(2.66 ppt)
Yield per RFTK (RMB)	**1.1995**	1.2818	(6.42%)

Note: Data of year 2018 in the above table excluded the freight transportation data of freighters of Air China Cargo.

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,520,998**	**26.53%**	1,954,665	17.14%	(22.19%)
Hong Kong SAR, Macau SAR and Taiwan, China	**213,281**	**3.72%**	406,972	3.57%	(47.59%)
Europe	**1,367,684**	**23.86%**	3,800,901	33.33%	(64.02%)
North America	**904,431**	**15.78%**	3,737,035	32.76%	(75.80%)
Japan and Korea	**775,714**	**13.53%**	752,702	6.60%	3.06%
Asia Pacific and others	**950,052**	**16.58%**	753,298	6.60%	26.12%
Total	**5,732,160**	**100.00%**	11,405,573	100.00%	(49.74%)



OPERATING EXPENSES

During the Reporting Period, the Group's operating expenses were RMB125,598 million, representing a decrease of 0.74% from RMB126,537 million in the same period last year. The breakdown of the operating expenses is set out below:

	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**35,965,239**	**28.64%**	38,481,303	30.41%	(6.54%)
Take-off, landing and depot charges	**16,440,081**	**13.09%**	15,354,941	12.13%	7.07%
Depreciation, amortisation and aircraft and engine lease expenses	**22,245,311**	**17.71%**	21,669,230	17.12%	2.66%
Aircraft maintenance, repair and overhaul costs	**6,119,539**	**4.87%**	6,612,844	5.23%	(7.46%)
Employee compensation costs	**25,473,898**	**20.28%**	24,450,250	19.32%	4.19%
Air catering charges	**4,026,090**	**3.21%**	3,787,134	2.99%	6.31%
Selling and marketing expenses	**4,684,722**	**3.73%**	4,373,023	3.46%	7.13%
General and administrative expenses	**1,844,232**	**1.47%**	1,535,617	1.21%	20.10%
Others	**8,798,850**	**7.00%**	10,272,430	8.13%	(14.34%)
Total	**125,597,962**	**100.00%**	126,536,772	100.00%	(0.74%)

Jet fuel costs decreased by RMB2,516 million on a year-on-year basis, mainly due to the combined effect of the increase in the consumption and the decrease in prices of jet fuel.

Take-off, landing and depot charges increased by RMB1,085 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 RMB576 million on a year-on-year basis, mainly due to the increase in the number of self-owned and leased aircraft.

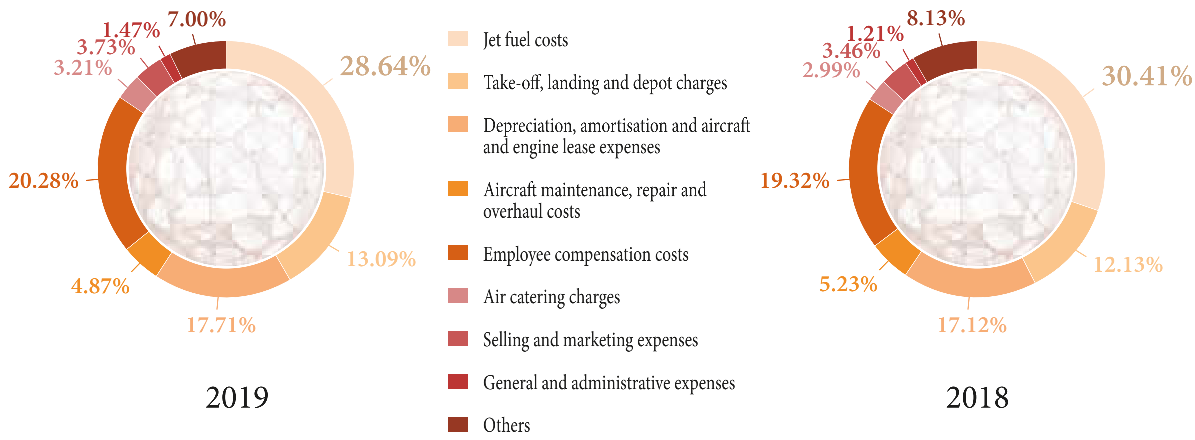
Aircraft maintenance, repair and overhaul costs decreased by RMB493 million on a year-on-year basis, mainly due to the implementation of IFRS 16 *Leases* during the Reporting Period.

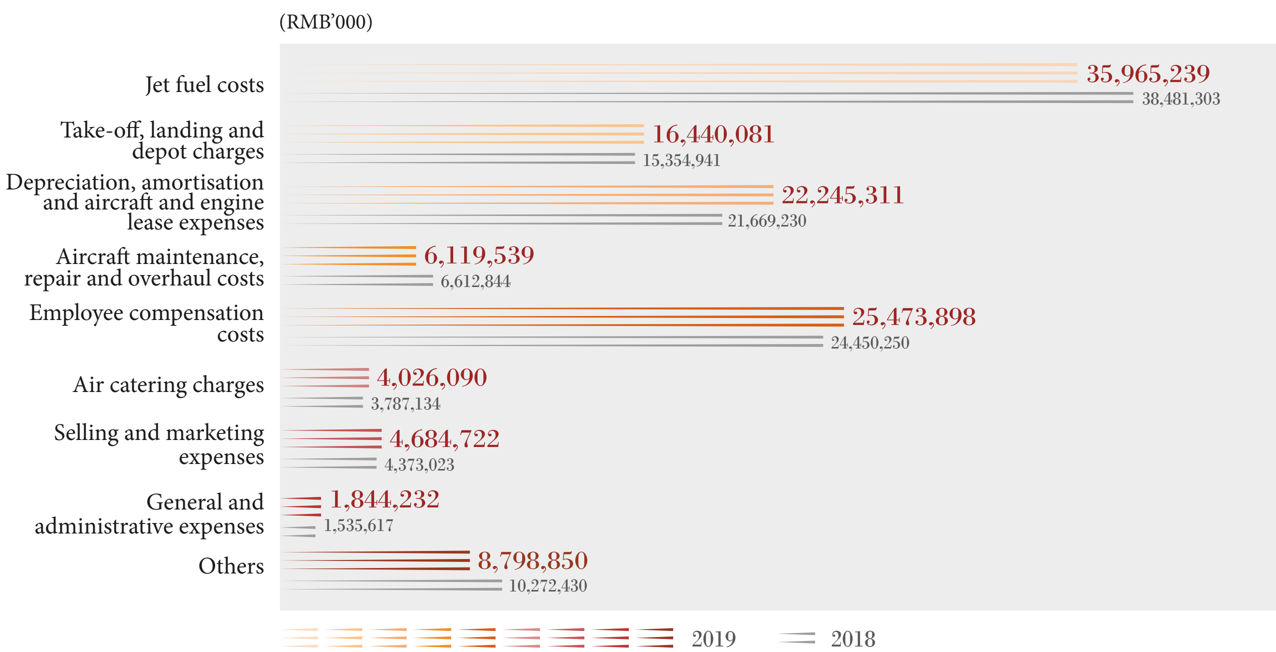
Employee compensation costs increased by RMB1,024 million on a year-on-year basis, mainly due to the impact of the expansion of operation scale and the increase in the number of employees.

Air catering charges increased by RMB239 million on a year-on-year basis, mainly due to the increase in the number of passengers.

Selling and marketing expenses increased by RMB312 million on a year-on-year basis, mainly due to the impact of the deconsolidation of Air China Cargo 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 ordinary expenses arising from the core air traffic business not specifically mentioned above, which decreased by 14.34% on a year-on-year basis. The decrease was mainly due to effect of the policy regarding 50% reduction of the collection of civil aviation development fund implemented since 1 July 2019.


28.64%
13.09%
17.71%
4.87%
20.28%
3.21%
3.73%
1.47%
7.00%
2019
Jet fuel costs
Take-off, landing and depot charges
Depreciation, amortisation and aircraft and engine lease expenses
Aircraft maintenance, repair and overhaul costs
Employee compensation costs
Air catering charges
Selling and marketing expenses
General and administrative expenses
Others
30.41%
12.13%
17.12%
5.23%
19.32%
2.99%
3.46%
1.21%
8.13%
2018


(RMB'000)
Jet fuel costs
35,965,239
38,481,303
Take-off, landing and depot charges
16,440,081
15,354,941
Depreciation, amortisation and aircraft and engine lease expenses
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21,669,230
Aircraft maintenance, repair and overhaul costs
6,119,539
6,612,844
Employee compensation costs
25,473,898
24,450,250
Air catering charges
4,026,090
3,787,134
Selling and marketing expenses
4,684,722
4,373,023
General and administrative expenses
1,844,232
1,535,617
Others
8,798,850
10,272,430
2019
2018

FINANCE INCOME, FINANCE COSTS AND NET EXCHANGE LOSS

During the Reporting Period, the Group recorded a finance income of RMB163 million, representing a year-on-year decrease of RMB10 million or 5.44%; and incurred finance costs (excluding the capitalised portion) of RMB4,949 million, representing a year-on-year increase of RMB2,035 million, which is mainly attributable to the impact of the implementation of IFRS 16 *Leases*. During the Reporting Period, the Group recorded a net exchange loss of RMB1,211 million, representing a year-on-year decrease of RMB1,166 million.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the Group's share of results of its associates and joint ventures was a profit of RMB475 million, representing a year-on-year decrease of RMB274 million. Among which, during the Reporting Period, the Group recognized a gain on investment of Cathay Pacific of RMB67 million, representing a year-on-year decrease of RMB135 million; and recognized a loss on investment of Tibet Airlines of RMB119 million, while the gain on investment was RMB79 million for the same period last year.

MATERIAL ACQUISITIONS AND DISPOSALS

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

ASSETS STRUCTURE ANALYSIS

As a result of the implementation of IFRS 16 *Leases*, the Group recorded a total assets of RMB280,374 million as at 1 January 2019, 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 RMB294,206 million, representing an increase of 4.93% from that as at 1 January 2019, among which current assets accounted for RMB24,817 million or 8.44% of the total assets, while non-current assets accounted for RMB269,389 million or 91.56% of the total assets.

Among the current assets, cash and cash equivalents were RMB8,935 million, accounting for 36.00% of the current assets and representing an increase of 32.12% 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 amounted to RMB221,535 million, accounting for 82.24% of the non-current assets and representing an increase of 4.87% 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 RMB81,724 million (RMB85,514 million as at 31 December 2018) and land use rights with net book value of approximately RMB27 million (RMB28 million as at 31 December 2018). In addition, as at the end of the Reporting Period, the Group had restricted bank deposits of approximately RMB728 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 RMB25,855 million, of which the total investment in aircraft was RMB19,875 million, mainly including procurement of aircraft and engines, aircraft modifications, flight simulators, etc. Other capital expenditure investment amounted to RMB5,980 million, mainly including 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 RMB14,648 million, representing an increase of 4.05% from the beginning of 2019. Among this, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB12,337 million, RMB1,155 million and RMB619 million, respectively, with such companies recording profits of RMB1,498 million, RMB375 million and RMB361 million, respectively during the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,544 million, representing an increase of 8.16% from that as at 1 January 2019, mainly due to the recognized gain on investment from the joint ventures during the Reporting Period.

DEBT STRUCTURE ANALYSIS

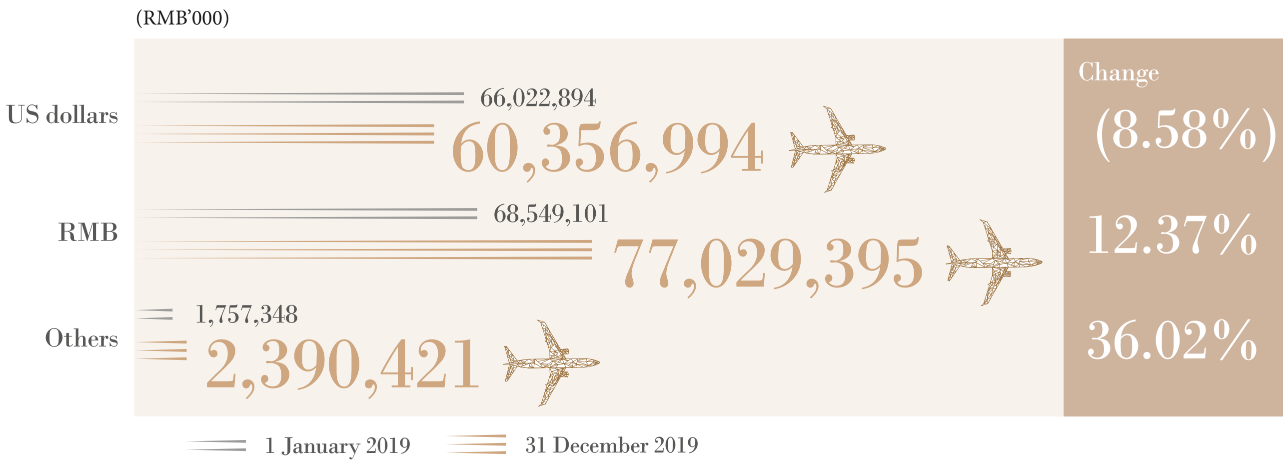
As a result of the implementation of IFRS 16 *Leases*, the Group recorded total liabilities of RMB185,966 million as at 1 January 2019, representing an increase of RMB42,807 million from those as at 31 December 2018. As at the end of the Reporting Period, the Group's total liabilities were RMB192,877 million, representing an increase of 3.72% from that as at 1 January 2019. Among them, current liabilities amounted to RMB77,973 million, accounting for 40.43% of the total liabilities; and non-current liabilities amounted to RMB114,904 million, accounting for 59.57% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and lease liabilities) amounted to RMB36,591 million, representing a decrease of 7.17% from that as at 1 January 2019, which is mainly attributable to the decrease in working capital loans of the Group.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and lease liabilities) amounted to RMB103,185 million, representing an increase of 6.48% from that as at 1 January 2019.

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

(in RMB'000)	31 December 2019		1 January 2019		
	Amount	**Percentage**	Amount	Percentage	Change
US dollars	**60,356,994**	**43.18%**	66,022,894	48.43%	(8.58%)
RMB	**77,029,395**	**55.11%**	68,549,101	50.28%	12.37%
Others	**2,390,421**	**1.71%**	1,757,348	1.29%	36.02%
Total	**139,776,810**	**100.00%**	136,329,343	100.00%	2.53%



CAPITAL COMMITMENTS

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 6.74% from RMB39,269 million as at 31 December 2018 to RMB36,621 million as at the end of the Reporting Period. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB24 million as at the end of the Reporting Period, representing a decrease of RMB35 million from RMB59 million as at 31 December 2018.

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

The Group has set the total budgeted capital expenditure for aircraft and related equipment at RMB88,898 million, of which RMB30,116 million, RMB29,473 million and RMB29,309 million have been allocated to the years of 2020, 2021 and 2022, respectively. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or debt financing.

GEARING RATIO

As a result of the implementation of IFRS 16 *Leases* by the Group since 1 January 2019, the gearing ratio (total liabilities divided by total assets) increased by 7.58 percentage points to 66.33% at the beginning of the year from that as at 31 December 2018. As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 65.56%, representing a decrease of 0.77 percentage points from that as at 1 January 2019. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

As at the end of the Reporting Period, the Group's net current liabilities (current liabilities minus current assets) were RMB53,156 million, representing a decrease of RMB1,317 million from that as at 1 January 2019. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.32, representing an increase from 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 RMB33,599 million, representing an increase of 17.14% from RMB28,683 million for the corresponding period last year, which is mainly due to the reduction of cost and the classification of paid operating lease expenses in financing activities after the implementation of IFRS 16 *Leases* during the Reporting Period. Net cash outflow from investment activities was RMB11,967 million, representing an increase of 33.71% from RMB8,950 million for the corresponding period of 2018, mainly due to the year-on-year increase in the cash payment of advances and remaining balances for aircraft during the Reporting Period and the change in the scope of consolidation. Net cash outflow from financing activities amounted to RMB19,510 million, representing an increase of 4.63% from RMB18,647 million for the corresponding period of 2018, mainly due to the improved efficiency of funds use, the optimised debt structure and the impact of the implementation of IFRS 16 *Leases* by the Group. The Company has obtained bank facilities of a total of RMB137,148 million granted by several banks in the PRC, of which approximately RMB27,711 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

RISK FACTORS

Risks of External Environment

Market Fluctuation

In 2019, China generally stayed committed to the underlying principle of pursuing progress while ensuring stability. Oriented to structural supply-side reform, China pushed forward the high-quality development and focused its efforts on the "Six Stabilities", aiming to sustain sound economic and social development. However, downward pressure on the domestic economy has increased as the external economic environment tightened significantly. Affected by the sluggish global economy, continued geopolitical crisis, increasing risks and challenges domestically and overseas and uncertainties in the macroeconomy, the air transportation market is facing an ever-increasing volatility risk.

Oil Price Fluctuation

At present, the oil price remains relatively steady in a certain range. In the future, with high degree of uncertainties in terms of factors as global economic slowdown, crude oil supply and geopolitics, it is expected oil price will fluctuate but very unlikely to witness an upsurge. Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group's financial performance is substantially subject to the fluctuation of jet fuel price. During the Reporting Period, with the other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel costs will rise or fall by approximately RMB1,798 million.

Exchange Rate Fluctuation

Since 2019, the global economy has been facing a downward pressure with a weakening growth rate. The economic growth of the major developed countries and emerging economies has declined generally, and the world's leading economies maintained a prominent trend of loosening monetary policy. The Federal Reserve System has made a change in direction regarding its monetary policy since the end of July by cutting the interest rate for three times during a year while the Eurozone and Japan continued their loose monetary policy. In view of the sustained uncertainties in trades, the downward pressure on China's economy further increased. Despite this, the main economic indicators of China remained stable and the economic fundamental was still resilient overall. The tools and room for policy adjustment are sufficient, which acts as a support to the RMB exchange rates in the mid- to long- term. The RMB exchange rate is expected to maintain two-way fluctuation, around a reasonable and balanced level.

The Group's certain finance lease liabilities, bank loans and other loans are mainly denominated in US dollar, Euro and Japanese Yen. Certain international income and expenses 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 the increase or decrease in the Group's net profit and shareholders' equity for the year of 2019 by RMB444 million; the appreciation or depreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity for the year of 2019 by RMB12.515 million; the appreciation or depreciation of RMB against Japanese Yen by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity for the year of 2019 by RMB10.651 million.

Details of the financial risk management objectives and policies of the Group are set out in note 46 to the financial statements of the Group for 2019.

Risks of Competition

Industry competition

Bilateral and multilateral non-equity joint venture arrangements among large network carriers are being constantly strengthened as both competition and business models are taking new forms. As China's airlines are accelerating their penetration in the global market, it will be harder to acquire the international air traffic rights in the future. While the Company is enjoying the advantages in locations and timeslots in respect of the long-haul routes to Europe and America, it still has much to improve compared with the leading airlines in Europe and America in terms of network, products and services. Regional airlines that spring up during an industry deregulation period promoted the trend of low-cost aviation operations, which will further intensify the competition in the domestic market and may result in reduced yield. The resource supply of China's first-tier airports, particularly the Beijing hub, tends to reach a full capacity. As such, the locations and timeslots have further constrained the development of civil aviation. With the commenced operation of Beijing Daxing International Airport, customer resources will be further snatched in the short run and may have an impact on the market yield.

Alternative competition

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

Operating Risks

De-hubbing

The international reach from the airports of China's second-tier cities has been developing rapidly, with an obvious de-hubbing trend. Taking international long-haul routes above the range of 5,000 kilometres as an example, in 2010, international long-haul routes were only operated in 4 second-tier cities in China, but as at the end of the Reporting Period, the number has increased to 20. Long-haul route operations by the airports in the second-tier cities have been growing rapidly, which now covers Europe, America, Australia and Africa. With the gradual expansion of the coverage of routes, airlines with wide-body aircraft have been actively involved in the development of long-distance routes in the second-tier cities. Such development will have a diversion effect on the Company's hubbed operations to a certain extent.

CORPORATE GOVERNANCE REPORT

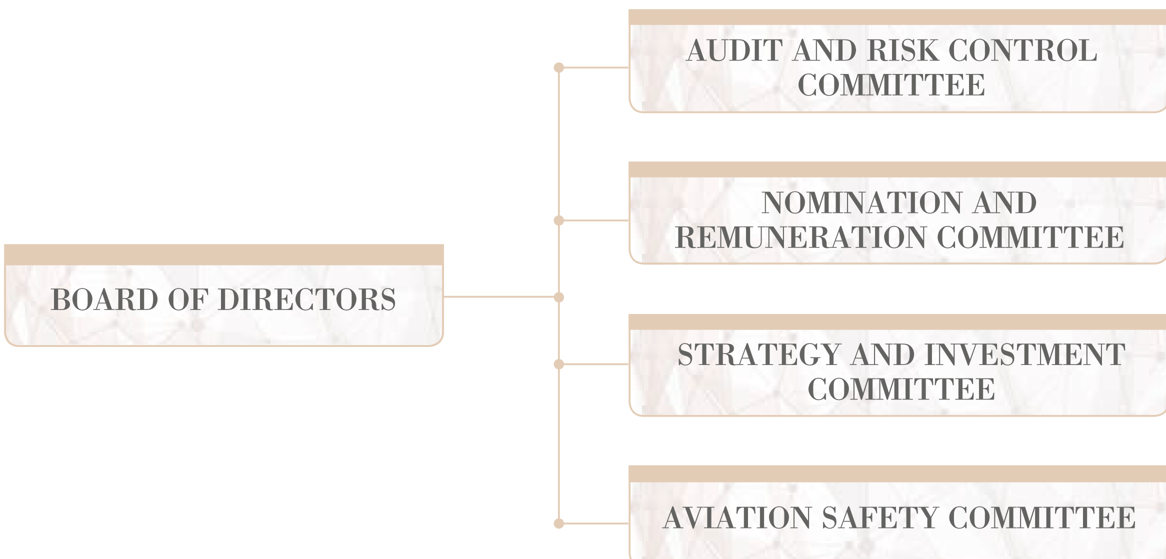
Mr. Cai Jianjiang　Mr. Song Zhiyong　Mr. Patrick Healy　Mr. Xue Yasong

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

BOARD OF DIRECTORS

Governance Structure

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



MEMBERS OF THE FIFTH SESSION OF THE BOARD

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

As of the end of the Reporting Period, the Board of the Company comprised eight directors, out of which four were independent non-executive Directors. All of the Directors have actively participated in the activities of the Company. The attendance records of all the Directors present in person at general meetings, Board meetings and meetings of each special committee during the Reporting Period are as follows:

	Number of meetings attended in person/should be attended					
	General Meeting	Board Meeting	Nomination and Remuneration Committee Meeting	Audit and Risk Control Committee Meeting	Strategy and Investment Committee Meeting	Aviation Safety Committee Meeting
Non-executive Directors						
Cai Jianjiang *(Chairman)*	2/2	8/9	4/4	N/A	5/5	1/1
Cao Jianxiong (resigned)	N/A	4/5	N/A	N/A	N/A	N/A
John Robert Slosar (resigned)	2/2	6/8	N/A	N/A	N/A	N/A
Patrick Healy	N/A	N/A	N/A	N/A	N/A	N/A
Xue Yasong	2/2	8/9	N/A	N/A	N/A	N/A
Executive Director						
Song Zhiyong *(President)*	1/2	8/9	N/A	N/A	5/5	1/1
Independent Non-executive Directors						
Wang Xiaokang	2/2	8/9	4/4	N/A	N/A	N/A
Liu Deheng (resigned)	2/2	9/9	N/A	6/6	5/5	N/A
Stanley Hui Hon-chung	2/2	9/9	N/A	6/6	N/A	1/1
Li Dajin	1/2	9/9	4/4	6/6	N/A	N/A

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

MEMBERS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Zhao Xiaohang　　Mr. He Chaofan　　Ms. Xiao Yanjun　　Ms. Li Guixia

The Responsibilities of the Board

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

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

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

Procedure of Board Meeting

Board meetings are held regularly throughout the year and generally include annual meeting, interim meeting and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and venue of the Board meeting as well as routine proposals such as review of financial reports, and shall inform all Directors of such plans in the beginning of the year.

Board meetings shall be convened by the Chairman and a notice of 14 days shall be given to all Directors before each meeting. The Directors may attend in person or through other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the Secretary to the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of the proposal(s), and the relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least three days in advance.

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

The Secretary to the Board shall be responsible for the communications and liaison with all Directors from the time when the notice is served to the commencement of the meeting, and shall provide in a timely manner the necessary information to the Directors to facilitate their decision-making on matters set out in the agenda. All Directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to keep himself or herself abreast of the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation. Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any Director at any time.

Election of Directors

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

Chairman and President

The Chairman shall be elected and dismissed by a simple majority of the Directors. The term of office of the Chairman shall be three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term. Mr. Cai Jianjiang was elected as the Chairman on 21 February 2014, and was re-elected on 27 October 2017. The Chairman, also a non-executive director, is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner.

The Company has a President who shall be appointed or dismissed by the Board. Mr. Song Zhiyong was appointed as the President on 28 January 2014. The President is authorised to oversee the Group's business, implement various strategies and be responsible for the Company's daily operation to attain overall commercial goals.

Board Diversity Policy

The Directors have extensive expertise and experience in the fields of aviation, finance, law and financial management and provide substantial support for the effective performance of the Board. The "Board Diversity Policy" was adopted by the Board in September 2013, which sets out the approach of the Company towards achieving diversity of the Board.

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

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

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

Directors' Training and Continuous Professional Development

The management of the Company provides Directors with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate their discharge of duties.

Newly appointed Directors shall be given introduction in relation to the Company to ensure that they have a sufficient understanding of the management, business and governance practices of the Company. The Company also encourages its Directors to participate in seminars and courses conducted by recognised institutions so as to ensure that they constantly improve their skills and are aware of the latest developments or changes in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

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

Training for Directors during the Reporting Period	Category Notes
Non-executive Directors	
Cai Jianjiang *(Chairman)*	a, b
Cao Jianxiong (resigned)	a
John Robert Slosar (resigned)	a
Patrick Healy	a
Xue Yasong	a, b
Executive Director	
Song Zhiyong *(President)*	a, b
Independent Non-executive Directors	
Wang Xiaokang	a, b
Liu Deheng (resigned)	a, b
Stanley Hui Hon-chung	a, b
Li Dajin	a, b

Notes:

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

b. Special trainings provided by the regulatory authorities.

Biographical Details and Other Information of Directors

The list of Directors and their respective roles on the Board and special committees under the Board are set out in this annual report and published on the websites of the Company and Hong Kong Stock Exchange. For biographical details of the Directors, please refer to the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report.

On 5 September 2005, the Company formulated and adopted the Model Code for Securities Transactions, which was subsequently amended on 19 March 2007 and 4 December 2009, respectively, on terms no less exacting than the required standards of the Model Code. The Model Code for Securities Transactions of the Company also applies to the Supervisors and the relevant employees. After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code set out in Appendix 10 to the Listing Rules and the Company's code of conduct throughout the Reporting Period.

Pursuant to the Listing Rules, each of the four independent non-executive Directors, namely, Mr. Wang Xiaokang, Mr. Liu Deheng (ceased to act after the Reporting Period), Mr. Stanley Hui Hon-chung and Mr. Li Dajin, has confirmed his independence with the Hong Kong Stock Exchange when they were elected. The Company had already received from all independent non-executive Directors the annual statements concerning their independence and re-confirmed their independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

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

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

SPECIAL COMMITTEES OF THE BOARD

Audit and Risk Control Committee

As at the end of the Reporting Period, the Audit and Risk Control Committee comprised Mr. Liu Deheng, Mr. Li Dajin and Mr. Stanley Hui Hon-chung, all of whom are independent non-executive Directors, with Mr. Liu Deheng serving as the chairman of the committee. Due to his age, Mr. Liu Deheng resigned as an independent non-executive director, the chairman of the Audit and Risk Control Committee and a member of the Strategy and Investment Committee, with effect from 21 January 2020.

The primary duties of the Audit and Risk Control Committee include: (1) to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as give opinion in writing to the Board, in connection with the appointment of new accounting firms or re-appointment of the existing accounting firms; (2) to review and supervise the Company's internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and receive and consider the work report prepared by the responsible person of the audit department; (3) to be responsible for the communications between the internal audit department and external auditors; (4) to review and verify the Company's financial information and its disclosure; (5) to review the Company's financial control, internal control and risk control system, and evaluate the appropriateness of the system; (6) to monitor the implementation and self-assessment of the Company's internal control system, review the risk control and internal control system with the management, ensuring that the management have performed their duties properly and established an effective internal control system; (7) to study the results of the important investigation on the internal control and the feedback of the management on the results; (8) to assess the effectiveness of the control rules and the operational standards relating to risk investments, including but not limited to financial derivative instruments, and consider the strategies and proposals of the Company's risk investment; (9) to be responsible for the control and daily management of the related/connected transactions of the Company, and to review the Company's significant related/connected transactions; and (10) to receive reports relating to fraudulent acts and discovery and complaints.

The main work of the Audit and Risk Control Committee during the Reporting Period includes reviewing the following documents: (1) the Company's financial plan and investment plan for the year of 2019; (2) the 2018 annual report and special explanations for non-operating fund utilization and other related fund transactions for the year of 2018; (3) statement of the implementation of related transactions, profit distribution plan and the list of related parties of A share for the year; (4) assessment report on internal control and the audit report on internal control; (5) the 2019 first/third quarter report; (6) the interim report for the year of 2019; (7) the special report regarding the deposit and actual use of the proceeds from issuance of A Shares; (8) customs payment guarantee business for subsidiaries; (9) re-appointment of international and domestic auditors and internal control auditors for the year of 2019; (10) renewal of framework agreements of the continuing connected transactions with CNACG, Cathay Pacific and Air China Cargo, respectively; (11) Comprehensive Risk Management Regulations of Air China Limited, Compliance Management Regulations of Air China Limited and Compliance Standards of Air China Limited; and (12) the annual performance report by the Audit and Risk Control Committee.

In addition to the above, the Audit and Risk Control Committee also received the following reports during the Reporting Period: (1) the development of the Company's risk prevention and control system; (2) implementation of new leasing standards; (3) the summary report on annual internal audit work and the internal audit plan of the Company; (4) summary report on annual audit work and interim review work from Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu; (5) self-assessment plan on internal control of the Company for the year 2019; and (6) the audit plan on internal control of Deloitte Touche Tohmatsu Certified Public Accountants LLP.

The annual results and annual report of the Company for the year of 2019 had been reviewed by the Audit and Risk Control Committee.

Nomination and Remuneration Committee

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

The primary duties of the Nomination and Remuneration Committee include: (1) to study on the criteria and procedures for selecting candidates for the Directors and senior management and make recommendations to the Board; (2) to nominate to the Board the candidates to fill casual vacancies on the Board, and make recommendations regarding the Directors' remuneration to the Board; (3) to evaluate the performance of the senior management of the Company and determine their remuneration structure; (4) to make recommendations to the Board on the remuneration policy and structure for the Directors and senior management and on the establishment of a set of formal and transparent procedures for formulating remuneration policy, and supervise the implementation of the remuneration policy of the Company; (5) to assess the independence of the independent non-executive Directors; and (6) to formulate the proposal of the Company's share incentive plan, verify the compliance of relevant regulations on granting and fulfilment of exercise conditions, and make recommendations to the Board for consideration.

During the Reporting Period, the Nomination and Remuneration Committee reviewed the nomination of Mr. Cao Jianxiong as candidate for non-executive director and Mr. Patrick Healy as candidate for non-executive director, studied and approved the remuneration proposal for independent non-executive directors and agreed to submit such proposals to the Board, and also received the report on the remuneration policy of the Company.

During the Reporting Period, the nomination policy for Directors of the Company implemented by the Nomination and Remuneration Committee is as follows: The Nomination and Remuneration Committee shall review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the board diversity policy and submit a report to the Board. For the diversity policy, please refer to the section headed "Board Diversity Policy" above. A shareholder holding 3% or more of the shares of the Company is entitled to nominate Directors to the Nomination and Remuneration Committee.

During the Reporting Period, the remuneration policy for Directors implemented by the Nomination and Remuneration Committee is as follows: except for independent non-executive Directors, other Directors will not receive director's remuneration. The remuneration standards of the independent non-executive Directors shall be determined according to the average level of the listed companies in the industry with the actual situation of the Company taken into account, and the remuneration of the senior management shall be determined in accordance with the relevant laws and regulations of the PRC and the provisions of the "Interim Measures for Remuneration Administration of Responsible persons of Enterprise" of the Company. The Nomination and Remuneration Committee made recommendations to the Board on the remuneration packages of independent non-executive directors and senior management based on the above-mentioned standards. The remuneration of the Directors and Supervisors of the Company shall be determined by the general meeting, and that of the senior management shall be determined by the Board after being considered by the Nomination and Remuneration Committee.

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

Strategy and Investment Committee

As at the end of the Reporting Period, the Strategy and Investment Committee comprised Mr. Cai Jianjiang, a non-executive Director, Mr. Song Zhiyong, an executive Director, and Mr. Liu Deheng, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the committee. As stated above, Mr. Liu Deheng resigned as a member of the Strategy and Investment Committee with effect from 21 January 2020.

The primary duties of the Strategy and Investment Committee include: (1) to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; and (2) to make decisions on the establishment, merger and dissolution of branches of the Company.

During the Reporting Period, the Strategy and Investment Committee considered and approved the investment plan for 2019, the plan of introducing 20 Airbus A350 aircraft, the plan of introducing 35 ARJ21-700 aircraft, and received special reports on development strategies of the Company, progress of key strategic projects and the development towards becoming a top-tier demonstrative enterprise in the world.

Aviation Safety Committee

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

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

During the Reporting Period, the Aviation Safety Committee received report(s) of the Company on the grounding of Boeing B737MAX and the conditions of B787 aircraft.

MANAGEMENT

Duties of the Management

The management shall be accountable to the Board and its main responsibilities include: (1) to formulate the strategic development plans of the Company; (2) to formulate the plans on determining the establishment of the Company's internal management bodies; (3) to implement annual business plans, investment proposals, preliminary and final annual financial budgets; (4) to establish general management systems regarding employment, remuneration and other fundamental internal rules and regulations; (5) to make decisions on major issues such as operation safety and business management; (6) to make decision on transactions relating to the Company's main business involving a value within a monetary threshold or within a specific proportion of the Company's latest audited net asset value; and (7) to implement board resolutions, etc..

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

FINANCIAL REPORTING

The Company prepares and publishes annual reports, interim reports and quarterly reports in accordance with the requirements of the regulatory rules of the listing places of the Company and other relevant laws and regulations in a timely manner each year, and the information disclosed is adequate for the shareholders to evaluate the performance, financial position and prospects of the Company.

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

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

The responsibilities of the Directors in relation to the financial statements are set out below and shall be read together with the "Independent Auditor's Report" set out in this annual report. The statement of reporting responsibility of the auditors is set out in the section headed "Independent Auditor's Report" set out in this annual report.

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

According to the risk assessment in 2019, the main risks that the Group is facing are set out in the section headed "Management's Discussion and Analysis of Financial Position and Operating Results – Risk Factors" of this annual report.

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

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

ARTICLES OF ASSOCIATION

During the Reporting Period, no amendments were made to the Articles of Association.

JOINT COMPANY SECRETARIES

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

AUDITORS AND THEIR REMUNERATION

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

RMB9,522,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2019 and for the audit of the Group's financial statements for the year ended 31 December 2019; an aggregate amount of RMB7,401,000 (including value-added tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2019; and an aggregate of RMB1,000,000 (including value-added tax) was charged for providing internal control audit services to the Group.

COMMUNICATION WITH SHAREHOLDERS

The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the websites of the Company and the stock exchanges (if applicable), results presentations, roadshows, briefings on dividend distribution, etc. The Company has implemented the "Measures for Investors Relation Management" to regulate and strengthen its communication with the shareholders and investors, so as to optimize its corporate governance and enhance its corporate image.

The annual general meeting represents an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective chairmen of the Audit and Risk Control Committee, Nomination and Remuneration Committee, Strategy and Investment Committee and Aviation Safety Committee will answer queries raised by shareholders at the annual general meeting. Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions at the annual general meeting.

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

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

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

Address:	Air China Headquarter, 30 Tian Zhu Road, Airport Industrial Zone, Shunyi District, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61462560
Fax number:	86-10-61462805

OTHER EVENTS

Mr. Liu Deheng resigned as an independent non-executive Director, with effect from 21 January 2020. Following the resignation of Mr. Liu Deheng, the Company fails to meet (i) the requirement of at least one of the independent non-executive directors having appropriate professional qualifications or appropriate accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (ii) the composition requirement of the audit committee under Rule 3.21 of the Listing Rules. Pursuant to Rules 3.11 and 3.23 of the Listing Rules, the Company shall appoint successor independent non-executive Director and member of the Audit and Risk Control Committee within three months from the date of its non-compliance with Rules 3.10(2) and 3.21 of the Listing Rules (i.e. before 21 April 2020). As more time is required for the Company to complete the engagement, nomination and appointment procedures in relation to the appointment of the independent non-executive Director, the Company has applied to the Stock Exchange and the Stock Exchange has agreed to grant a waiver from strict compliance with Rules 3.10(2) and 3.21 of the Listing Rules, and extend the deadline for filling the vacancy from 21 April 2020 to 21 July 2020. The Company will use its best endeavours to appoint appropriate candidate to fill the vacancy in order to comply with the relevant requirements of the Listing Rules as soon as practicable.

REPORT OF THE DIRECTORS

STRATEGIC OBJECTIVES

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

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2019 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements of this annual report.

REVIEW OF BUSINESS

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2019 are summarized and set out in the section headed "Summary of Financial Information" of this annual report.

SHARE CAPITAL STRUCTURE

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

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

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

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

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

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

Notes: Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and to the knowledge of the Directors, Supervisors and chief executive, 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 55.20% equity interest and 64.28% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

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

As at the end of the Reporting Period, the Company was not aware of any substantial shareholders holding short positions in the shares or underlying shares of the Company.

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

INFORMATION OF SHAREHOLDERS

Total number of shareholders

Total number of holders of ordinary shares as at the end of the Reporting Period (account)	149,499 accounts, of which 3,221 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at the end of the month preceding to the disclosing date of annual report (account)	192,349 accounts, of which 3,205 accounts are registered holders of H Shares

Shareholdings of the top 10 shareholders and the top 10 holders of tradable shares (or shares not subject to selling restrictions) as at the end of the Reporting Period

Unit: Share

Shareholdings of the top 10 shareholders							
					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	69,969	1,687,818,428	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.	-138,283,420	118,455,985	0.82	0	Unknown	118,100,185	State-owned legal person
Hong Kong Securities Clearing Company Limited	12,350,614	60,119,699	0.41	0	Nil	0	Foreign legal person
The Industrial and Commercial Bank of China – Dong Fang Hong China Strengthen Balanced Mix Securities Investment Fund	9,729,000	28,583,830	0.20	0	Nil	0	Domestic non-state-owned legal person
Jiang Hongye	3,700,000	27,000,000	0.19	0	Nil	0	Domestic natural person

Shareholdings of the top 10 shareholders not subject to selling restrictions			
	Number of tradable shares held not subject to selling restrictions	Class and number of shares	
Name of shareholder		Class	Number
China National Aviation Holding Corporation Limited	5,438,757,879	RMB ordinary shares	5,438,757,879
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,687,818,428	Overseas listed foreign shares	1,687,818,428
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares Overseas listed foreign shares	1,332,482,920 223,852,000
China National Aviation Fuel Group Corporation	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.	118,455,985	RMB ordinary shares	118,455,985
Hong Kong Securities Clearing Company Limited	60,119,699	RMB ordinary shares	60,119,699
The Industrial and Commercial Bank of China – Dong Fang Hong China Strengthen Balanced Mix Securities Investment Fund	28,583,830	RMB ordinary shares	28,583,830
Jiang Hongye	27,000,000	RMB ordinary shares	27,000,000
Explanation on connected relationship or action in concert among the above shareholders	China National Aviation Corporation (Group) Limited is a wholly-owned subsidiary of China National Aviation Holding Corporation Limited. Accordingly, China National Aviation Holding Corporation Limited is directly and indirectly interested in 51.70% of the shares of the Company.		

1. HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,687,818,428 H shares held by it in the Company do not include the 166,852,000 shares held by it as nominee of China National Aviation Corporation (Group) Limited.

2. According to the "Implementation Measures on Partial Transfer of State-owned Shares to the National Social Security Fund in the Domestic Securities Market" (Cai Qi [2009] No. 94) (《境內證券市場轉持部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 SASAC, China Securities Regulatory Commission and the National Council for Social Security Fund, 127,445,536 and 36,454,464 shares held by China National Aviation Holding Corporation Limited, the controlling shareholder of the Company, and China National Aviation Corporation (Group) Limited respectively are frozen at present.

Unit: Share

Shareholdings of the top 10 shareholders subject to selling restrictions and conditions of selling restrictions					
			Listing and trading of shares subject to selling restrictions		
No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Date of being permitted for listing and trading	Number of shares to be listed and traded	Selling restrictions
1	China National Aviation Holding Corporation Limited	513,478,818	2020-03-10	513,478,818	Non-public offering of shares subject to selling restrictions

PUBLIC FLOAT

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

DIVIDEND POLICY

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

Please refer to Article 195, Article 196 and Article 197 of the Articles of Association for details of the principles and policies of dividend distribution of the Company.

DIVIDEND

In accordance with above-mentioned policies and based on the actual circumstances of the Company, the Board recommends the appropriation of 10% and 10% of profit after tax realized in the financial statement of the parent company prepared in accordance with the Chinese accounting standards to statutory surplus reserve and discretionary surplus reserve, respectively, and the payment of cash dividend amounting to approximately RMB645 million which is 15% of the distributable profits for the current period, i.e. RMB0.4442 (including tax) for every ten shares based on the current total number of 14,524,815,185 issued shares of the Company for the year 2019.

The proposed payment of the final dividends is subject to shareholders' approval at the annual general meeting to be held on 26 May 2020 (the "AGM"). Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A Shares and the holders of H Shares who are mainland investors investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect shall be paid in RMB while dividends payable to the other holders of H Shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle price of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the AGM.

The Company proposed to pay the aforesaid final dividends on 16 July 2020. For H Shares of the Company, the dividends shall be paid to H-Share shareholders whose names appear on the register of members of the Company on 6 June 2020. For A Shares, the dividends will be paid to A-Share shareholders whose names appear on the register of members of the Company according to the record of the Shanghai Branch of China Securities Depository and Clearing Corporation Limited after the closing of trading hours of the Shanghai Stock Exchange on 15 July 2020, and the ex-dividend date of A Shares will be 16 July 2020.

As at the date of this annual report, to the knowledge of the Company, no arrangement was reached pursuant to which a shareholder of the Company waived or agreed to waive any dividends.

The register of members of H Shares will be closed from Sunday, 26 April 2020 to Tuesday, 26 May 2020, both days inclusive, during which period no transfer of H Shares will be effected. In order to be entitled to attend and vote at the AGM, the holders of H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 April 2020. The holders of H Shares whose names appear on the register of shareholders of the Company on Sunday, 26 April 2020 will be entitled to attend the AGM.

The register of members of H Shares will be closed from Monday, 1 June 2020 to Saturday, 6 June 2020, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for the final dividend, the holders of H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 29 May 2020. The holders of H Shares whose names appear on the register of shareholders of the Company on Saturday, 6 June 2020 will be qualified for the final dividend.

TAXATION ON DIVIDEND

In accordance with the "Enterprise Income Tax Law of the People's Republic of China" and the "Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China", both implemented on 1 January 2008 and the "Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Offshore Non-resident Enterprise Holders of H Shares" (Guo Shui Han [2008] No. 897) promulgated by the State Administration of Taxation on 6 November 2008, the Company is obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% from 2008 onwards when the Company distributes any dividends to nonresident enterprise shareholders whose names appear on the register of members of H Shares.

Any H Shares which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name(s) of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H Shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from any dividends payable thereon. Non-resident enterprise shareholders may apply for a tax refund (if any) in accordance with the relevant requirements, such as tax agreements (arrangements), upon receipt of any dividends.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994] No. 020) promulgated by the Ministry of Finance of the PRC and the State Administration of Taxation on 13 May 1994, overseas individuals are, as an interim measure, exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the final dividends for the year 2018 to individual shareholders whose names appear on the register of members of H Shares.

Pursuant to the Circular on Tax Policies Concerning the Pilot Programme of the Shanghai and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2014] No. 81) promulgated on 31 October 2014 and the Circular on the Tax Policies Concerning the Pilot Programme of the Shenzhen and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2016] No. 127) promulgated on 5 November 2016 by the Ministry of Finance of the PRC, the State Administration of Taxation and the CSRC:

The Company is obliged to withhold PRC individual income tax on behalf of Mainland individual shareholders at a tax rate of 20% when the Company distributes the 2018 final dividends to Mainland individual investors who invest in the H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Where individual investors have already paid foreign withholding taxes for such income, investors may apply to the competent tax authorities of China Securities Depository and Clearing Corporation Limited for foreign tax credit with valid tax withholding certificates. The Company is obliged to withhold PRC individual income tax on behalf of Mainland securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect in accordance with the aforementioned requirements when the Company distributes the 2018 final dividends; and the Company will not withhold income tax on behalf of Mainland enterprise investors investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2018 final dividends. The Mainland enterprise investors shall report the income and make tax payment by themselves.

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

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

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

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to CNAHC, China Structural Reform Fund Co., Ltd., Zhongyuan Equity Investment Management Co., Ltd., China National Aviation Fuel Group Corporation, Caitong Fund Management Co., Ltd., CIB Asset Management Co., Ltd., Horizon Asset Management Co., Ltd. and E Fund Management Co., Ltd., at an issue price of RMB7.79 per share (the "Non-public Issuance of A Shares"). The net proceeds raised is RMB11,200.4185 million. The table below shows the use of the 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	Cumulative amount invested as at the end of the Reporting Period	Outstanding amount to be invested as at the end of the Reporting Period
1.	Purchase of 15 Boeing B787 aircraft	7,450	–	7,450	–
2.	Upgrade of e-commerce direct sale project	100	36.2038	79.8338	20.1662
3.	On-board WIFI (first phase) project	50.4185	50.4185	50.4185	–
4.	Replenish the working capital	3,600	–	3,600	–
Total:		**11,200.4185**	**86.6223**	**11,180.2523**	**20.1662**

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 RMB67.7317 million, where the outstanding amount of net proceeds to be invested in the projects was RMB20.1662 million, and the interest income of the net proceeds was RMB47.5655 million.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

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

Name	Date of election and if applicable, leaving office as Director
Cai Jianjiang (Chairman and non-executive Director)	Elected as non-executive Director on 28 January 2014 and as Chairman on 21 February 2014
Song Zhiyong (Vice Chairman and executive Director)	Elected as executive Director on 22 May 2014 and as Vice Chairman on 6 June 2016
Cao Jianxiong (Then non-executive Director)	Elected as non-executive Director on 30 May 2019 and resigned on 27 December 2019
John Robert Slosar (Then non-executive Director)	Elected on 22 May 2014 and resigned on 6 November 2019
Patrick Healy (Non-executive Director)	Elected on 19 December 2019
Xue Yasong (Non-executive Director and employee representative Director)	Elected on 29 March 2018
Wang Xiaokang (Independent non-executive Director)	Elected on 25 May 2017
Liu Deheng (Then independent non-executive Director)	Elected on 25 May 2017 and resigned on 21 January 2020
Stanley Hui Hon-chung (Independent non-executive Director)	Elected on 22 May 2015
Li Dajin (Independent non-executive Director)	Elected on 22 December 2015

Supervisors

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

Name	Date of election and if applicable, leaving office as Supervisor
Wang Zhengang (Then Chairman of the Supervisory Committee)	Elected on 30 August 2016 and resigned on 19 December 2019
Zhao Xiaohang (Chairman of the Supervisory Committee)	Elected on 19 December 2019
He Chaofan	Elected on 29 October 2013
Xiao Yanjun	Elected on 16 June 2011
Li Guixia	Elected on 27 October 2017

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

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

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

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

During the Reporting Period, Mr. Cai Jianjiang (Chairman and non-executive Director), Mr. Song Zhiyong (executive Director), Mr. John Robert Slosar (then non-executive Director) and Mr. Patrick Healy (non-executive Director) also served as directors of Cathay Pacific. Cathay Pacific and its wholly-owned Cathay Dragon compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company. At the same time, Mr. Song Zhiyong (executive Director of the Company) also served as director of Air China Cargo. Air China Cargo competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates cargo airline services by cargo aircrafts to certain destinations, which are also served by the bellyhold cargo of the Company.

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

PERMITTED INDEMNITY PROVISION

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

EMPLOYEES

As at the end of the Reporting Period, the Group had a total of 89,824 employees, among which, the Company had 46,862 employees and the subsidiaries of the Company had 42,962 employees. The categories of employees of the Group are as follows:

Professional Categories	**As at 31 December 2019**	As at 31 December 2018	Increase/ (Decrease)
Management	**10,538**	10,705	(167)
Marketing and Sales	**6,709**	6,230	479
Operation	**4,708**	4,251	457
Ground Handling	**11,146**	12,084	(938)
Cabin Service	**23,501**	20,847	2,654
Logistics and Support	**8,331**	10,802	(2,471)
Flight Crew	**8,899**	8,620	279
Engineering and Maintenance	**13,724**	12,730	994
Information Technology	**730**	633	97
Others	**1,538**	1,258	280
Total	**89,824**	88,160	1,664

REMUNERATION POLICY

Upholding the concept of "paying salary with reference to the job value, personal ability as well as performance appraisal" and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company has continually established and improved a linkage mechanism combining salary distribution with performance, and implemented differentiated management on gross payroll and budget. During the Reporting Period, the Company continued to deepen the reform of its remuneration and welfare system. It optimized the market-oriented remuneration benchmarking, established a sound and scientific mechanism on wage decision and growth that reflects the labour market standards. In addition, the Company facilitated the pilot market-oriented remuneration reform of the Information Management Department, implemented the remuneration adjustments for flight and cabin crew and ground personnel, improved the remuneration management mechanism for corporate leaders, and implemented the differentiated salary adjustment for employees with continuous outstanding performance.

TRAINING PROGRAMME

In 2019, the Company put Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the guiding principles of the 19th National Congress of the Communist Party of China fully into effect, cultivated a high-quality professional cadre team with high loyalty and integrity so as to comprehensively enhance the general qualities of employees. We conducted training programmes for both junior staff and middle to senior management, as well as a series of leadership cultivation programmes on areas such as management reserve, international cultivation and management support. 60 training programmes were conducted throughout the year, with a total of 1,586 participants. The Company focused its training resources on the qualification training of pilots, flight attendants, flight trainees, aircraft maintenance personnel, aviation dispatch personnel, ground service personnel and marketing personnel. At the same time, it launched the revision of training outlines, curriculum development and implementation in a timely manner according to its business needs, actively promoted the spirits of model employees and labour, and cultivated great country craftsmen. Through activities such as labour model lectures themed "Pioneer of the Era, Backbone of CNAHC" and vocational skill competition themed "Exhibiting Skills and Bearing to Serve Sincerely", the Company cultivated and motivated the establishment of a talent team with knowledge, skills and innovation. In addition, it continuously promoted the integration of online and offline training, with a total of 210,164 hours of offline training and 126,819 hours of simulator training, and leverage the platforms such as "CNAHC Leadership" and "Light-learning" to continuously innovate light-duty training mode. During the Reporting Period, 355 new learning courses were launched, representing a year-on-year increase of 50%, and the total learning duration amounted to 1.39 million hours.

In 2020, the Company will continuously promote the cadre education and training in a scientific, systematic and standardized approach, optimize the off-the-job training and online training for cadre and employees focusing on the Party's basic theoretical education, Party's education, safety concepts, professional ability training and knowledge training, classify and organize training programmes and strengthen the international training exchanges and thus laying a solid foundation for establishing a high-quality world-class air transport enterprise group.

SUPPLIER MANAGEMENT

The Company firmly promoted open procurement and sunshine procurement with a focus on "compliance, efficiency and quality", and strived to improve procurement management capabilities. We facilitated the establishment of procurement system, comprehensively strengthened procurement risk management and control and continuously deepened standardized management, which has resulted in better procurement compliance. Steady improvement in procurement efficiency was also achieved by the Company through the organic integration of management optimization with service refinement. The Company improved the regulations concerning supplier selection, access management and annual performance appraisal to ensure the good operation and maintenance of supplier information base, and established a good cooperative relationship with its suppliers to achieve sustainable development together.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 9 to the financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Group as at the end of the Reporting Period are set out respectively in notes 23, 24 and 25 to the financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

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

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2019 are set out in note 17 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2019 are set out in note 12 to the financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 42 and the consolidated statement of changes in equity to the financial statements of this annual report.

DONATIONS

During the Reporting Period, the Group made donations for charitable and other purposes amounting to RMB174.204 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the purchases of the Group from the largest supplier accounted for 20.23% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 36.64% of the total purchases of the Group. None of the Directors or Supervisors, their associates, nor any shareholder of the Company, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

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

PROPERTY TITLE CERTIFICATE

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

COMPLIANCE OPERATIONS

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

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

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

Save as disclosed in note 44 to the financial statements of this annual report, as at the end of the Reporting Period, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

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

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

Continuing connected transactions

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

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
1	Properties Leasing Framework Agreement	The Company and CNAHC (CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 30 October 2018 with a term from 1 January 2019 to 31 December 2021 The details are set out in the announcement of the Company dated 30 October 2018	The Group agreed to lease from and to CNAHC Group a number of properties	The rent payable will be consulted and determined based on the price for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including property service quality, location, district of properties and specific needs of the parties
2	Sales Agency Services Framework Agreement	The same as above	The same as above	Certain subsidiaries of CNAHC will (i) solicit customers and act as the Group's sales agents for the Group's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Group and resell such air tickets and cargo spaces to end customers	The air passenger agency services: agency service fee shall be consulted and determined on a fair and voluntary basis; specific sales targets and the corresponding incentive plans for achieving such targets may be agreed to the extent permitted by law and in accordance with the industry practice The air cargo agency services: the transportation prices shall be not less favorable than the prices offered by independent third parties in the PRC air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type as well as the specific product types and required transportation time; specific sales targets and the corresponding price discounts on cargo transportation for achieving such sales targets may be agreed in accordance with the industry practice.
3	Comprehensive Services Framework Agreement	The same as above	The same as above	(i) The subsidiaries of CNAHC engaged in ancillary services in relation to air transportation business will be appointed as suppliers of ancillary services in relation to production or supply services business to the Company (ii) The Company is commissioned by CNAHC to provide welfare-logistics services for CNAHC's retired employees	Ancillary services in relation to air transportation business: (i) the prices of airline catering services will be consulted and determined based on the price for the same type of catering services available from independent third parties with reference to relevant factors; (ii) the prices of property management services will be consulted and determined based on the price for the same type of property management services available from independent third parties with reference to relevant factors; (iii) the prices of hotel accommodation and staff recuperation services shall be no less favourable than the price for the same type of guest room products or services available to the Group from independent third parties with equivalent level in the same location of the hotel and determined with reference to relevant factors; and (iv) catering supplies, publications and other services are provided in accordance with the bidding management requirements of the Group, and the prices shall be no less favourable than the price of similar products or services available from independent third parties to the Group Welfare-logistics services for CNAHC's retired employees: management fee charged by the Company at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC
4	Government Charter Flight Service Framework Agreement	The same as above	The same as above	CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment	Hourly rate of the charter flight services = Total cost per flight hour * (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs
5	Media Services Framework Agreement	The Company and CNAMC (CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNAMC provided the Group with media services. Among them, the Company grants CNAMC an exclusive right to distribute the in-flight reading materials of the Company	For the entrusted media services provided by CNAMC to the Company, the Company should pay the relevant service fee at market price to CNAMC For the media resources of the Company used in the course of the Company's media business by CNAMC, CNAMC paid the Company RMB13.8915 million as media usage fee for each year within the term of the agreement

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
6	Construction Project Management Framework Agreement	The Company and CNACD (a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	Signed on 30 October 2018	CNACD was commissioned by the Company to serve as the manager of the construction projects and establish project headquarters. It shall provide management services for the Company's projects based on its project characteristics using its industry expertise and professional skills	CNACD receives service fees based on the audited amounts in the financial settlement of specific commissioned projects in accordance with the commissioned management contract. The service fees shall be calculated as 3% of the audited amount in the financial settlement of the investment relating to the management contents provided by CNACD as commissioned by the Company, with the rewards and penalties agreed by both parties based on the project management progress and the balance. Alternatively, CNACD may receive service fees from the Company as per the commissioned management contents based on the size of or investment in the projects to be commissioned, and the service fees shall be calculated as per the full-labor cost (including management fee) based on the human resources and materials invested by CNACD, with the rewards and penalties agreed by both parties based on the project management progress and the balance
7	Financial Services Agreement	The Company and CNAF (CNAF is a non-wholly owned subsidiary of the Company that CNAHC holds 49% of its equity interest and therefore a connected subsidiary of the Company)	Renewed and revised on 30 August 2017 with a term from 1 January 2018 to 31 December 2020 The details are set out in the announcement of the Company dated 30 August 2017	CNAF agreed to provide the Group with a range of financial services including deposit services, credit services and other financial services	Interest rates applicable to deposits: not be lower than (i) the interest rates for the same type of services provided by state-owned commercial banks to the Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Interest rates applicable to credit services: not be higher than (i) those for the same type of services provided by state-owned commercial banks to the Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Fees for other financial services: not be higher than (i) those for the same type of services provided by state-owned commercial banks to the Group under the same or similar conditions; and (ii) those for the same type of services provided by CNAF to other CNAHC member companies under the same or similar conditions
8	Financial Services Framework Agreement	CNAF (a non-wholly owned subsidiary of the Company), and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	The same as above	CNAF agreed to provide CNAHC Group with a range of financial services including deposit services, credit services and other financial services	The interest rates for deposits: not be higher than (i) the interest rates for the same type of services provided by state-owned commercial banks to CNAHC Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies The interest rates applicable to credit services: not be lower than (i) the interest rates for the same type of services provided by state-owned commercial banks to CNAHC Group; and (ii) the interest rates for the same type of services provided by CNAF to other CNAHC member companies Fees for other financial services: not be lower than (i) the fees for the same type of services provided by state-owned commercial banks to CNAHC Group under the same or similar conditions; and (ii) fees for the same type of services provided by CNAF to the Group under the same or similar conditions
9	Framework Agreement	The Company and CNACG (CNACG is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed and revised on 30 August 2016 with a term from 1 January 2017 to 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	CNACG Group agreed to provide ground support services, aircraft repair and maintenance services, administrative management services, as well as finance lease and operating lease services to the Group	Ground support services: The prices will be negotiated and determined by both parties on an arm's length basis, after taking into account various factors, including the guidance from the Civil Aviation Administration of the PRC and the International Air Transport Association on the service prices and other terms for ground support services, the prevailing market prices, the costs of human resources and the quality of services Aircraft repair and maintenance services and administrative management services: The prices will be negotiated and determined by both parties on an arm's length basis with reference to comparable market prices for the same or similar type of services provided by independent third parties after taking into account other relevant factors, including the quality of services and the special needs of the parties Finance lease and operating lease services: The amount payable by the Group to the CNACG Group will be subject to the procurement prices of the leased items, the financing costs, the term of leases, the nature and availability of the lease items and comparable lease arrangement fees, as applicable
10	2018-2019 Aircraft Finance Lease Service Framework Agreement	The Company and CNACG (CNACG is a substantial shareholder of the Company and therefore a connected person of the Company)	Signed on 27 March 2018 with a term from the date of the approval by the independent shareholder to 31 December 2019 The details are set out in the announcement of the Company dated 27 March 2018	CNACG Group agreed to provide the finance lease services in relation to leased aircraft to the Group	The comprehensive costs of finance lease scheme (including the relevant rental and arrangement fee) provided by CNACG Group to the Group shall be not higher than those provided by at least three independent third parties who have received the Group's request for proposals or are shortlisted in the same procurement processes of the Group

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
11	Framework Agreement	The Company and Cathay Pacific (Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 1 October 2016 with a term from 1 January 2017 to 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	Provide a framework for the transactions between the Group and Cathay Pacific Group arising from interline arrangements, code sharing arrangements, joint operating arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement	Interline arrangements and code share arrangements: Revenue is apportioned between the parties in accordance with bilateral prorate agreements which follow the principles in the Multi-lateral Prorate Agreement of International Air Transport Association Joint operating arrangements: Revenue is apportioned between the parties having regard to the fleet capacity of both parties and the values of seats sold by each party Aircraft leasing: Rentals payable under aircraft leases are determined after negotiations at arm's length between the parties having regard to rentals payable under comparable leases between unconnected parties for comparable aircraft and comparable periods and prevailing long-term interest rates Frequent flyer programmes: Frequent flyers of either party can earn mileage credits by taking the other party's flights. Payments by each party to the other for mileage values are determined by the parties on an arm's length basis having regard to comparable mileage values payable by unconnected airlines to each other Airline catering: The parties determine the pricing of airline catering having regard to quotations provided by unconnected caterers, taking due account of material and labor costs, quality, assurance of supply, safety and innovation (including changes in the foregoing matters) Ground support and engineering services: The pricing is required to be no less favorable than that offered for comparable services to unconnected parties taking due account of the quality of services Other products and services (including leasing premises and customs declaration services): The pricing is determined having regard to relevant market information (including independent third party quotations for comparable products and services), costs incurred by the relevant party and the quality of products and services
12	Framework Agreement	The Company and Air China Cargo (Air China Cargo is a connected subsidiary of the Company when renewing this framework agreement by virtue of being a non-wholly owned subsidiary of the Company while Cathay Pacific, a substantial shareholder of the Company, is able to exercise more than 10% of the voting power at the general meeting thereof; Air China Cargo is still a connected person of the Company after the sale of interests in Air China Cargo for being a subsidiary of CNAHC	Renewed and revised on 30 August 2016 with a term from 1 January 2017 and ending on 31 December 2019 The details are set out in the announcement of the Company dated 30 August 2016	The Group will provide the following services to ACC Group: (i) the provision of bellyhold space of the passenger aircraft operated by the Company; (ii) ground support services, such as airport apron services and aircraft cabin cleansing services; and (iii) other services, including aircraft maintenance engineering services, engine and other aircraft related materials lease services, property lease services (including the lease of certain GAC Regulated Property) and labour management services The ACC Group will provide the following services to the Group: (i) marketing and sales services of bellyhold space provided by the Company; (ii) ground support services, such as cargo and mail ground loading and unloading and security inspection services; and (iii) other services, including engine and other aircraft related material lease services and property lease services.	The prices for bellyhold space provided to the ACC Group by the Group: Total annual sales amount = the average sales price of bellyhold space of the Company in the past three years * (1 + adjustment rate) * the total volume of bellyhold space provided by the Company. The adjustment rate generally ranges from -7% to +7% The prices for the ground support services/other services provided by the Group will be negotiated and agreed by both parties primarily on a "cost-plus" basis, with a margin generally ranging from 5% to 10% ACC Group's provision of marketing and sales services of bellyhold space to end customers: The Company will pay commission fees to Air China Cargo primarily based on the costs and expenses in connection with the sales and marketing of bellyhold space to end customers by the ACC Group and the sales performance of the ACC Group on meeting the relevant sales targets, after taking into account the overall market conditions The prices for the ground support services provided by the ACC Group will be negotiated and determined by both parties on an arm's length basis, after taking into account various factors, including the guidance from the Civil Aviation Administration of the PRC and the International Air Transport Association on the service prices and other terms for ground support services, the market prices for comparable services available from other service providers and the quality of services The prices for other services provided by the ACC Group will be negotiated and determined by both parties on an arm's length basis, after taking into account comparable market prices for the same or similar type of services by independent third parties and the specific needs of the Group

The above No. 11 agreement was renewed on 28 August 2019 with a term of three years from 1 January 2020 to 31 December 2022. The details are set out in the announcement of the Company dated 28 August 2019.

The above No. 9, 10, 12 agreements were renewed on 30 October 2019 with a term of three years from 1 January 2020 to 31 December 2022. The details are set out in the announcement of the Company dated 30 October 2019.

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

Transaction Caps and Actual Transaction Amounts for the Reporting Period

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

	Currency	For the Reporting Period 2019 Annual cap (in millions)	Actual amount (in millions)
Transactions with CNAHC Group:			
Subcontracting of charter flight services	RMB	900	487
Comprehensive services	RMB	2,100	1,483
Total value of right-of-use asset involved in property leasing	RMB	500	137
Media and advertising services	RMB	550	221
Expenditure on construction project management services	RMB	120	13
Financial services			
Maximum daily outstanding loans and other credit services granted by CNAF to CNAHC Group	RMB	9,000	1,025
Transactions with CNACG Group:			
Ground handling and other services (other than aircraft financial leasing business)	RMB	2,450	560
Aircraft finance lease	USD	1,492.03	787
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Group to Cathy Pacific Group	HKD	900	375
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	286
Transactions with ACC Group:			
Aggregate sales commission paid by the Group to ACC Group	RMB	798	382
Aggregate amount of ground handling paid by the Group to ACC Group	RMB	1,269	681
Aggregate amount of other services paid by the Group to ACC Group	RMB	259	8
Aggregate sales of bellyhold space paid by ACC Group to the Group	RMB	7,977	4,891
Aggregate amount of ground handling paid by ACC Group to the Group	RMB	200	122
Aggregate amount of other services paid by ACC Group to the Group	RMB	600	595
Transactions with CNAF:			
Maximum daily outstanding deposits placed by the Group with CNAF	RMB	14,000	9,610

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have confirmed that during the Reporting Period, all continuing connected transactions to which the Company was a party have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms or better and have been carried out according to the agreements governing them and that the terms of them were fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATION FROM THE AUDITOR

Pursuant to Rule 14A.56 of the Listing Rules, the listed issuer must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the listed issuer's board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the listed issuer's board of directors;

(2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap.

Pursuant to the above requirement under Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Reporting Period are set out in note 49 to the financial statements of this annual report. None of these related party transactions constitutes a disclosable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

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

CORPORATE BONDS

The situation of the Group's corporate bonds is summarised as the followings:

Unit: RMB billion Currency: RMB

Name of Corporate Bond	Abbreviation	Code	Issue Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest	Transaction Venue
Air China Limited 2012 Corporate Bond (First Tranche)	12AC01	122218	18 January 2013	18 January 2023	5.243	5.10	On annual basis	Shanghai Stock Exchange
Air China Limited 2012 Corporate Bond (Second Tranche)	12AC03	122269	16 August 2013	16 August 2023	1.530	5.30	On annual basis	Shanghai Stock Exchange
Air China Limited 2016 Corporate Bond (First Tranche)	16AC01	136642	18 August 2016	18 August 2019	4.042	2.84	On annual basis	Shanghai Stock Exchange
Air China Limited 2016 Corporate Bond (Second Tranche)	16AC02	136776	20 October 2016	20 October 2021	4.025	3.08	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (First Tranche)	18SA02	143499	13 March 2018	14 March 2021	0.521	5.27	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (Second Tranche)	18SA04	143601	23 April 2018	24 April 2021	0.825	4.55	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (Third Tranche)	18SA06	143793	6 September 2018	7 September 2021	0.608	4.35	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2019 Corporate Bond (First Tranche)	19SA01	155388	25 April 2019	26 April 2022	1.029	4.00	On annual basis	Shanghai Stock Exchange

Interest payments for corporate bonds are as follows:

On 18 January 2019, the Company paid the interests on 2012 Corporate Bond (First Tranche) for the current period;

On 16 August 2019, the Company paid the interests on 2012 Corporate Bond (Second Tranche) (10-year term) for the current period;

On 19 August 2019, the Company paid the interests on 2016 Corporate Bond (First Tranche) for the current period and redeemed the principal;

On 20 October 2019, the Company paid the interests on 2016 Corporate Bond (Second Tranche) for the current period.

On 14 March 2019, Shenzhen Airlines paid the interest on 2018 Corporate Bond (First Tranche) for the current period;

On 24 April 2019, Shenzhen Airlines paid the interest on 2018 Corporate Bond (Second Tranche) for the current period;

On 7 September 2019, Shenzhen Airlines paid the interest on 2018 Corporate Bond (Third Tranche) for the current period.

The proceeds from the issuance of "12AC01", "12AC03" and "16AC02" Corporate Bonds were used toward the replenishment of liquidity and repayment of bank loans so as to satisfy the needs of the Company's daily production and operation. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectus and the balance of proceed as at the end of the Reporting Period is zero.

The proceeds from the issuance of "18SA02", "18SA04" and "19SA01" Corporate Bonds were used toward the replenishment of liquidity and repayment of bank loans so as to satisfy the needs of the Company's daily production and operation. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectus and the balance of proceed as at the end of the Reporting Period is zero.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP (collectively, "Deloitte") as the Company's international auditor and domestic auditor respectively for the year of 2019. The auditor of the Company has been changed to Deloitte since 2017.

SUBSEQUENT EVENTS

On 17 January 2020, the Company received the Approval Document Zheng Jian Xu Ke [2020] No. 60 from the CSRC (the "CSRC's Approval"), which approved the Company's public issue of corporate bonds with an aggregate nominal value of no more than RMB16,000,000,000 (the "Corporate Bonds") to qualified investors. The Corporate Bonds will be issued in tranches, with the first tranche to be issued within 12 months from the date of approval of the issue by the CSRC (8 January 2020) and the other tranches to be issued within 24 months from the date of approval of the issue by the CSRC. The CSRC's Approval is valid for 24 months commencing from the date of approval of the issue by the CSRC. For details, please refer to the announcement of the Company dated 17 January 2020.

On 21 January 2020, the Board resolved to propose to appoint Mr. Feng Gang as a non-executive director of the Company. The proposed appointment is subject to the approval by shareholders of the Company at the general meeting of the Company. On the same date, Mr. Liu Deheng resigned as an independent non-executive director of the Company, the chairman and a member of the Audit and Risk Control Committee of the Board and a member of the Strategy and Investment Committee of the Board due to his age. For details, please refer to the announcements of the Company dated 21 January 2020 and 23 January 2020.

In early 2020, the outbreak of the novel coronavirus pneumonia pandemic impacted the aviation industry adversely and loss may be incurred inevitably in the short term. Air passenger travel within Mainland China has decreased during and after Spring Festival. Global travel restriction has also reduced the demand for international routes. The Company spared no effort in prevention and control of the pandemic in a bid to maximize the protection of health and safety of its passengers and employees. The Company earnestly performed its social responsibilities at the same time to contribute to this battle against the pandemic. The Company also strived to minimize the impact of the pandemic by optimizing the capacity resources distribution, enhancing yield management, strengthening cost control and enhancing risk management.

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

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Cai Jianjiang, aged 56, graduated from Civil Aviation University of China majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department of Air China International Corporation, etc.. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC from January 2007 to January 2014. He has been serving as the non-executive director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of the Communist Party Group of CNAHC from January 2014 to December 2016. Mr. Cai has been serving as a Director of the Company since September 2004 and Chairman of the Company since February 2014. He has been serving as Vice Chairman of the Board of Cathay Pacific since March 2014. He has been serving as the Chairman and Secretary of the Communist Party Group of CNAHC since December 2016. He has been serving as Secretary of the Communist Party Committee of the Company since May 2017.

Mr. Song Zhiyong, aged 54, Mr. Song is a senior pilot, graduated from the Second Flying Academy of China Air Force with a bachelor degree in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Assistant Manager, Chief Pilot, and Deputy General Manager of the Third Fleet, Deputy General Manager of the General Fleet and the General Manager of the Training Department of Air China International Corporation. He served as the General Manager and Deputy Secretary of the Communist Party Committee of the General Fleet from November 2002 to June 2008. Mr. Song held the post of Assistant to President of the Company from September 2004 to October 2006. He was the Vice President, a member and a standing member of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of CNAHC from December 2010 to April 2014. He has been a member of the Communist Party Group of CNAHC since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company since January 2014 as well as an executive Director of the Company since May 2014 and the Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He has been serving as Vice Chairman of the Company since June 2016 and director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC since December 2016.

Mr. Cao Jianxiong, aged 60, holds a master degree in economics from the East China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and also served as Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the General Manager and the Deputy Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. From December 2008 to November 2019, he has been serving as a member of Communist Party Group of CNAHC. From December 2008 to March 2019, he served as the Deputy General Manager of CNAHC. Mr. Cao served as a non-executive director of the Company from June 2009 to October 2017. He served as a director of TravelSky Technology Limited from August 2014 to June 2019. From October 2015 to September 2018, he served as the chairman of the board of China National Aviation Capital Holding Co., Ltd.. He has been serving as Deputy Secretary of the Communist Party Group of CNAHC from November 2016 to November 2019. From May 2017 to March 2019, he served as the Vice President of the Company. He has been serving as the Deputy Secretary of the Communist Party Committee of the Company from May 2017 to November 2019. He has been serving as a member and the Secretary of the Communist Party Committee of the management support division of CNAHC and the Company from July 2017 to November 2019. He served as a director of CNAHC from March 2019 to November 2019. He served as a non-executive director of the Company from May 2019 to December 2019.

Mr. John Robert Slosar, aged 63, holds degrees in Economics from Columbia University and Cambridge University. He joined the Swire group in 1980 and worked with the group in Hong Kong, the United States and Thailand. Mr. Slosar was a director of Cathay Pacific Airways Limited from July 2007 to November 2019 and served as chief operating officer from July 2007 to March 2011 and as chief executive from March 2011 to March 2014. He served as the chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited from March 2014 to June 2018. Mr. Slosar served as chairman of Cathay Pacific Airways Limited from March 2014 to November 2019 and served as a non-executive Director of the Company from May 2014 to November 2019.

Mr. Patrick Healy, aged 54, graduated from the University of Cambridge with a Bachelor of Arts (Honours) degree in Modern Languages. He joined the Swire Group in August 1988 and worked in Swire Group's offices in Hong Kong SAR, Germany and Mainland China. He acted as the chief executive officer of Taikoo (Xiamen) Aircraft Engineering Company Limited from August 2008 to July 2012, and the chief executive officer of Swire Coca-Cola Limited from August 2012 to September 2019. He has acted as an executive director of the beverages division of Swire Pacific Limited since January 2013, a director of John Swire & Sons (H.K.) Limited since December 2014, and a director of Swire Properties Limited since January 2015. He has been serving as the chairman of Swire Coca-Cola Limited since October 2019 and the chairman of Cathay Pacific Airways Limited since November 2019. He has been serving as a non-executive Director of the Company since December 2019.

Mr. Xue Yasong, aged 58, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as assistant to the general manager of the international finance department, head of the asset reorganization group and head of preparatory group for the securities company. He served as a director, executive deputy general manager and secretary of the board of directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999, the deputy general manager of CNAHC from November 2004 to July 2009, the chairman of the labour union of CNAHC in July 2009. He was elected chairman of the labour union of the Company in October 2016. He has been serving as an employee representative director of CNAHC since December 2017, and was elected as employee representative Director of the Company in March 2018.

Mr. Wang Xiaokang, aged 64, graduated from Peking University majoring in law. He served as chairman and deputy secretary of the Communist Party Committee of China Energy Conservation and Environmental Protection Group from May 2010 to December 2016. Since December 2011, he has been serving as the president of China Industrial Energy Conservation and Clean Production Association. He is also currently a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference (CPPCC) and a member of the Committee of Population, Resources and Environment under the Twelfth National Committee the CPPCC, a member of China Economic and Social Council, a member of National Manufacturing Strategy Advisory Committee and a member of the Sixth China Council for International Cooperation on Environment and Development. He has been serving as an independent non-executive Director of Company since May 2017. He served as an external director of China Datang Corporation Ltd. from August 2018 to August 2019.

Mr. Liu Deheng, aged 63, graduated from the School of Management of Xi'an Jiaotong University with a master's degree in industrial management engineering. He served as Deputy Director General of Statistics and Assessment Bureau, Deputy Director General and Director General of Revenue Management Bureau of the SASAC from May 2003 to September 2016, and served as Professional External Director for Central State-owned Enterprises from September 2016. He has been serving as external director of Commercial Aircraft Corporation of China, Ltd. from April 2017 to January 2020 and as an independent non-executive Director of the Company from May 2017 to January 2020, and was appointed as external director of Aviation Industry Corporation of China, Ltd. in February 2018 to January 2020.

Mr. Stanley Hui Hon-chung, aged 69, holds the bachelor degree of Science from the Chinese University of Hong Kong. He joined Cathay Pacific in 1975 and had held a range of management positions in Hong Kong and overseas. From 1990 to 1992, Mr. Hui served in Cathy Dragon as general manager-planning and International Affairs and was appointed the chief representative of John Swire & Sons (China) Limited in Beijing in 1992. He later returned to Hong Kong in 1994 to assume the position of chief operating officer of AHK Air Hong Kong Limited until 1997. Mr. Hui joined Hong Kong Dragon Airlines Limited as its chief executive officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the chief executive officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 13th session of National Committee of CPPCC and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui has been serving as an independent non-executive Director of the Company since May 2015. From September 2015 to October 2017, Mr. Hui was an executive director and the Vice CEO of NWS Holdings Limited. He served as independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. from December 2016, and served as advisor in NWS Holdings Limited from October 2017 to October 2018.

Mr. Li Dajin, aged 61, graduated from Peking University majoring in law. He is a director, partner and lawyer of East & Concord Partners. He has practiced law since 1982 and was one of the first lawyers who obtained the qualifications to engage in securities law business in 1994. He was the vice president of the sixth All China Lawyers Association, the president of the seventh Beijing Lawyers Association, member of the 13th standing committee of Beijing Municipal People's congress, member of Internal and Judicial Affairs Committee and the deputy to the 12th National People's Congress. Mr. Li currently also serves as a member of the 13th CPPCC, legislative consultant to the Standing Committee of Beijing Municipal People's Congress, invited supervisor to the PRC Supreme People's Court, visiting professor to Lawyer College Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. Since December 2015, he has been serving as an independent non-executive Director of the Company.

SUPERVISORS

Mr. Wang Zhengang, aged 61, a senior accountant graduated from the Anti Chemical Command and Engineering Institute of the Chinese People's Liberation Army with a bachelor's degree in economics and management. He has been serving as a director, the president and a member of the Communist Party Committee of CNACG from July 2011 to December 2018 and the chairman of the board of directors of Zhongyi Aviation Investment Co., Ltd. from September 2011 to February 2019. Mr. Wang served as an assistant general manager of CNAHC from September 2014 to December 2018. He served as the chairman of CNAC Beijing Financial Leasing Co., Ltd. from August 2016 to February 2019 and served as Chairman of the Supervisory Committee of the Company from August 2016 to December 2019.

Mr. Zhao Xiaohang, aged 58, graduated from Tsinghua University majoring in management engineering, and holds a postgraduate diploma and a master's degree. He started his career in August 1986 and served various positions, including the assistant of the Planning Department of Beijing Administration of Civil Aviation Administration of China, assistant, section chief and deputy division chief of the Planning Department, manager and deputy secretary of the Ground Handling Department, general manager of the Planning and Development Department, and assistant president of Air China International Corporation. He served as the director and vice president of CNACG from September 2003 to May 2004, and a director, vice president and secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as the director of China National Aviation Company Limited from July 2005 to November 2015 and general manager of China National Aviation Company Limited from July 2005 to May 2016. From April 2007 to February 2016, he served as director and general manager of China National Aviation Corporation (Macau) Company Limited. From December 2009 to April 2011, he served as chairman, executive director and general manager of Air Macau. Mr. Zhao has been serving as the vice president and a member of the Standing Committee of Communist Party Committee of the Company since February 2011. Since April 2011, he has been serving as a director of Shandong Aviation Group Corporation. He has been serving as the chairman of Dalian Airlines since August 2011. Mr. Zhao has been serving as the chairman of Air Macau since March 2016, a member of the Communist Party Group of CNAHC since August 2016, the vice general manager of CNAHC, vice chairman of CNACG, as well as chairman of CNAMC since December 2016. He has been serving as chairman of Capital Holding since September 2018. In December 2019, he has been serving as Chairman of the Supervisory Committee of the Company since December 2019.

Mr. He Chaofan, aged 57, graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of Civil Aviation Administration of China (CAAC), and served various positions in Air China International Corporation, including the section chief, deputy director and director of the finance department and general manager of the revenue accounting centre of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager and the Deputy Secretary of Communist Party Committee of CNAF. He served as the General Manager of the finance department of CNAHC and a Supervisor of the Company concurrently from October 2008 to April 2011. He served as vice president of CNACG from May 2011 to December 2018, and concurrently served as a director, general manager, party committee member and the Deputy Secretary of the Communist Party Committee of Zhongyi Aviation Investment Co., Ltd. from July 2013 to December 2018. Mr. He was appointed as a Supervisor of the Company in October 2013 and has been serving as the director, president, party committee member of CNACG since December 2018.

Ms. Xiao Yanjun, aged 55, obtained a Juris Master from Renmin University of China and an EMBA degree from Tsinghua University and is senior administration engineer. From July 1988 to April 2002, Ms. Xiao held various positions in Air China International Corporation, including an instructor at the training department, the Secretary of the Communist Party Committee, an organiser at division level, Secretary of the Party Branch and head of officer training. She served as the training manager of the human resource department of the Company from April 2002 to March 2008 and deputy head of the office to the labour union of the Company from March 2008 to November 2012. She served as the head of the office to the labour union of the Company from November 2012 to July 2019. Ms. Xiao has been serving as a Supervisor of the Company since June 2011. She has been serving as the head of the office to the labour union of CNAHC from May 2017 to July 2019.

Ms. Li Guixia, aged 43, graduated from Xi'an Shiyou University majoring in accounting. Ms. Li started her career in August 1998 and served various positions in the Company, including an assistant at the domestic passenger center of the ground services department, the commissioner of the budget management division of the finance department and the project manager of the planning financial office of the commercial committee. She has been serving as a senior deputy manager of the planning financial office of the commercial committee of the Company since 2014. Since October 2017, she has been serving as a Supervisor of the Company.

SENIOR MANAGEMENT

Mr. Song Zhiyong, aged 54, Mr. Song is a senior pilot, graduated from the Second Flying Academy of China Air Force majoring in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Assistant Manager, Chief Pilot, and Deputy General Manager of the Third Fleet, Deputy General Manager of the General Fleet and the General Manager of the Training Department of Air China International Corporation. He served as the General Manager and Deputy Secretary of the Communist Party Committee of the General Fleet from November 2002 to June 2008. Mr. Song held the post of Assistant to President of the Company from September 2004 to October 2006. He was the Vice President, a member and a standing member of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of CNAHC from December 2010 to April 2014. He has been a member of the Communist Party Group of CNAHC since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company since January 2014 as well as an executive Director of the Company since May 2014 and the Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He has been serving as Vice Chairman of the Company since June 2016 and director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC since December 2016.

Mr. Feng Gang, aged 56, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. Mr. Feng became the deputy general manager of China Southwest Airlines in October 1995, and was the assistant to president of Air China International Corporation since October 2002. He also served as general manager and Secretary of the Communist Party Committee of China National Aviation Holding Assets Management Company since February 2003, and was appointed as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Corporation in May 2007. He served as Vice President of the Company from April 2010 to August 2014, and concurrently served as a director, president and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines from May 2010 to May 2014. He was appointed as a member of Communist Party Group of CNAHC in April 2014. He also served as deputy general manager of CNAHC from April 2014 to November 2019. He served as non-executive Director of the Company from August 2014 to October 2017, and the Vice President of the Company from May 2017 to November 2019. He has been serving as a director and Deputy Secretary of the Communist Party Group of CNAHC, and the Deputy Secretary of the Communist Party Committee of the Company since November 2019.

Mr. Ma Chongxian, aged 54, graduated from Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA in Tsinghua University. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China International Corporation, including deputy chief and Secretary of the Party branch of aircraft repair plant in Inner Mongolia branch, general manager of the bluesky customer service department, Deputy General Manager of Inner Mongolia branch, deputy general manager, Secretary of the Communist Party Committee and general manager of Zhejiang branch. He served as general manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since April 2010. From April 2010 to November 2016, he served as chairman and president of Shandong Aviation Group Corporation and vice chairman of Shandong Airlines. He has been a member of the Communist Party Group of CNAHC since August 2016 and vice general manager of CNAHC since December 2016.

Mr. Zhao Xiaohang, aged 58, graduated from Tsinghua University majoring in management engineering, and holds a postgraduate diploma and a master's degree. He started his career in August 1986 and served various positions, including the assistant of the Planning Department of Beijing Administration of Civil Aviation Administration of China, assistant, section chief and deputy division chief of the Planning Department, manager and deputy secretary of the Ground Handling Department, general manager of the Planning and Development Department, and assistant president of Air China International Corporation. He served as the director and vice president of CNACG from September 2003 to May 2004, and a director, vice president and secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as the director of China National Aviation Company Limited from July 2005 to November 2015 and general manager of China National Aviation Company Limited from July 2005 to May 2016. From April 2007 to February 2016, he served as director and general manager of China National Aviation Corporation (Macau) Company Limited. From December 2009 to April 2011, he served as chairman, executive director and general manager of Air Macau. Mr. Zhao has been serving as the vice president and a member of the Standing Committee of Communist Party Committee of the Company since February 2011. Since April 2011, he has been serving as a director of Shandong Aviation Group Corporation. Since August 2011, he has been serving as the chairman of Dalian Airlines. Mr. Zhao has been serving as the chairman of Air Macau since March 2016, a member of the Communist Party Group of CNAHC since August 2016, the vice general manager of CNAHC, vice chairman of CNACG, as well as chairman of CNAMC since December 2016. He has been serving as chairman of Capital Holding since September 2018. Since December 2019, he has been serving as Chairman of the Supervisory Board of the Company.

Mr. Tan Huanmin, aged 55, graduated from Jilin University School of Law majoring in constitutional law. Mr. Tan previously served as the deputy principal officer and principal officer of Policies and Laws Department of the Ministry of Supervision. From January 1993 to May 2008, Mr. Tan consecutively served as principal officer and deputy director of the Review Division of Regulation Office of the Central Commission for Discipline Inspection, deputy director, director-level inspector and supervisor of Supervision and Regulation Division, deputy director of Supervision and Regulation Division, and director of Supervision and Regulation Division. From May 2008 to December 2016, Mr. Tan consecutively served as Discipline Inspector of vice-bureau level and specialised Supervisor of Regulation Office of the Central Commission for Discipline Inspection, deputy director of Regulation Office, and Discipline Inspector of bureau level, specialised Supervisor and deputy director of Regulation Office. From December 2016 to January 2019, Mr. Tan was a member of the Communist Party Group and team leader of the Discipline Inspection Group of Communist Party Group of China Aerospace Science & Technology Corporation. Since January 2019, Mr. Tan has been serving as team leader of the Discipline Inspection and Supervision Group and a member of the Communist Party Group of CNAHC, and in January 2019, he was appointed as a member and a standing member of the Communist Party Committee, and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Wang Mingyuan, aged 54, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in July 1988 and served various positions in China Southwest Airlines, including assistant of the planning department, manager of the production plan office of the sales & marketing department, deputy manager of the sales & marketing department, deputy manager and manager of the market department, and served various positions in Air China International Corporation, including deputy general manager of the marketing department, member of the commerce commission, Member of the Communist Party Committee and general manager of network revenue department. Mr. Wang served as the director of the commerce commission and Deputy Secretary of the Communist Party Committee of the Company from July 2008 to March 2012. Mr. Wang was appointed as the Vice President and a member of the Standing Committee of CPC of the Company in February 2011.

Mr. Chai Weixi, aged 57, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including engineer and manager of airframe team of engineering department of AMECO, deputy director of the engineering division under the aircraft engineering department of Air China International Corporation, manager of aircraft Maintenance Subdivision and manager of aircraft overhaul division, general manager of aircraft engineering department of AMECO and deputy general manager of the engineering technology branch of the Company. From October 2005 to March 2009, he served as general manager and a member of the Communist Party Committee of AMECO as well as a member of the Communist Party Committee of the engineering technology branch of the Company. He served as general manager and Deputy Secretary of the Communist Party Committee of the engineering technology branch of the Company from March 2009 to June 2015. He was appointed as the director of AMECO in October 2005, and appointed as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company in March 2012. He also served as the chief executive officer of AMECO from June 2015 to September 2017.

Mr. Chen Zhiyong, aged 56, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class pilot. Mr. Chen started his career in October 1982 and served various positions, including navigator of the Third Section of the Seventh Fleet of CAAC, section manager and general manager of chengdu flight department of China Southwest Airlines and general manager of Flight Technology Management Department of China Southwest Airlines, general manager of Chengdu Flight Department of Southwest Branch of Air China International Corporation, and deputy general manager and Chief Pilot of Southwest Branch. He served as general manager and Deputy Secretary of the Communist Party Committee of southwest branch of the Company from December 2009 to December 2012. Mr. Chen has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since December 2012. Mr. Chen has also been serving as director and president of Shenzhen Airlines since May 2014.

Mr. Liu Tiexiang, aged 53, graduated from the Second Flying Academy of China Air Force with a bachelor degree in aviation and is a senior pilot. He started his career in June 1983 and has previously served various positions in Air China International Corporation, including pilot, section manager of the third fleet of the general fleet, deputy chief, assistant manager of flight training centre, deputy general manager of aviation safety technology department, deputy general manager and general manager of flight technology management department and deputy general manager of the general fleet. He served as the general manager and Deputy Secretary of the Communist Party Committee of the general fleet of the Company from June 2008 to April 2011. He served as Chief Pilot of the Company from April 2011 to November 2014, and has been serving as the Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since August 2014 and the chief operating officer of the Company since April 2015.

Mr. Xue Yasong, aged 58, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as assistant to the general manager of the international finance department, head of the asset reorganization group and head of preparatory group for the securities company. He served as a director, executive deputy general manager and secretary of the board of directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999, the deputy general manager of CNAHC from November 2004 to July 2009, the chairman of the labour union of CNAHC in July 2009. He was elected chairman of the labour union of the Company in October 2016. He has been serving as an employee representative director of CNAHC since December 2017, and was elected as employee representative Director of the Company in March 2018.

Mr. Xu Chuanyu, aged 55, graduated from Civil Aviation Flight University of China majoring in airplane piloting and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including pilot, assistant manager of the flight technology office of the third fleet of the general fleet, an inspector of the safety monitoring office and the general manager of the third fleet. In December 2001, Mr. Xu was appointed as the deputy general manager of the general fleet of Air China International Corporation. In March 2006, Mr. Xu was appointed as the general manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as deputy operation officer of the Company, and concurrently served as general manager, a member and Deputy Secretary of the Communist Party Committee of the operation control centre of the Company from January 2009 to March 2011. He served as the Chief Pilot of the Company from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as the Chief Pilot of CNAHC and chief safety officer of the Company since December 2012. Mr. Xu was appointed as chairman, president, Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Corporation in November 2016.

Mr. Zhang Hua, aged 54, graduated from Zhongnan University of Finance and Economics majoring in industrial economics and is an on-job postgraduate of the Party School of the Central Committee of the Communist Party of China majoring in economics and management. He started his career in 1986 and served various positions, including a director of China Factory Director (Manager) Work Research Association, an officer at vice-director level of China Enterprise Management Association, the project manager of China Business Consulting Company, an officer at director level, deputy director and director of Division of Economic Law and Regulations of State Economic and Trade Commission as well as the director and deputy legal director of Bureau of Policies, Laws and Regulations of the SASAC. He was appointed as the general legal counsel of CNAHC and of the Company in August 2016 and August 2017, respectively.

Mr. Xiao Feng, aged 51, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He started his career in July 1990, and served as an accountant of the infrastructure office, deputy section chief and section chief of the finance office, treasury manager of the finance department and deputy general manager of the finance department of Air China International Corporation and the chief accountant and deputy general manager of Shandong Airlines. Mr. Xiao served as the general manager of the finance department of the Company from December 2009 to July 2014. He has been serving as the chief accountant of the Company since July 2014.

Mr. Wang Yingnian, aged 56, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a first-class pilot. Mr. Wang started his career in China's civil aviation industry in August 1984 and has been engaged in work related to piloting. He was deputy general manager, a member and a standing member of the Communist Party Committee of the general fleet of the Company from August 2007 to April 2011. Mr. Wang served as the general manager, Deputy Secretary of Communist Party Committee of the general fleet of the Company from April 2011 to December 2014. He has been serving as Chief Pilot of the Company since November 2014 and served as general manager and Deputy Secretary of Communist Party Committee of the training department of the Company from February 2017 to November 2019. He has also been serving as the chairman of Air China Inner Mongolia Co., Ltd. since November 2017.

Mr. Ni Jiliang, aged 54, graduated from Civil Aviation College of China majoring in maintenance of aircrafts, engines and equipment under the department of aviation machinery. He started his career in July 1988 and served various positions, including process engineer of the engine maintenance department at the civil aviation maintenance base in Beijing; the system engineer of the engineering department, the manager of engine team of engine division under the engineering department, the division manager of the engine division under the engineering department, the manager of the engine section and the section manager of the operation department of AMECO; the general manager and Deputy Secretary of the Communist Party Committee of the maintenance base in Chengdu of the engineering technology branch of Air China; the deputy general manager and a member of the Communist Party Committee of the engineering technology branch of Air China (during which he concurrently served as the general manager and a member of the Communist Party Committee of AMECO); and the Deputy Secretary of the Communist Party Committee and the chief strategy officer of AMECO. He has been the chief executive officer and the Deputy Secretary of the Communist Party Committee of AMECO since September 2017, and the chief engineer of the Company since January 2020.

Mr. Shao Bin, aged 54, graduated from Tsinghua University School of Economics and Management majoring in EMBA, and is a first-class pilot. He started his career in July 1987 and had held various positions in Tianjin branch of Air China International Corporation, including assistant manager and manager of the first section, deputy general manager and general manager of the general fleet, manager of the flight department, deputy general manager and a member of the Communist Party Committee; he was appointed as the general manager of flight safety monitoring department in December 2006 and as the general manager of the aviation safety management department in August 2008. Mr. Shao served as assistant to the president and the general manager of the flight department of Shenzhen Airlines since April 2010; as assistant to the president of the Company and the general manager of the aviation safety management department since March 2012. He has been serving as assistant to the President of the Company and the vice president of Shenzhen Airlines since November 2014.

Mr. Zhu Songyan, aged 49, graduated from Civil Aviation University of China's Department of Economics majoring in transportation. Mr. Zhu started his career in July 1991 and served various positions in Air China International Corporation, including assistant of the passenger department, head of business office of seat reservation centre, deputy general manager of the marketing department, and general manager and Deputy Secretary of the Party General Branch of the information technology center. Mr. Zhu served as the deputy director of commercial committee and a member of the Communist Party Committee of the Company since July 2008, the deputy director and a member of the Communist Party Committee of Commercial Committee, general manager of the network revenue department and Party General Branch Secretary of the Company since January 2009, the director, executive director and general manager of Air Macau since April 2011. He served as the assistant to the President and general manager of the planning and development department of the Company from July 2014 to September 2019. He also served as the general manager of the planning and development department of CNAHC from May 2017 to September 2019. He has been serving as vice president and a member of the Communist Party Committee of Shandong Aviation Group Co., Ltd. since September 2019.

Mr. Zhao Yang, aged 52, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Zhao started his career in August 1988 and served various positions in Southwest Branch of Air China International Corporation, including the manager of the seventh section, the general manager of the first fleet, deputy general manager, general manager and Deputy Secretary of the Communist Party Committee of the flight department. Mr. Zhao served as the deputy general manager and Chief Pilot, a member and standing member of the Communist Party Committee of the southwest branch of the Company since November 2014. He served as the deputy operation officer of the Company and the general manager of the operation control centre, and Deputy Secretary of the Communist Party Committee of the operation control centre since October 2017. Mr. Zhao has been serving as the assistant to the President of the Company since October 2017.

JOINT COMPANY SECRETARIES

Mr. Zhou Feng, aged 58, obtained a master's degree in economics from Shanghai University of Finance and Economics and a master's degree of business administration from China Europe International Business School, and is a senior accountant. He served as the director of the financial planning and audit department of Zhejiang Administration of CAAC in 1992; the chief accountant of CNAC Zhejiang Airlines in 1997; assistant to the general manager of China National Aviation Corporation (Macau) Company Limited and an executive director of Air Macau in 2001; the deputy general manager of CNAF in 2003; director and executive vice president of Samsung Air China Life Insurance Co., Ltd. in 2005; Secretary of the Communist Party Committee of CNAF in 2010. Mr. Zhou served as the general manager of the finance department of CNAHC from April 2011 to May 2017 and as a Supervisor of the Company from November 2011 to August 2017. He has been serving as the head of the office of the board of CNAHC and the Company since June 2017 and was appointed as Secretary to the Board of the Company in August 2017.

Ms. Tam Shuit Mui, aged 48, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of International Business Settlement Holdings Limited (formerly known as Chaoyue Group Limited/Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam served as one of the Joint Company Secretaries of the Company from October 2008 to April 2020.

PRIZES AND AWARDS

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

On 5 March 2019, the Company was nominated for the "Best Enterprise Brand Communication Award" of the 2019 Global Award List by PR Week, which is the only state-owned enterprise enlisted for such award in China. The "Landing with Dreams" project was also the first branding project of aviation company nominated for the "Best Enterprise Brand Communication Award" in the world.

On 25 April 2019, Air China was granted and honoured with the "Best Partner Award", which is the highest award, at the 14th Changi Airline Awards Presentation Cermoney held at Singapore Changi Airport.

On 6 May 2019, Air China ranked 30th in the "BrandZ Top 100 Most Valuable Chinese Brands 2019" jointly released by the global communications services group, WPP, and its research institute with a brand value of USD4.965 billion.

On 24 May 2019, Air China received the 10th Tiger Roar Award – Silver Prize, which is a highly influential industrial award generally recognized by the digital business communication sector.

On 12 June 2019, the "Landing with Dreams" project of the Company won the "Best VR/AR" award of 2019 Asia Pacific PR Award, which is the first and only aviation company honoured with such award.

On 21 June 2019, Air China received the "Best Investor Relations Award (China)" and the "2019 China Financial Market Award – Best Board Secretary" award from the 2019 China Financial Market Award hosted by China Financial Market, a magazine in Hong Kong.

On 26 June 2019, Air China ranked 21st in the list of "Top 500 Most Valuable Chinese Brands 2019" released at the 16th World Brand Convention of World Brand Lab with a brand value of RMB167.876 billion, which is the highest ranking among civil aviation companies in China.

On 8 August 2019, the Company's Annual Report 2018 was honored with the awards in the Airlines – Traditional Annual Report – Cover Design/Content Design at the 33rd ARC Awards International.

On 30 August 2019, the nationwide pioneer advance ticket change services of the ground service department of Air China won the "Quality Service Project" award at the 3rd National Service Excellence Competition hosted by China Association for Quality.

On 17 September 2019, Air China ranked first in the list of "Leading Chinese Cross-border Brands: The Top 50, 2019" jointly selected by KPMG and Facebook.

On 18 October 2019, Air China was awarded the "Best Main Board Listed Company" at the 14th Award Presentation Ceremony and Summit Forum for Competitiveness and Creditworthiness Survey of Chinese Listed Companies with the theme of "Celebrate the 70th anniversary of the Founding of the New China, and Seek the New Economic Growth Drivers".

On 27 October 2019, the related advertisement cases of Air China's marketing campaign received the "Main Advertising Award – 2019 Brand Building Award – Golden Prize" and "Main Advertising Award – 2019 Digital Marketing Award – Golden Prize" at the 26th China International Advertising Festival.

On 14 November 2019, the Company won the 10th China Excellent Environmental Award, which is the first aviation company awarded with such honour.

On 20 November 2019, the Company received the "2018 Brand Innovation Achievement of Chinese Enterprises" award from China Association for Quality, while the cultural innovation project in relation to building of IP image of Air China's brand and the innovative brand communication project of Air China titled "Landing with Dreams" were honoured with the Innovative Brand Culture and Innovative Brand Communication Award respectively.

On 4 December 2019, Air China won the "Best Listed Company in terms of Corporate Governance" and "Listed Company with Best Investment Value" major awards from the Golden Bauhinia Awards hosted by Hong Kong Ta Kung Pao, The Listed Companies Association of Beijing and The Hong Kong Chinese Enterprises Association.

On 6 December 2019, the Company's Social Responsibility Report 2018 won the "Golden Bee Excellent Corporate Social Responsibility Report 2018 Evergreen Award".

On 6 and 7 December 2019, at the 19th China Business Top 100 hosted by the Organizing Committee of China Business Top 100 and the Wharton Economic Institute, Air China ranked 69th in the "List of Top 100 China Business, 2019", and ranked 139th in the "List of Top 100 China Business (Global), 2019", both being the highest ranking among aviation companies in China.

On 12 December 2019, Air China was recognized as the "Most Popular Domestic Airline Among Chinese Families" at the awarding ceremony of the 11th "Most Popular Outbound Tour Among Chinese Families Awards" hosted by the *Global Times·Global Travel* for the 10th time since 2009.

On 17 December 2019, Air China ranked 281st in the list of "The World's 500 Most Influential Brands 2019" released at the "16th World Brand Convention" of World Brand Lab with a brand value of RMB167.876 billion, up by 6 rankings as compared with the previous year. Of the 40 Chinese companies on the list, Air China was the only selected civil aviation company in China. Air China was also honoured with the "Annual No.1 Chinese Brand Award (Aviation Services Industry) 2019" and a special award named "Cultural Brand Award" of 2019.

On 21 December 2019, Air China was once again honoured with the "Best Board of Directors" award at the 15th Golden Round Table Award of the Board of Directors of Chinese Listed Companies sponsored by the Directors & Boards magazine of the China Association for Public Companies.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS 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)

OPINION

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 90 to 206, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for major overhauls	
As at 31 December 2019, the provision for major overhauls of RMB5,629 million was recorded in the consolidated statement of financial position. The Group held certain aircraft under leases at 31 December 2019. Under the terms of the lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Management estimates the maintenance costs of major overhauls for aircraft held under leases at the end of each reporting period and accrues such costs over the lease terms. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. We identified provision for major overhauls to fulfil the return condition of aircraft under leases as a key audit matter because of the significant management estimation and judgement required in assessing the variable factors and assumptions in order to quantify the amount of provision required at each reporting date. Details of the related estimation uncertainty are set out in Notes 4, 5 and 38 to the consolidated financial statements.	Our procedures in relation to provision for major overhauls to fulfil the return condition of aircraft under leases included: • Testing and evaluating the design and operating effectiveness of the key internal controls relevant to the audit of provision for major overhauls to fulfil the return condition of aircraft under leases. • Evaluating the appropriateness of the methodology and key assumptions adopted by management in estimating the provision for these major overhauls. This evaluation based on the terms of the leases and the Group's maintenance cost experience. • Performing a retrospective review of the provision for major overhauls to evaluate the appropriateness of the assumptions adopted by management by comparing the assumptions adopted by management in prior years with actual maintenance costs incurred. • Discussing with managers in the engineering department responsible for aircraft engineering about the utilisation pattern of aircraft, obtaining relevant operating data, performing recalculation and checking the assumptions adopted by management and the mathematical accuracy of the calculation of provision for major overhauls prepared by management for those aircraft under leases.

KEY AUDIT MATTERS (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td>The Group's revenue primarily consists of passenger revenue amounting to RMB124,525 million for the year ended 31 December 2019.

Passenger revenue are recognised as revenue when the related transportation service is provided. The value of passenger revenue for which the related transportation service has not yet been provided at the end of the reporting period is recorded as air traffic liabilities in the consolidated statement of financial position.

The Group allocates the transaction price to passenger revenue and miles awards on a relative stand-alone selling price basis. The transaction price allocated to miles awards under the Group's frequent-flyer programme is deferred and included in contract liabilities in the consolidated statement of financial position.

The Group maintains complex information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme awards.

We identified passenger revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and an estimation of the stand-alone selling price of miles in the frequent-flyer programme, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to management manipulation.

Details of passenger revenue are set out in Notes 4, 5, 6 and 39 to the consolidated financial statements.</td><td>Our procedures in relation to passenger revenue recognition included:

• Testing and evaluating the design and operating effectiveness of the key internal controls, including IT controls, relevant to our audit of passenger revenue recognition.

• Performing substantive analytical procedures on passenger revenue by developing an expectation for passenger revenue using independent inputs and information generated from the Group's IT systems and to obtain evidence to support the reasonableness of the amounts recorded.

• Evaluating the appropriateness of the assumptions adopted by management in estimating the stand-alone selling price of miles in the frequent-flyer programme by comparison with historical experience and planned changes to the programme that may impact future redemption activities.

• Checking underlying supporting documents for passenger revenue transactions which are material or meet other specified criteria on a sample basis.</td></tr>
</table>

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	6	**136,180,690**	136,774,403
Other income and gains	8	**4,059,190**	4,108,700
		140,239,880	140,883,103
Operating expenses			
Jet fuel costs		**(35,965,239)**	(38,481,303)
Employee compensation costs	9	**(25,473,898)**	(24,450,250)
Depreciation and amortisation		**(21,279,084)**	(14,503,676)
Take-off, landing and depot charges		**(16,440,081)**	(15,354,941)
Aircraft maintenance, repair and overhaul costs		**(6,119,539)**	(6,612,844)
Air catering charges		**(4,026,090)**	(3,787,134)
Aircraft and engine lease expenses		**(966,227)**	(7,165,554)
Other lease expenses		**(565,160)**	(1,117,478)
Other flight operation expenses		**(8,193,008)**	(9,419,344)
Selling and marketing expenses		**(4,684,722)**	(4,373,023)
General and administrative expenses		**(1,844,232)**	(1,535,617)
Net impairment (losses)/gains under expected credit loss model	10	**(40,682)**	264,392
		(125,597,962)	(126,536,772)
Profit from operations	11	**14,641,918**	14,346,331
Finance income		**163,185**	172,564
Finance costs	12	**(4,948,928)**	(2,914,097)
Share of results of associates		**215,532**	526,570
Share of results of joint ventures		**259,727**	222,226
Exchange loss, net		**(1,211,171)**	(2,376,577)
Profit before taxation		**9,120,263**	9,977,017
Income tax expense	14	**(1,856,499)**	(1,762,146)
Profit for the year		**7,263,764**	8,214,871
Attributable to:			
– Equity shareholders of the Company		**6,420,294**	7,350,661
– Non-controlling interests		**843,470**	864,210
Profit for the year		**7,263,764**	8,214,871
Earnings per share			
– Basic and diluted	15	**RMB46.74 cents**	RMB53.52 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	**7,263,764**	8,214,871
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
– Fair value gains/(losses) on investments in equity instruments at fair value through other comprehensive income	**3,842**	(31,921)
– Income tax relating to items that will not be reclassified to profit or loss	**(59)**	7,980
– Remeasurement of net defined benefit liability	**(3,905)**	(16,840)
– Share of other comprehensive income/(expense) of associates	**441,862**	(73,364)
Items that may be reclassified subsequently to profit or loss:		
– Fair value gains on investments in debt instruments measured at fair value through other comprehensive income	**3,551**	18,878
– Impairment loss on investments in debt instruments measured at fair value through other comprehensive income	**8,096**	6,827
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(2,912)**	(6,415)
– Share of other comprehensive income of associates	**23,272**	10,425
– Exchange differences on translation of foreign operations	**495,324**	999,423
Other comprehensive income for the year (net of tax)	**969,071**	914,993
Total comprehensive income for the year	**8,232,835**	9,129,864
Attributable to:		
– Equity shareholders of the Company	**7,370,539**	8,279,120
– Non-controlling interests	**862,296**	850,744
Total comprehensive income for the year	**8,232,835**	9,129,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	17	**102,158,432**	171,662,659
Right-of-use assets	18	**119,376,500**	–
Lease prepayments	19	**–**	2,599,058
Investment properties	20	**637,986**	650,786
Intangible assets	21	**36,610**	36,913
Goodwill	22	**1,099,975**	1,099,975
Interests in associates	24	**14,647,561**	15,253,744
Interests in joint ventures	25	**1,543,509**	1,427,063
Advance payments for aircraft and flight equipment		**22,413,867**	21,303,650
Deposits for aircraft under leases		**636,671**	613,346
Equity instruments at fair value through other comprehensive income	26	**253,113**	268,071
Debt instruments at fair value through other comprehensive income	27	**1,688,451**	1,040,419
Deferred tax assets	28	**4,352,452**	2,840,321
Other non-current assets		**544,390**	1,134,996
		269,389,517	219,931,001
Current assets			
Inventories	29	**2,098,673**	1,877,494
Accounts receivable	30	**5,997,690**	5,373,972
Bills receivable		**362**	403
Prepayments, deposits and other receivables	31	**3,724,468**	4,220,036
Restricted bank deposits	32	**728,385**	1,044,389
Cash and cash equivalents	32	**8,935,282**	6,763,183
Other current assets	33	**3,331,996**	4,446,630
		24,816,856	23,726,107
Total assets		**294,206,373**	243,657,108
Current liabilities			
Air traffic liabilities		**(9,980,300)**	(8,886,274)
Accounts payable	34	**(16,578,153)**	(14,726,428)
Other payables and accruals	35	**(11,977,447)**	(10,833,540)
Current taxation		**(938,732)**	(1,023,938)
Lease liabilities/obligations under finance leases	36	**(13,861,503)**	(7,125,586)
Interest-bearing bank loans and other borrowings	37	**(22,729,991)**	(27,194,901)
Provision for return condition checks	38	**(869,651)**	(1,447,693)
Contract liabilities	39	**(1,037,031)**	(1,301,518)
		(77,972,808)	(72,539,878)

AT 31 DECEMBER 2019

	NOTES	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Net current liabilities		**(53,155,952)**	(48,813,771)
Total assets less current liabilities		**216,233,565**	171,117,230
Non-current liabilities			
Lease liabilities/obligations under finance leases	36	**(86,586,353)**	(45,848,095)
Interest-bearing bank loans and other borrowings	37	**(16,598,965)**	(15,585,481)
Provision for return condition checks	38	**(7,538,095)**	(4,174,398)
Provision for early retirement benefit obligations		**(1,989)**	(3,105)
Long-term payables		**(115,190)**	(154,171)
Contract liabilities	39	**(2,670,910)**	(3,062,739)
Defined benefit obligations	40	**(249,933)**	(263,862)
Deferred income	41	**(521,227)**	(647,973)
Deferred tax liabilities	28	**(621,440)**	(879,372)
		(114,904,102)	(70,619,196)
NET ASSETS		**101,329,463**	100,498,034
CAPITAL AND RESERVES			
Issued capital	42	**14,524,815**	14,524,815
Treasury shares	42	**(3,047,564)**	(3,047,564)
Reserves		**81,981,426**	81,680,090
Total equity attributable to equity shareholders of the Company		**93,458,677**	93,157,341
Non-controlling interests		**7,870,786**	7,340,693
TOTAL EQUITY		**101,329,463**	100,498,034

The consolidated financial statements on pages 90 to 206 were approved and authorised for issue by the board of directors on 31 March 2020 and signed on its behalf by:

Cai Jianjiang
DIRECTOR

Song Zhiyong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
		Issued capital	Treasury shares	Capital reserve	Reserve funds	General reserve	Foreign exchange translation reserve	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018		14,524,815	(3,047,564)	29,527,576	9,177,905	69,742	(2,711,954)	39,011,579	86,552,099	8,829,092	95,381,191
Changes in equity for 2018											
Profit for the year		–	–	–	–	–	–	7,350,661	7,350,661	864,210	8,214,871
Other comprehensive (expense) income		–	–	(77,940)	–	–	1,006,399	–	928,459	(13,466)	914,993
Total comprehensive (expense) income		–	–	(77,940)	–	–	1,006,399	7,350,661	8,279,120	850,744	9,129,864
Appropriation of statutory reserve funds		–	–	–	535,760	–	–	(535,760)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	695,805	–	–	(699,765)	(3,960)	(2,151)	(6,111)
Appropriation of general reserve		–	–	–	–	23,446	–	(23,446)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(202,957)	(202,957)
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	(1,669,918)	(1,669,918)	–	(1,669,918)
Disposal of subsidiaries	43	–	–	–	–	–	–	–	–	(2,134,035)	(2,134,035)
As at 31 December 2018		14,524,815	(3,047,564)	29,449,636	10,409,470	93,188	(1,705,555)	43,433,351	93,157,341	7,340,693	100,498,034
Adjustments	3	–	–	–	(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 2019											
Profit for the year		–	–	–	–	–	–	**6,420,294**	**6,420,294**	**843,470**	**7,263,764**
Other comprehensive income		–	–	**468,589**	–	–	**481,656**	–	**950,245**	**18,826**	**969,071**
Total comprehensive income		–	–	**468,589**	–	–	**481,656**	**6,420,294**	**7,370,539**	**862,296**	**8,232,835**
Capital contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	**400,000**	**400,000**
Appropriation of statutory reserve funds		–	–	–	**537,682**	–	–	**(537,682)**	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	**535,760**	–	–	**(543,966)**	**(8,206)**	**(2,837)**	**(11,043)**
Appropriation of general reserve		–	–	–	–	**17,440**	–	**(17,440)**	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	**(200,540)**	**(200,540)**
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	**(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**	–	–	–
Others		–	–	–	–	–	–	**(21)**	**(21)**	–	**(21)**
As at 31 December 2019		**14,524,815**	**(3,047,564)**	**29,916,386**	**11,026,605**	**110,628**	**(1,223,899)**	**42,151,706**	**93,458,677**	**7,870,786**	**101,329,463**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before taxation	**9,120,263**	9,977,017
Adjustments for:		
Share of results of associates and joint ventures	**(475,259)**	(748,796)
Exchange losses, net	**1,211,171**	2,376,577
Finance income	**(163,185)**	(172,564)
Finance costs	**4,948,928**	2,914,097
Fair value changes of financial assets at fair value through profit or loss	**–**	(60)
Depreciation of property, plant and equipment	**9,704,731**	14,357,683
Depreciation of right-of-use assets	**11,548,619**	–
Gain on disposal of property, plant and equipment	**(65,319)**	(20,593)
Gain on disposal of non-current assets held for sale	**–**	(59,893)
Gain on derecognition of land use rights	**(52,798)**	–
Gain on disposal of financial assets at fair value through profit or loss	**–**	(8,521)
Gain on disposal of subsidiaries	**–**	(405,543)
Loss/(gain) on disposal of interests in joint ventures and associates	**414**	(163,184)
Amortisation of lease prepayments	**–**	74,278
Depreciation of investment properties	**25,692**	32,912
Amortisation of intangible assets	**42**	38,803
Impairment loss on property, plant and equipment	**–**	16
Impairment loss on debt instruments at fair value through other comprehensive income	**8,096**	6,827
Impairment losses (reversed)/recognised on inventories	**(2,805)**	13,373
Impairment loss recognised on accounts receivable	**39,051**	46,653
Impairment losses reversed on deposits and other receivables	**(190)**	(299,486)
Impairment losses reversed on other non-current assets	**(299)**	(1,004)
Impairment losses reversed on other current assets	**(5,976)**	(17,382)
Dividend income	**(12,550)**	(7,418)
Operating cash flows before movements in working capital	**35,828,626**	27,933,792
Increase in deposits for aircraft under leases	**(23,325)**	(45,457)
Decrease/(increase) in other non-current assets	**28,687**	(242,807)
Increase in inventories	**(199,630)**	(350,357)
Increase in accounts receivable	**(665,276)**	(189,096)
Decrease/(increase) in bills receivable	**41**	(55)
Decrease in prepayments, deposits and other receivables	**199,319**	767,174
Decrease in other current assets	**1,120,610**	407,388
Increase in air traffic liabilities	**1,094,026**	2,122,938
Increase in accounts payable	**1,384,618**	633,998
Increase in other payables and accruals	**2,473,507**	2,805,707
(Decrease)/increase in provision for return condition checks	**(16,797)**	617,093
Decrease in provision for early retirement benefit obligations	**(1,116)**	(1,764)
Decrease in defined benefit obligations	**(26,714)**	(27,375)
Decrease in deferred income	**(146)**	(25,006)
(Decrease)/increase in contract liabilities	**(656,316)**	313,569
Decrease in long-term payables	**(38,981)**	(38,448)
Cash generated from operations	**40,501,133**	34,681,294
Income tax paid	**(2,160,950)**	(3,262,404)
Interest paid	**(4,740,840)**	(2,735,721)
Net cash generated from operating activities	**33,599,343**	28,683,169

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(7,456,399)**	(9,139,089)
Increase in advance payments for aircraft and flight equipment		**(5,626,747)**	(3,168,590)
Proceeds from disposal of property, plant and equipment		**344,537**	349,128
Proceeds from derecognition of land use rights		**421,412**	–
Proceeds from disposal of non-current assets held for sale		**–**	344,062
Payments for purchase of investment properties		**(25,536)**	–
Cash refunded on intangible assets		**261**	285
Decrease/(increase) in restricted bank deposits against aircraft leases and others		**190,558**	(197,002)
Disposal of subsidiaries	43	**–**	1,996,025
Disposal of investment in joint ventures and associates		**(414)**	168,305
Purchase of debt instruments at fair value through other comprehensive income		**(632,199)**	(345,535)
Proceeds from disposal of			
– financial assets at fair value through profit or loss		**–**	399,998
– other current assets		**–**	10,000
– equity instruments at fair value through other comprehensive income		**18,800**	–
Interest received		**163,185**	231,421
Dividends received from associates and joint ventures		**623,362**	394,437
Dividends received from equity instruments at fair value through other comprehensive income		**12,550**	6,859
Net cash used in investing activities		**(11,966,630)**	(8,949,696)
Financing activities			
Capital contribution from a non-controlling shareholder of a subsidiary		**400,000**	–
New bank loans and other loans		**21,918,459**	36,392,655
Proceeds from issuance of corporate bonds		**15,500,000**	6,100,000
Repayment of bank loans and other loans		**(28,273,520)**	(44,322,115)
Repayment of lease liabilities/obligations under finance leases		**(14,754,685)**	(8,494,990)
Repayment of corporate bonds		**(12,600,000)**	(6,449,853)
Dividends paid		**(1,700,663)**	(1,872,875)
Net cash used in financing activities		**(19,510,409)**	(18,647,178)
Net increase in cash and cash equivalents		**2,122,304**	1,086,295
Cash and cash equivalents at 1 January	32	**6,763,183**	5,562,907
Effect of foreign exchange rate changes		**49,795**	113,981
Cash and cash equivalents at 31 December	32	**8,935,282**	6,763,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB53,156 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 RMB109,437 million as at 31 December 2019, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2019. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

IFRS 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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 Leases

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

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.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

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

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

IFRS 16 Leases (continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

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 of 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.

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%.

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

IFRS 16 Leases (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 without 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. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

IFRS 16 Leases (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
Amounts included in property, plant and equipment under IAS 17		
– Assets previously under finance leases	(d)	69,288,713
		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 lessee's incremental borrowing rate at the date of initial application. Other right-of-use assets were measured at the amount 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. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

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

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

IFRS 16 Leases (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 and 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 sales 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. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

IFRS 16 Leases (continued)

The following adjustments were made to the amounts recognised in the 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**	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
		RMB'000	RMB'000	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

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[5]
Amendments to IAS 1 and IAS 8	*Definition of Material*[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Directors anticipate that the application of all new and amendments to IFRSs that have been issued but are not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Investments in associates and joint ventures

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

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

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

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group maintains complex IT systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme awards. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire.

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

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and overhaul costs

In respect of aircraft and engines, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment or right of use asset as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

The Group has the responsibility to fulfil certain return conditions under the relevant leases agreements. In order to fulfil these return conditions, major overhauls are required to be conducted. Accordingly, estimated overhaul costs for aircraft under leases are accrued and charged to the profit or loss over the lease terms using the ratios per flying hours/cycles. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul.

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

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

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 or another systematic basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3) (continued)

Right-of-use assets

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 are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 are 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.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3) (continued)

Lease liabilities (continued)

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 if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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 adjusted by interest accretion and lease payments.

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3) (continued)

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.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

Lease modification (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

Sale and leaseback transactions (upon application of IFRS 16 since 1 January 2019)

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as borrowings within the scope of IFRS 9.

Sale and leaseback transactions (prior to 1 January 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group as a seller-lessee

For a leaseback that satisfies the requirements of an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately, except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

For sale and leaseback transactions which are in substance a financing arrangement under IFRS 9, the Group accounts for the sales proceeds as borrowings within the scope of IFRS 9.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

Borrowing costs

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

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

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

Employee benefits

Retirement benefit costs and termination benefits

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

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

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs and termination benefits (continued)

Defined benefit costs are categorised as follows:

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

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

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

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

Short-term and other long-term employee benefits

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements

Cash-settled share-based payment transactions

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax for the year

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Investment properties

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less recognised impairment loss, if any. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

Intangible assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as at FVTOCI

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

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

(i) Significant increase in credit risk

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk (continued)

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

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

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

(ii) Definition of default

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

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

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

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

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

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

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

Except for investments in debt instruments that are measured at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the impairment loss is recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. Such amount represents the changes in the capital reserve in relation to accumulated loss allowance.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Group's own equity instruments (treasury shares) is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

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

Financial liabilities at amortised cost

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

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial guarantee contracts

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

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

Derecognition of financial liabilities

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Estimated impairment of goodwill

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

As at 31 December 2019, the carrying amount of goodwill was RMB1,100 million (31 December 2018: RMB1,100 million) (net of impairment). Details of the recoverable amount calculation are disclosed in Note 22.

Impairment of non-financial assets (other than goodwill)

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

As at 31 December 2019, the aggregate carrying amount of property, plant and equipment, right-of-use assets (2018: lease prepayments), investment properties, intangible assets, interests in associates and interests in joint ventures (net of impairment), was RMB238,401 million (31 December 2018: RMB191,630 million). Details of these items are set out in Notes 17, 18, 19, 20, 21, 24 and 25.

Overhaul provisions

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

As at 31 December 2019, the Group had overhaul provisions amounting to RMB5,629 million (31 December 2018: RMB5,622 million) and details are disclosed in Note 38.

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Frequent-flyer programme

The transaction price allocated to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the stand-alone selling price of the miles awarded. The stand-alone selling price of the miles awarded is estimated relating to the expected redemption rate. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed. Any change in estimate would affect profit or loss in future years.

As at 31 December 2019, the contract liabilities related to frequent-flyer programme was RMB3,454 million (31 December 2018: RMB3,794 million) and details are disclosed in Note 39.

Expected breakage

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

Deferred tax assets

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

As at 31 December 2019, deferred tax assets of RMB4,352 million (31 December 2018: RMB2,840 million) in relation to differences in value of property, plant and equipment, provisions and accruals, unrealised profit of intra-group transactions, impairment of assets, deductible tax losses and temporary differences relating to right-of-use assets and lease liabilities have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the deductible tax losses of RMB36 million (31 December 2018: RMB106 million) and other deductible temporary differences of RMB5 million (31 December 2018: RMB5 million) due to the unpredictability of the future streams and details are disclosed in Note 28.

6. REVENUE

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**135,898,971**	136,537,210
Rental income (included in revenue of airline operations segment)	**281,719**	237,193
Total revenue	**136,180,690**	136,774,403

Disaggregation of revenue from contracts with customers

	2019		2018	
Segments	**Airline operations RMB'000**	**Other operations RMB'000**	Airline operations RMB'000	Other operations RMB'000
Type of goods or services				
Airline operations				
Passenger	**124,524,583**	–	120,429,994	–
Cargo and mail	**5,732,160**	–	11,405,573	–
Ground service income	**753,272**	–	980,542	–
Others	**2,078,460**	–	2,122,542	–
	133,088,475	–	134,938,651	–
Other operations				
Aircraft engineering income	–	**2,491,912**	–	1,405,590
Import and export service income	–	**41,599**	–	83,896
Others	–	**276,985**	–	109,073
	–	**2,810,496**	–	1,598,559
Total	**133,088,475**	**2,810,496**	134,938,651	1,598,559
Geographical markets				
Mainland China	**85,907,957**	**2,810,496**	84,685,095	1,598,559
Hong Kong, Special Administrative Region ("SAR"), Macau SAR and Taiwan, China	**5,911,532**	–	6,029,445	–
Europe	**13,374,965**	–	14,865,700	–
North America	**8,821,998**	–	11,806,117	–
Japan and Korea	**8,592,855**	–	7,607,451	–
Asia Pacific and others	**10,479,168**	–	9,944,843	–
Total	**133,088,475**	**2,810,496**	134,938,651	1,598,559

FOR THE YEAR ENDED 31 DECEMBER 2019

6. REVENUE (continued)

Performance obligations for contracts with customers

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

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The amount allocated to the miles earned by the frequent-flyer programme members is recorded in contract liabilities and deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire. During the year, the Group recognised revenue of RMB2,304 million (2018: RMB1,701 million) which was included in contract liabilities in relation to frequent-flyer programme at the beginning of the year.

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

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

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

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

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

7. SEGMENT INFORMATION

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

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

(b) the "other operations" segment which comprises the provision of aircraft engineering, 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 then prevailing market prices.

7. SEGMENT INFORMATION (continued)

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2019 and 2018 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2019

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	133,370,194	2,810,496	–	136,180,690
Intersegment sales	147,968	7,999,141	(8,147,109)	–
Revenue for reportable segments under CASs and IFRSs	133,518,162	10,809,637	(8,147,109)	136,180,690
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	8,425,964	899,234	(220,559)	9,104,639
Effect of differences between IFRSs and CASs				15,624
Profit before taxation for the year under IFRSs				9,120,263

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2018

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

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2019 and 2018 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2019 under CASs	**286,516,534**	**25,238,859**	**(17,501,840)**	**294,253,553**
Effect of differences between IFRSs and CASs				**(47,180)**
Total assets under IFRSs				**294,206,373**
Total assets for reportable segments as at 31 December 2018 under CASs	236,739,437	22,396,863	(15,420,294)	243,716,006
Effect of differences between IFRSs and CASs				(58,898)
Total assets under IFRSs				243,657,108

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2019 under CASs and IFRSs	**194,202,329**	**15,917,668**	**(17,243,087)**	**192,876,910**
Total liabilities for reportable segments as at 31 December 2018 under CASs and IFRSs	144,807,641	13,576,780	(15,225,347)	143,159,074

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2019

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of results of associates and joint ventures	143,914	331,345	–	475,259	–	475,259
Impairment losses recognised/(reversed) on financial assets	42,615	(6,555)	4,622	40,682	–	40,682
Impairment losses recognised/(reversed) on non-financial assets	2,041	(4,846)	–	(2,805)	–	(2,805)
Depreciation and amortisation	20,991,268	337,462	(32,152)	21,296,578	(17,494)	21,279,084
Finance income	210,028	120,098	(166,941)	163,185	–	163,185
Finance costs	5,105,887	88,478	(245,437)	4,948,928	–	4,948,928
Income tax expense	1,726,798	148,744	(22,949)	1,852,593	3,906	1,856,499
Interests in associates and joint ventures	14,327,393	1,776,946	(53,188)	16,051,151	139,919	16,191,070
Additions to non-current assets	34,636,914	281,948	–	34,918,862	–	34,918,862

Year ended 31 December 2018

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

7. SEGMENT INFORMATION (continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2019 and 2018, respectively:

Year ended 31 December 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	**89,000,172**	**5,911,532**	**13,374,965**	**8,821,998**	**8,592,855**	**10,479,168**	**136,180,690**

Year ended 31 December 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	86,520,847	6,029,445	14,865,700	11,806,117	7,607,451	9,944,843	136,774,403

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 different aircraft to match the need of the route network. An analysis of the assets of the Group by geographical distribution has therefore not been included.

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year ended 31 December 2019 (2018: Nil).

8. OTHER INCOME AND GAINS

	2019 RMB'000	2018 RMB'000
Co-operation routes income and subsidy income	**3,643,407**	3,133,872
Dividend income	**12,550**	7,418
(Loss)/gain on disposal of		
– Interests in associates	**–**	163,184
– Interests in joint ventures	**(414)**	–
– Subsidiaries (Note 43)	**–**	405,543
– Property, plant and equipment	**65,319**	20,593
Gain on derecognition of land use rights	**52,798**	–
Gain on disposal of non-current assets held for sale	**–**	59,893
Net gain arising on financial assets measured at fair value through profit or loss	**–**	60
Others	**285,530**	318,137
	4,059,190	4,108,700

9. EMPLOYEE COMPENSATION COSTS

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

	2019 RMB'000	2018 RMB'000
Wages, salaries and other benefits	**22,475,397**	21,798,956
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**2,998,431**	2,649,830
– Early retirement benefits	**70**	1,464
	25,473,898	24,450,250

10. NET IMPAIRMENT LOSSES/(GAINS) UNDER EXPECTED CREDIT LOSS MODEL

	2019 RMB'000	2018 RMB'000
Impairment losses recognised/(reversed) on financial assets:		
– Accounts receivable	**39,051**	46,653
– Deposits and other receivables	**(190)**	(299,486)
– Debt instruments at FVTOCI	**8,096**	6,827
– Other current assets	**(5,976)**	(17,382)
– Other non-current assets	**(299)**	(1,004)
	40,682	(264,392)

Details of impairment assessment are set out in Note 46.

11. PROFIT FROM OPERATIONS

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

	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	**9,704,731**	14,357,683
Depreciation of right-of-use assets	**11,548,619**	–
Depreciation of investment properties	**25,692**	32,912
Amortisation of intangible assets	**42**	38,803
Amortisation of lease prepayments	**–**	74,278
Impairment losses recognised on property, plant and equipment	**–**	16
Impairment losses (reversed)/recognised on inventories	**(2,805)**	13,373
Auditors' remuneration:		
– Audit related services	**17,923**	18,315
– Other services	**–**	525

12. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on interest-bearing bank loans and other borrowings	**1,581,534**	2,104,602
Interest on lease liabilities/obligations under finance leases	**3,897,514**	1,437,361
Imputed interest expenses on defined benefit obligations	**8,880**	10,822
	5,487,928	3,552,785
Less: Interest capitalised	**(539,000)**	(638,688)
	4,948,928	2,914,097

The interest capitalisation rates during the year ranged from 3.14% to 4.75% (2018: 2.67% to 4.75%) per annum relating to the costs of related borrowings during the year.

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

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

	2019 RMB'000	2018 RMB'000
Directors' fee	**520**	420
Salaries and other allowances	**1,272**	1,463
Discretionary bonus	**457**	417
Retirement benefit scheme contributions	**233**	243
	2,482	2,543

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

2019

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive director					
Song Zhiyong (Note (a))	–	–	–	–	–
Non-executive directors					
Cai Jianjiang (Note (a))	–	–	–	–	–
Cao Jianxiong (Note (a)) (Appointed on 30 May 2019 and resigned on 27 December 2019)	–	–	–	–	–
John Robert Slosar (Note (b)) (Resigned on 6 November 2019)	–	–	–	–	–
Patrick Healy (Note(b)) (Appointed on 19 December 2019)	–	–	–	–	–
Xue Yasong	–	719	160	110	989
	–	719	160	110	989
Independent non-executive directors					
Wang Xiaokang	60	–	–	–	60
Liu Deheng	60	–	–	–	60
Stanley Hui Hon-chung	200	–	–	–	200
Li Dajin	200	–	–	–	200
	520	–	–	–	520
Supervisors					
Wang Zhengang (Note (a)) (Resigned on 19 December 2019)	–	–	–	–	–
Zhao Xiaohang (Note (a)) (Appointed on 19 December 2019)	–	–	–	–	–
He Chaofan (Note (a))	–	–	–	–	–
Xiao Yanjun	–	251	160	46	457
Li Guixia	–	302	137	77	516
	–	553	297	123	973
	520	1,272	457	233	2,482

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

2018

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	SARs RMB'000	Total RMB'000
Executive director						
Song Zhiyong (Note(a))	–	–	–	–	–	–
Non-executive directors						
Cai Jianjiang(Note(a))	–	–	–	–	–	–
John Robert Slosar(Note(b))	–	–	–	–	–	–
Xue Yasong	–	713	112	92	–	917
	–	713	112	92	–	917
Independent non-executive directors						
Wang Xiaokang	60	–	–	–	–	60
Liu Deheng	60	–	–	–	–	60
Stanley Hui Hon-chung	150	–	–	–	–	150
Li Dajin	150	–	–	–	–	150
	420	–	–	–	–	420
Supervisors						
Wang Zhengang(Note(a))	–	–	–	–	–	–
He Chaofan(Note(a))	–	–	–	–	–	–
Xiao Yanjun	–	446	174	80	–	700
Li Guixia	–	304	131	71	–	506
	–	750	305	151	–	1,206
	420	1,463	417	243	–	2,543

Notes:

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

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

(c) None of the directors, supervisors and chief executive has waived any emoluments during the years ended 31 December 2019 and 2018.

(d) For the year ended 31 December 2019, the Group received cash consideration from Cathay Pacific of HKD2,579,000 for making available directors' services to Cathay Pacific (2018: HKD2,486,000).

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

Five highest paid individuals

For both 2019 and 2018, the five highest paid employees were not directors, supervisors nor chief executive of the Group.

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

	2019 **RMB'000**	2018 RMB'000
Salaries and other allowances	**13,289**	12,532
Discretionary bonuses	**144**	221
Retirement benefit scheme contributions	**162**	183
	13,595	12,936

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

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

	2019	2018
HKD2,500,001 to HKD3,000,000	**2**	3
HKD3,000,001 to HKD3,500,000	**3**	1
HKD3,500,001 to HKD4,000,000	**–**	1
	5	5

During the year, no emoluments were paid by the Group to any of the directors, supervisors, chief executive, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018:Nil).

14. INCOME TAX EXPENSE

	2019 **RMB'000**	2018 RMB'000
Current income tax:		
– Mainland China	**2,047,335**	2,341,423
– Hong Kong SAR and Macau SAR, China	**23,227**	23,664
Under/(over)-provision in respect of prior years	**5,182**	(13,444)
Deferred tax (Note 28)	**(219,245)**	(589,497)
	1,856,499	1,762,146

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

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

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches and two subsidiaries which are taxed at a preferential rate of 15% (2018: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2018: 25%) during the year. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 8.25% and 16.5% (2018: 8.25% and 16.5%) and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (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 years.

14. INCOME TAX EXPENSE (continued)

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**9,120,263**	9,977,017
Tax at the applicable tax rate of 25%	**2,280,066**	2,494,254
Preferential tax rates on income of group entities	**(113,980)**	(136,952)
Tax effect of share of profits less losses of associates and joint ventures	**(118,815)**	(187,199)
Tax effect of non-deductible expenses	**100,099**	65,086
Tax effect of non-taxable income	**(30,749)**	(255,466)
Deductible temporary differences and tax losses not recognised	**613**	15,847
Utilisation of tax losses not recognised in prior years	**(18,180)**	(106,952)
Utilisation of deductible temporary differences not recognised in prior years	**(247,737)**	(113,028)
Under/(over)-provision in respect of prior years	**5,182**	(13,444)
Taxation for the year	**1,856,499**	1,762,146

15. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**6,420,294**	7,350,661

	2019 '000	2018 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**13,734,961**	13,734,961

15. EARNINGS PER SHARE (continued)

The number of ordinary shares for the purpose of basic and diluted earnings per share is calculated based on the number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding (Note 42 (c)).

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

16. DIVIDENDS

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

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

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2019 of RMB0.4442 per ten ordinary shares (approximately RMB645 million in aggregate for ordinary shares) has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

17. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2018	226,642,836	11,983,483	11,168,416	9,860,688	259,655,423
Additions	5,438,717	175	430,295	21,948,681	27,817,868
Transfer from construction in progress	19,613,276	690,701	457,335	(20,761,312)	–
Reclassification to investment properties	–	(28,699)	–	–	(28,699)
Disposals	(3,735,860)	(20,844)	(258,116)	–	(4,014,820)
Disposal of subsidiaries (Note 43)	(14,302,234)	(289,618)	(683,224)	(172,126)	(15,447,202)
Exchange realignment	30,795	–	6,997	–	37,792
At 31 December 2018	233,687,530	12,335,198	11,121,703	10,875,931	268,020,362
Adjustments upon application of IFRS 16 (Note 3)	(88,091,577)	–	–	–	(88,091,577)
At 1 January 2019 (restated)	**145,595,953**	**12,335,198**	**11,121,703**	**10,875,931**	**179,928,785**
Additions	**1,535,811**	**28,201**	**320,503**	**6,587,070**	**8,471,585**
Transfer from construction in progress	**3,982,850**	**91,548**	**526,452**	**(4,600,850)**	**–**
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	**2,700,946**	**–**	**–**	**–**	**2,700,946**
Disposals	**(3,584,566)**	**(28,067)**	**(467,419)**	**–**	**(4,080,052)**
Exchange realignment	**38,167**	**–**	**1,747**	**–**	**39,914**
At 31 December 2019	**150,269,161**	**12,426,880**	**11,502,986**	**12,862,151**	**187,061,178**
Accumulated depreciation					
At 1 January 2018	(78,692,039)	(4,409,336)	(7,101,658)	–	(90,203,033)
Depreciation charge for the year	(13,210,885)	(428,488)	(718,310)	–	(14,357,683)
Reclassification to investment properties	–	14,564	–	–	14,564
Written back on disposals	3,321,559	7,355	238,025	–	3,566,939
Disposal of subsidiaries (Note 43)	4,670,490	96,290	582,016	–	5,348,796
Exchange realignment	(20,080)	–	(5,540)	–	(25,620)
At 31 December 2018	**(83,930,955)**	**(4,719,615)**	**(7,005,467)**	**–**	**(95,656,037)**
Adjustments upon application of IFRS 16 (Note 3)	**18,802,864**	**–**	**–**	**–**	**18,802,864**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019 (restated)	**(65,128,091)**	**(4,719,615)**	**(7,005,467)**	**–**	**(76,853,173)**
Depreciation charge for the year	**(8,542,105)**	**(444,066)**	**(718,560)**	**–**	**(9,704,731)**
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	**(1,409,983)**	**–**	**–**	**–**	**(1,409,983)**
Written back on disposals	**3,362,028**	**13,882**	**284,745**	**–**	**3,660,655**
Exchange realignment	**(9,868)**	**–**	**(1,181)**	**–**	**(11,049)**
At 31 December 2019	**(71,728,019)**	**(5,149,799)**	**(7,440,463)**	**–**	**(84,318,281)**
Impairment					
At 1 January 2018	(915,919)	–	–	–	(915,919)
Charge for the year	(16)	–	–	–	(16)
Written back on disposals	112,088	–	–	–	112,088
Disposal of subsidiaries (Note 43)	102,181	–	–	–	102,181
At 31 December 2018 and 1 January 2019	**(701,666)**	**–**	**–**	**–**	**(701,666)**
Written back on disposals	**117,201**	**–**	**–**	**–**	**117,201**
At 31 December 2019	**(584,465)**	**–**	**–**	**–**	**(584,465)**
Net book value					
At 31 December 2019	**77,956,677**	**7,277,081**	**4,062,523**	**12,862,151**	**102,158,432**
At 31 December 2018	149,054,909	7,615,583	4,116,236	10,875,931	171,662,659

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

As at 31 December 2019, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB2,779 million (31 December 2018: RMB7,935 million) were pledged to secure certain bank loans of the Group (Note 37).

As at 31 December 2019, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,445 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 the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2019.

FOR THE YEAR ENDED 31 DECEMBER 2019

18. RIGHT-OF-USE ASSETS

	Aircraft and engines RMB'000	Land RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
Cost					
At 1 January 2019	147,114,032	3,218,555	1,141,040	12,341	151,485,968
Additions	22,598,038	56,818	640,710	160,456	23,456,022
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(2,700,946)	–	–	–	(2,700,946)
Reduction upon completion/early termination of lease	(571,489)	(55,427)	(87,688)	–	(714,604)
Exchange adjustments	(2,708)	–	(86)	–	(2,794)
At 31 December 2019	166,436,927	3,219,946	1,693,976	172,797	171,523,646
Accumulated depreciation					
At 1 January 2019	(41,986,013)	(619,497)	–	–	(42,605,510)
Depreciation charged for the year	(10,912,057)	(67,949)	(548,618)	(19,995)	(11,548,619)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	1,409,983	–	–	–	1,409,983
Reduction upon completion/early termination of lease	568,370	16,783	10,607	–	595,760
Exchange adjustments	1,207	–	33	–	1,240
At 31 December 2019	(50,918,510)	(670,663)	(537,978)	(19,995)	(52,147,146)
Net book value					
At 31 December 2019	115,518,417	2,549,283	1,155,998	152,802	119,376,500
At 1 January 2019	105,128,019	2,599,058	1,141,040	12,341	108,880,458

During the year, expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 amounted to approximately RMB1,517 million, expense relating to leases of low-value assets, excluding short-term leases of low value assets, amounted to approximately RMB14 million.

18. RIGHT-OF-USE ASSETS (continued)

Leases committed

As at 31 December 2019, the Group had future undiscounted lease payments under non-cancellable leases of RMB1,092 million, which was not recognised as lease liabilities since leases have yet to be commenced.

The total cash outflow for leases is RMB16,286 million.

Details of the lease maturity analysis of lease liabilities are set out in Notes 36 and 46.

As at 31 December 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 RMB27 million (31 December 2018: RMB28 million) were pledged to secure certain bank loans of the Group (Note 37).

As at 31 December 2019 and 2018, the Group had title certificates for all the land use rights acquired.

19. LEASE PREPAYMENTS

	2018 RMB'000
Cost	
As at 1 January	3,941,746
Additions	12,542
Transfer	(9,094)
Disposal of subsidiaries (Note 43)	(726,639)
As at 31 December	3,218,555
Accumulated amortisation	
As at 1 January	(641,622)
Amortisation for the year	(74,278)
Transfer	2,395
Disposal of subsidiaries (Note 43)	94,008
As at 31 December	(619,497)
Net carrying amount	
As at 31 December	2,599,058

FOR THE YEAR ENDED 31 DECEMBER 2019

20. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Cost		
As at 1 January	**766,242**	915,445
Additions	**25,536**	151,618
Transfer	**–**	37,793
Adjustment	**(12,644)**	–
Disposal of subsidiaries (Note 43)	**–**	(338,614)
As at 31 December	**779,134**	766,242
Accumulated depreciation		
As at 1 January	**(115,456)**	(240,707)
Depreciation for the year	**(25,692)**	(32,912)
Transfer	**–**	(16,959)
Disposal of subsidiaries (Note 43)	**–**	175,122
As at 31 December	**(141,148)**	(115,456)
Net carrying amount		
As at 31 December	**637,986**	650,786

21. INTANGIBLE ASSETS

	2019 RMB'000	2018 RMB'000
As at 1 January	**36,913**	76,021
Disposal of a subsidiary (Note 43)	**–**	(20)
Amortisation for the year	**(42)**	(38,803)
Cash refund upon admission of new Star Alliance members	**(261)**	(285)
As at 31 December	**36,610**	36,913

The Group's intangible assets include the admission rights of the Company and Shenzhen Airlines Company Limited ("Shenzhen Airlines") to Star Alliance (the "Admission Rights"), which are stated at cost less impairment losses amounting to approximately RMB35 million as at 31 December 2019 (31 December 2018: approximately RMB36 million). The Admission Rights have an indefinite useful life due to their lasting legal and economic significance.

22. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost		
As at 1 January	**1,099,975**	1,276,866
Disposal of a subsidiary	–	(176,891)
As at 31 December	**1,099,975**	1,099,975
Impairment		
As at 1 January	–	(176,891)
Disposal of a subsidiary	–	176,891
As at 31 December	–	–
Net carrying amount		
As at 31 December	**1,099,975**	1,099,975

Impairment testing of goodwill

For the purposes of impairment testing, goodwill acquired through business combinations has been mainly allocated to Shenzhen Airlines cash-generating unit.

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and pre-tax discount rate of 10% (2018: 10%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Shenzhen Airlines' cash flows beyond the three-year period were extrapolated using a 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Shenzhen Airlines cash-generating unit to exceed the aggregate recoverable amount of Shenzhen Airlines cash-generating unit.

FOR THE YEAR ENDED 31 DECEMBER 2019

23. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2019 were as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong SAR, China	Limited liability company	HK$331,268,000	69	31	Investment holding
Air China Import and Export Co., Ltd.# (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Aviation Service Co., Ltd.# (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai International Aviation Air Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong SAR, China	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd.# (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau SAR, China	Limited liability company	MOP442,042,000	–	66.9	Airline operator

23. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Chengdu Falcon Aircraft Engineering Service Co., Ltd.# (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB80,000,000	30	30	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB5,360,000,000	51	–	Airline operator
Kunming Airlines Co., Ltd.# (昆明航空有限公司)	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines Co., Ltd.# (北京航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines Co., Ltd.# (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB3,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Aircraft Maintenance and Engineering Corporation ("AMECO") (北京飛機維修工程有限公司)	PRC/Mainland China	Limited liability company	US$300,052,800	75	–	Provision of aircraft overhaul and maintenance services
China National Aviation Finance Co., Ltd. ("CNAF") (中國航空集團財務有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	–	Provision of financial services

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

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

23. INTERESTS IN SUBSIDIARIES (continued)

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

As at 31 December 2019, the Company had a subsidiary which had outstanding issued debt securities as follows:

Name	**Face value of debt securities RMB'000**	**Carrying value of debt securities RMB'000**	**Maturity date**
Shenzhen Airlines	**500,000**	**521,080**	**14/03/2021**
	800,000	**824,974**	**24/04/2021**
	600,000	**608,265**	**07/09/2021**
	1,000,000	**1,029,322**	**26/04/2022**
	1,000,000	**1,026,517**	**18/03/2022**
	1,000,000	**1,022,191**	**23/05/2022**
	500,000	**511,403**	**15/01/2020**
	500,000	**511,114**	**21/01/2020**
	800,000	**815,650**	**22/01/2020**
	500,000	**508,847**	**01/03/2020**
	500,000	**507,608**	**22/03/2020**
	500,000	**506,208**	**22/01/2020**
	500,000	**504,819**	**14/02/2020**
	500,000	**504,484**	**25/02/2020**
	500,000	**503,531**	**24/03/2020**
	500,000	**502,581**	**10/04/2020**
	500,000	**502,325**	**17/04/2020**
	500,000	**502,058**	**13/03/2020**
	500,000	**501,053**	**20/05/2020**
	500,000	**500,252**	**12/06/2020**
		12,414,282	

As at 31 December 2018, the Company had a subsidiary which had outstanding issued debt securities as follows:

Name	Face value of debt securities RMB'000	Carrying value of debt securities RMB'000	Maturity date
Shenzhen Airlines	500,000	520,860	14/03/2021
	800,000	818,953	24/04/2021
	600,000	614,214	07/09/2021
	500,000	516,061	11/01/2019
	500,000	513,385	18/02/2019
	400,000	409,545	16/03/2019
	500,000	508,102	21/04/2019
	500,000	506,792	10/05/2019
	500,000	506,884	25/04/2019
	500,000	506,713	14/05/2019
		5,421,509	

23. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activity	Place of incorporation/ registration and operations	Number of principal subsidiaries 2019	2018
Airline operator	PRC/Macau SAR	**6**	6
Investment holding	Hong Kong SAR/BVI	**2**	2
Import and export trading	PRC	**1**	1
Provision of cabin service and airline catering	PRC	**1**	1
Provision of ground service	PRC	**1**	1
Provision of air ticketing service	Hong Kong SAR	**1**	1
Provision of human resources services	PRC	**1**	1
Provision of aircraft overhaul and maintenance services	PRC	**2**	2
Provision of financial services	PRC	**1**	1
		16	16

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

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

Name of subsidiary	Place of registration and operations	Proportion of equity interests and voting rights held by non-controlling interests at 31 December		Profit allocated to non-controlling interests year ended 31 December		Accumulated non-controlling interests at 31 December	
		2019	2018	**2019**	2018	**2019**	2018
				RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen Airlines	PRC	**49%**	49%	**561,986**	451,840	**4,178,018**	4,179,571
Air China Cargo ("Note")	PRC	**–**	–	**–**	193,137	**–**	–

Note: The Company disposed of Air China Cargo Co., Ltd. ("Air China Cargo") in 2018, details are set out in Note 43.

23. INTERESTS IN SUBSIDIARIES (continued)

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

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

	Shenzhen Airlines	
	2019	2018
	RMB'000	RMB'000
Current assets	**3,424,615**	4,197,351
Non-current assets	**63,191,261**	52,213,407
Current liabilities	**(25,125,117)**	(26,949,407)
Non-current liabilities	**(33,000,911)**	(21,038,684)
Net assets	**8,489,848**	8,422,667
– Equity contributed to equity shareholders of Shenzhen Airlines	**8,454,568**	8,319,796
– Equity contributed to the non-controlling interests ("NCI") of Shenzhen Airlines' subsidiaries	**35,280**	102,871
Carrying amount of NCI	**4,178,018**	4,179,571
Revenue	**31,879,423**	31,118,865
Profit for the year	**1,152,011**	918,293
Total comprehensive income	**1,155,139**	893,034
– attributable to equity shareholders of Shenzhen Airlines	**1,160,041**	889,354
– attributable to NCI of Shenzhen Airlines' subsidiaries	**(4,902)**	3,680
Dividend paid to NCI	**(122,598)**	(125,979)
Cash flows generated from operating activities	**3,745,448**	5,189,121
Cash flows used in investing activities	**(2,725,432)**	(4,028,192)
Cash flows used in financing activities	**(971,867)**	(1,112,779)

24. INTERESTS IN ASSOCIATES

	2019	2018
	RMB'000	RMB'000
Share of net assets		
– Listed shares in the PRC	**552,008**	858,267
– Listed shares in Hong Kong SAR, China	**9,794,836**	9,831,096
– Unlisted investments	**1,545,736**	1,864,967
Goodwill	**2,754,981**	2,699,414
As at 31 December	**14,647,561**	15,253,744
Market value of listed shares	**13,008,238**	12,520,506

24. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31 December 2019 were as follows:

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

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

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

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

Summarised financial information in respect of Cathay Pacific, the only individually material associate of the Group, and a reconciliation to the carrying amount in the consolidated financial statements, are set out below. The summarised financial information below represents amounts shown in the associate's financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019

24. INTERESTS IN ASSOCIATES (continued)

Cathay Pacific

	2019 RMB'000	2018 RMB'000
Gross amounts of the associate's		
Current assets	**24,441,007**	25,951,292
Non-current assets	**167,722,426**	140,784,311
Current liabilities	**(50,936,980)**	(42,359,889)
Non-current liabilities	**(84,991,712)**	(68,352,362)
Equity	**56,234,741**	56,023,352
– Equity contributed to equity shareholders of the associate	**56,232,054**	56,020,723
– Equity contributed to NCI of the associate	**2,687**	2,629
Revenue	**94,778,078**	95,073,468
Profit for the year	**1,498,226**	2,377,265
Other comprehensive income	**874,482**	384,369
Total comprehensive income	**2,372,708**	2,761,634
Dividend received from the associate	**397,195**	151,484
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**56,232,054**	56,020,723
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**16,863,993**	16,800,615
Elimination of reciprocal shareholding	**(7,069,157)**	(6,969,523)
Goodwill	**2,542,196**	2,486,629
Carrying amount in the consolidated financial statements	**12,337,032**	12,317,721

Aggregate information of associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**2,310,529**	2,936,023
Aggregate amounts of the Group's share of those associates'		
– Profit for the year	**148,966**	324,449
– Other comprehensive income (expense) for the year	**156,239**	(10,851)
– Total comprehensive income for the year	**305,205**	313,598

25. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**1,537,014**	1,420,568
Goodwill	**6,495**	6,495
	1,543,509	1,427,063

Particulars of the joint ventures of the Group at 31 December 2019 were as follows:

Company name	Place of registration and operations	Paid up issued/ registered capital	Percentage of Ownership interest %	Percentage of Profit sharing %	Principal activities
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	39	Provision of cargo carriage services
Sichuan Services Aero-Engine Maintenance Co., Ltd.# (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$88,000,000	60	60	Provision of engine overhaul and maintenance services
GA Innovation China Co., Ltd.# (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	Wholesale and import of aircraft and components
Shanghai International Airport Ground Service Co., Ltd.# (上海國際機場地面服務有限 公司)	PRC/Mainland China	RMB360,000,000	24	24	Provision of airport ground handling services
Wuxi Xiangyi Development Co., Ltd.# (無錫市祥翼發展有限公司)	PRC/Mainland China	RMB20,000,000	46.3	46.3	Property development

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

25. INTERESTS IN JOINT VENTURES (continued)

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

	2019 RMB'000	2018 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	**1,543,509**	1,427,063
Aggregate amounts of the Group's share of those joint ventures'		
– Profit for the year	**259,727**	222,226
– Total comprehensive income for the year	**259,727**	222,226

26. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Unlisted investments:		
– Equity securities	**253,113**	268,071

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

27. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Investments in listed bonds	**1,291,250**	941,192
Negotiable certificates of deposit	**397,201**	99,227
Total	**1,688,451**	1,040,419

Details of impairment assessment are set out in Note 46.

28. DEFERRED TAXATION

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

	2019 **RMB'000**	2018 RMB'000
Deferred tax assets:		
As at 1 January (Note 3)	**5,557,278**	3,556,168
Credited to profit or loss (Note 14)	**46,883**	450,567
Charged to other comprehensive income	**–**	(1,273)
Exchange realignment	**396**	266
Disposal of a subsidiary (Note 43)	**–**	(1,843)
Gross deferred tax assets as at 31 December	**5,604,557**	4,003,885
Deferred tax liabilities:		
As at 1 January	**2,042,936**	2,184,704
Credited to profit or loss (Note 14)	**(172,362)**	(138,930)
Charged/(credited) to other comprehensive income	**2,971**	(2,838)
Gross deferred tax liabilities as at 31 December	**1,873,545**	2,042,936
Net deferred tax assets as at 31 December	**3,731,012**	1,960,949

FOR THE YEAR ENDED 31 DECEMBER 2019

28. DEFERRED TAXATION (continued)

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**60,948**	64,854
Provisions and accruals	**3,333,043**	3,328,278
Unrealised profit of intra-group transactions	**172,208**	123,346
Impairment	**327,874**	461,334
Deductible tax losses	**–**	24,366
Impairment of investments in debt instruments	**3,731**	1,707
Right-of-use assets and lease liabilities	**1,706,753**	–
Gross deferred tax assets	**5,604,557**	4,003,885
Deferred tax liabilities:		
Changes in fair value of equity instruments	**(53,996)**	(53,937)
Changes in fair value of debt instruments	**(4,323)**	(3,435)
Depreciation allowances in excess of the related depreciation	**(1,535,222)**	(1,707,584)
Impairment of investments in debt instruments	**(3,731)**	(1,707)
Others	**(276,273)**	(276,273)
Gross deferred tax liabilities	**(1,873,545)**	(2,042,936)
Net deferred tax assets	**3,731,012**	1,960,949

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

	2019 RMB'000	2018 RMB'000
Net deferred tax assets	**4,352,452**	2,840,321
Net deferred tax liabilities	**(621,440)**	(879,372)
	3,731,012	1,960,949

28. DEFERRED TAXATION (continued)

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

	2019 RMB'000	2018 RMB'000
Deductible tax losses	**35,898**	106,166
Other unrecognised deductible temporary differences	**4,864**	4,864
	40,762	111,030

The Group has no tax losses arising from operations outside Mainland China (2018: Nil). The Group has unrecognised tax losses and other deductible temporary differences arising from the operations in Mainland China of approximately RMB41 million (2018: RMB111 million). Included in unrecognised tax losses are losses that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

29. INVENTORIES

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

	2019 RMB'000	2018 RMB'000
Spare parts of flight equipment	**1,194,998**	924,193
Catering supplies	**81,434**	83,444
Equipment	**10,321**	10,436
Others	**811,920**	859,421
	2,098,673	1,877,494

30. ACCOUNTS RECEIVABLE

	2019 RMB'000	2018 RMB'000
Accounts receivable	**6,242,241**	5,590,112
Less: Allowance for expected credit losses	**(244,551)**	(216,140)
	5,997,690	5,373,972

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

	2019 RMB'000	2018 RMB'000
Within 30 days	**2,589,150**	2,548,148
31 to 60 days	**789,472**	696,437
61 to 90 days	**452,542**	514,171
Over 90 days	**2,166,526**	1,615,216
	5,997,690	5,373,972

Details of impairment assessment of accounts receivable are set out in Note 46.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2019 RMB'000	2018 RMB'000
Manufacturers' credits	**1,341,074**	821,725
Prepayments of aircraft operating lease rentals	**–**	652,846
Prepayments of jet fuel	**105,580**	71,983
Other prepayments	**373,449**	464,051
Others	**39,520**	210,041
	1,859,623	2,220,646
Deposits and other receivables	**1,864,845**	1,999,390
	3,724,468	4,220,036

As at 31 December 2019, the provision for impairment mainly consisted of the full provision for the amount due from Shenzhen Airlines Property Development Co., Ltd. of RMB468,796,000 (31 December 2018: RMB468,796,000).

Details of impairment assessment of deposits and other receivables are set out in Note 46.

32. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Note	2019 RMB'000	2018 RMB'000
Time deposits with banks		**345,573**	826,641
Bank and cash		**9,318,094**	6,980,931
Less: Restricted bank deposits	(i)	**(728,385)**	(1,044,389)
Cash and cash equivalents		**8,935,282**	6,763,183

Note:

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

	2019 RMB'000	2018 RMB'000
Deposits with The People's Bank of China by CNAF	**612,060**	758,371
Restricted bank deposits against aircraft leases and others	**116,325**	286,018
	728,385	1,044,389

33. OTHER CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
The VAT tax credit and others	**2,083,311**	2,467,442
Loans to related parties	**559,600**	1,054,600
Others	**715,382**	956,861
	3,358,293	4,478,903
Impairment	**(26,297)**	(32,273)
	3,331,996	4,446,630

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at rates ranging from 3.40% to 4.02% (2018: 3.92% to 4.35%) per annum.

Details of impairment assessment of other current assets are set out in Note 46.

FOR THE YEAR ENDED 31 DECEMBER 2019

34. ACCOUNTS PAYABLE

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

	2019 RMB'000	2018 RMB'000
Within 30 days	**7,760,994**	7,587,233
31 to 60 days	**1,599,072**	1,440,778
61 to 90 days	**1,201,101**	1,063,182
Over 90 days	**6,016,986**	4,635,235
	16,578,153	14,726,428

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

35. OTHER PAYABLES AND ACCRUALS

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

	2019 RMB'000	2018 RMB'000
Accrued salaries, wages and benefits	**3,307,210**	2,917,925
Accrued operating expenses	**498,742**	370,289
Other tax payables	**316,324**	404,988
Deposits received from sales agents	**907,911**	789,871
Current portion of deferred income related to government grants	**–**	39,563
Current portion of long-term payables	**32,038**	29,104
Deposits received by CNAF from related parties	**3,372,495**	3,102,233
Others	**3,542,727**	3,179,567
	11,977,447	10,833,540

36. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under lease agreements expiring during the years from 2020 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 31 December 2019		At 31 December 2018	
	Lease payments RMB'000	**Present values of lease payments RMB'000**	Minimum lease payments RMB'000	Present values of minimum lease payments RMB'000
Amounts repayable				
– Within 1 year	**17,453,162**	**13,861,503**	8,690,029	7,125,586
– After 1 year but within 2 years	**16,599,398**	**13,485,697**	8,149,776	6,797,165
– After 2 years but within 5 years	**44,314,764**	**37,984,614**	22,432,938	19,617,952
– After 5 years	**37,941,936**	**35,116,042**	20,676,552	19,432,978
Total	**116,309,260**	**100,447,856**	59,949,295	52,973,681
Less: Amounts representing future finance costs	**(15,861,404)**		(6,975,614)	
Present values of lease payments/minimum lease payments	**100,447,856**		52,973,681	
Less: Portion classified as current liabilities	**(13,861,503)**		(7,125,586)	
Non-current portion	**86,586,353**		45,848,095	

As at 31 December 2019, certain leases of the Group were secured by aircraft with net carrying amount of approximately RMB78,945 million included in right-of-use assets (31 December 2018: aircraft under finance lease of RMB69,289 million included in property, plant and equipment).

Under the terms of certain lease agreements, the Group has the option to purchase these aircraft at the end of or during the lease term, at the price as stipulated in the lease agreements.

FOR THE YEAR ENDED 31 DECEMBER 2019

37. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans and other borrowings		
– Secured	**1,634,858**	3,017,063
– Unsecured	**14,482,144**	19,501,661
	16,117,002	22,518,724
Corporate bonds:		
– Secured	**6,773,099**	6,773,181
– Unsecured	**16,438,855**	13,488,477
	23,211,954	20,261,658
	39,328,956	42,780,382

	2019 RMB'000	2018 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year or payable on demand	**14,916,572**	19,333,243
– After 1 year but within 2 years	**525,214**	1,723,200
– After 2 years but within 5 years	**491,075**	1,173,090
– After 5 years	**184,141**	289,191
	16,117,002	22,518,724
Corporate bonds repayable:		
– Within 1 year	**7,813,419**	7,861,658
– After 1 year but within 2 years	**5,900,000**	–
– After 2 years but within 5 years	**9,498,535**	12,400,000
	23,211,954	20,261,658
Total interest-bearing bank loans and other borrowings	**39,328,956**	42,780,382
Less: Portion classified as current liabilities	**(22,729,991)**	(27,194,901)
Non-current portion	**16,598,965**	15,585,481

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

Bank and other borrowings denominated in currencies other than the functional currencies of respective entities are set out below:

	2019 **RMB'000**	2018 RMB'000
USD	**750,690**	4,017,395
EURO	**1,184,451**	121,428
MOP	–	298,443
	1,935,141	4,437,266

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

	2019		2018	
	RMB'000	**%**	RMB'000	%
Fixed rate bank and other borrowings	**14,877,652**	**1.40-4.75**	15,152,215	2.95-4.73
Fixed rate corporate bonds	**23,211,954**	**2.20-5.30**	20,261,658	2.84-5.30
Floating rate bank and other borrowings	**1,239,350**	**3.14-4.90**	7,366,509	2.17-5.47
	39,328,956		42,780,382	

The floating rate bank and other borrowings are arranged at the interest rate based on benchmark interest rates of The People's Bank of China or at London Interbank Offered Rate.

The nominal amount of the Group's bank loans and corporate bonds of approximately RMB8,408 million as at 31 December 2019 (31 December 2018: RMB9,516 million) were secured or guaranteed by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB2,779 million as at 31 December 2019 (31 December 2018: RMB7,935 million) (Note 17); and land use rights with an aggregate carrying amount of approximately RMB27 million as at 31 December 2019 (31 December 2018: RMB28 million) (Note 18);

(b) As at 31 December 2019, the Group pledged its rights to collect cash flows in relation to Billing and Settlement Plan ("BSP") to secure certain bank loans (31 December 2018: Nil); and

(c) As at 31 December 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 31 December 2019, corporate bonds with carrying amount of RMB12,414 million (31 December 2018: RMB5,422 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

FOR THE YEAR ENDED 31 DECEMBER 2019

38. PROVISION FOR RETURN CONDITION CHECKS

Details of the movements in provision for return condition checks in respect of aircraft under leases (2018: operating leases) at the end of the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
As at 1 January (Note 3)	**7,999,889**	5,004,998
Provision for the year	**2,168,934**	1,863,777
Utilisation during the year	**(1,761,077)**	(1,246,684)
As at 31 December	**8,407,746**	5,622,091
Less: Portion classified as current liabilities	**(869,651)**	(1,447,693)
Non-current portion	**7,538,095**	4,174,398

As at 31 December 2019, provision for major overhauls was RMB5,629 million (31 December 2018: RMB5,622 million). Provision for major overhauls is estimated based on the costs of overhauls and flying hours/cycles of aircraft under leases. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

39. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Frequent-flyer programme (Note)	**3,453,557**	3,794,006
Others	**254,384**	570,251
	3,707,941	4,364,257
Current portion	**1,037,031**	1,301,518
Non-current portion	**2,670,910**	3,062,739
	3,707,941	4,364,257

Note:

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

	2019 RMB'000	2018 RMB'000
As at 1 January	**3,794,006**	3,529,763
Additions during the year	**1,963,244**	1,965,381
Recognised as revenue during the year	**(2,303,693)**	(1,701,138)
As at 31 December	**3,453,557**	3,794,006
Less: Portion classified as current liabilities	**(782,647)**	(731,267)
Non-current portion	**2,670,910**	3,062,739

40. DEFINED BENEFIT OBLIGATIONS

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

	2019 RMB'000	2018 RMB'000
Post-retirement benefit obligations	**276,582**	291,178
Less: current portion	**(26,649)**	(27,316)
Long-term portion	**249,933**	263,862

AMECO, a subsidiary of the Company, provides monthly retirement benefits for those staff who were retired before AMECO adopted its own enterprise annuity plan (the "Plan"). These retirement benefits are recognised as defined benefit obligations.

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

	2019 RMB'000	2018 RMB'000
At 1 January	**291,178**	291,451
Remeasurement loss	**3,905**	16,840
Interest cost	**8,880**	10,822
Payments	**(27,381)**	(27,935)
At 31 December	**276,582**	291,178
Less: current portion	**(26,649)**	(27,316)
Long-term portion	**249,933**	263,862

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

	2019 RMB'000	2018 RMB'000
Finance costs		
– Interest cost	**8,880**	10,822
Other comprehensive income		
– Remeasurement loss	**3,905**	16,840
Total defined benefit costs	**12,785**	27,662

40. DEFINED BENEFIT OBLIGATIONS (continued)

The Plan exposes the Group to actuarial risks such as interest rate risk and longevity risk.

Interest rate risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.
Longevity risk	The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2019 were carried out by an independent firm of actuaries. The present value of the defined benefit obligations, and the related past cost were measured using the projected unit credit method.

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

	2019	2018
Discount rate	**3.1%**	3.2%
Average expected remaining life of eligible participants	**13.4 years**	14.0 years

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation decreases by 0.5%, the defined benefit obligations would increase by RMB11.0 million (2018: increase by RMB11.9 million).

- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB5.4 million (2018: increase by RMB5.5 million).

41. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants	**407,646**	464,665
Gain on sale and lease back arrangements	**–**	123,757
Others	**113,581**	146,276
	521,227	734,698
Less: Portion classified as current liabilities	**–**	(86,725)
Non-current portion	**521,227**	647,973

42. CAPITAL AND RESERVES

(a) Movements in components of equity

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

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2018		14,524,815	27,472,731	9,140,799	27,331,702	78,470,047
Total comprehensive (expense)/income for the year		–	(12,791)	–	5,360,654	5,347,863
Appropriation of statutory reserve funds	(ii)	–	–	535,760	(535,760)	–
Appropriation of discretionary reserve fund	(iii)	–	–	695,805	(695,805)	–
Dividends declared in respect of the previous year		–	–	–	(1,669,918)	(1,669,918)
As at 31 December 2018		14,524,815	27,459,940	10,372,364	29,790,873	82,147,992
Adjustments upon application of IFRS 16		–	–	(456,307)	(4,106,764)	(4,563,071)
As at 1 January 2019 (restated)		**14,524,815**	**27,459,940**	**9,916,057**	**25,684,109**	**77,584,921**
Total comprehensive income for the year		**–**	**155,052**	**–**	**5,388,540**	**5,543,592**
Appropriation of statutory reserve funds	(ii)	**–**	**–**	**537,682**	**(537,682)**	**–**
Appropriation of discretionary reserve fund	(iii)	**–**	**–**	**535,760**	**(535,760)**	**–**
Dividends declared in respect of the previous year		**–**	**–**	**–**	**(1,500,123)**	**(1,500,123)**
As at 31 December 2019		**14,524,815**	**27,614,992**	**10,989,499**	**28,499,084**	**81,628,390**

FOR THE YEAR ENDED 31 DECEMBER 2019

42. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

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

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

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

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

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. As at 31 December 2019, in accordance with the PRC Company Law, an amount of approximately RMB10,989 million (2018: RMB10,372 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained earnings of approximately RMB27,270 million available for distribution as at 31 December 2019 (2018: RMB28,573 million).

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2019 and 31 December 2018 are as follows:

	Number of shares 2019	**Nominal value 2019 RMB'000**	Number of shares 2018	Nominal value 2018 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
– Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
– Tradable	**9,448,653,003**	**9,448,653**	9,448,653,003	9,448,653
– Trade-restricted	**513,478,818**	**513,479**	513,478,818	513,479
	14,524,815,185	**14,524,815**	14,524,815,185	14,524,815

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

42. CAPITAL AND RESERVES (continued)

(c) Treasury shares

As at 31 December 2019, the Group owned 29.99% equity interest in Cathay Pacific (31 December 2018: 29.99%), which in turn owned 18.13% equity interest in the Company (31 December 2018: 18.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratio as at the end of the reporting periods was as follows:

	2019 **RMB'000**	2018 RMB'000
Total liabilities	**192,876,910**	143,159,074
Total assets	**294,206,373**	243,657,108
Gearing ratio	**65.56%**	58.75%

43. DISPOSAL OF SUBSIDIARIES

The Group did not dispose of any subsidiary during the year. In 2018, the Group disposed of Air China Cargo and Wuxi Xiangyi Development Co., Ltd. (''Wuxi Xiangyi'').

Air China Cargo

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

FOR THE YEAR ENDED 31 DECEMBER 2019

43. DISPOSAL OF SUBSIDIARIES (continued)

Air China Cargo (continued)

Consideration received

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

Analysis of assets and liabilities over which control was lost

	28/12/2018 RMB'000
Current assets	
Inventories	3,126
Accounts receivable	1,104,615
Prepayments, deposits and other receivables	1,484,038
Cash and cash equivalents	116,144
Deposits in CNAF	436,234
Restricted bank deposits	1,401
Other current assets	148,506
Non-current assets	
Property, plant and equipment	9,996,160
Lease prepayments	252,909
Investment properties	163,492
Investments in associates	10,232
Advance payments for aircraft and related equipment	15,437
Other non-current assets	3,916
Current liabilities	
Air traffic liabilities	(111,028)
Accounts payable	(961,863)
Other payables and accruals	(3,097,074)
Current taxation	(12,970)
Obligations under finance leases	(392,361)
Interest-bearing bank loans and other borrowings	(335,964)
Interest-bearing borrowings from CNAF	(950,000)
Non-current liabilities	
Obligations under finance leases	(3,127,834)
Interest-bearing bank loans and other borrowings	(365,002)
Deferred income	(39,520)
Net assets disposed of	4,342,594

43. DISPOSAL OF SUBSIDIARIES (continued)

Air China Cargo (continued)

Gain on disposal of subsidiaries

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

Net cash inflow arising on disposal

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

Wuxi Xiangyi

The Group entered into a co-operation agreement with a third party in 2018. Pursuant to the agreement, partial interests in Wuxi Xiangyi was disposed of by the Group and the Group's interest therein was diluted from 100% to 46.3% resulting in a loss of control over Wuxi Xiangyi. After the completion of this transaction, the Group still has joint control over Wuxi Xiangyi. The remaining equity interests in Wuxi Xiangyi was measured at fair value at the date when the control was lost, and were accounted for as interest in a joint venture from that date onwards.

FOR THE YEAR ENDED 31 DECEMBER 2019

43. DISPOSAL OF SUBSIDIARIES (continued)

Wuxi Xiangyi (continued)

Analysis of assets and liabilities over which control was lost

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

Gain on disposal of subsidiaries

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

43. DISPOSAL OF SUBSIDIARIES (continued)

Wuxi Xiangyi (continued)

Net cash outflow arising on disposal

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

44. CONTINGENT LIABILITIES

As at 31 December 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 Shenzhen Huirun Investment Co., Ltd. ("Huirun") from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loans borrowed by Huirun.

As of the issuance date of these financial statements, the Directors consider that given the preliminary status of the second trial, the provision of RMB130,000,000 which was provided in prior years in respect of this legal claim is adequate.

(c) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans. As at 31 December 2019, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB1,328,000 (31 December 2018: RMB1,635,000). The Directors consider that the fair value of these guarantees are insignificant.

FOR THE YEAR ENDED 31 DECEMBER 2019

45. 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:

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**33,911,103**	38,297,480
– Buildings and others	**2,709,622**	971,571
Total capital commitments	**36,620,725**	39,269,051

(b) Investment commitments

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

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
– investment commitment to a joint venture	**24,417**	24,021
– investment commitment to an associate	**–**	35,000
Total investment commitments	**24,417**	59,021

46. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Amortised cost:		
Accounts receivable	**5,997,690**	5,373,972
Deposits and other receivables	**1,864,845**	1,999,390
Deposits for aircraft under leases	**636,671**	613,346
Bills receivable	**362**	403
Loans to related parties	**722,400**	1,247,000
Other current assets – others	**500,000**	800,000
Restricted bank deposits	**728,385**	1,044,389
Cash and cash equivalents	**8,935,282**	6,763,183
Subtotal	**19,385,635**	17,841,683
Equity instruments at FVTOCI	**253,113**	268,071
Debt instruments at FVTOCI	**1,688,451**	1,040,419
Financial liabilities		
Amortised cost:		
Accounts payable	**16,578,153**	14,726,428
Other payables	**7,451,614**	6,553,085
Interest-bearing bank loans and other borrowings	**39,328,956**	42,780,382
Long-term payables	**65,000**	68,890
	63,423,723	64,128,785
Lease liabilities/obligations under finance leases	**100,447,856**	52,973,681

b. Financial risk management objectives and policies

The above table lists the Group's major financial instruments. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk which arises from fixed rate bank and other borrowings and lease liabilities (see note 36 and 37 for details).

In addition, the Group is exposed to cash flow interest rate risk which arises from floating rate bank and other borrowings, pledged deposits and bank and cash balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for cash and cash equivalents, restricted bank deposits, floating rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate on bank and other borrowings are used which represent management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower for floating rate bank and other borrowings with all other variables held constant, the Group's post-tax profit (net of interest capitalised) for the year ended 31 December 2019 would decrease/increase by approximately RMB144,535,000 (2018: RMB135,726,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Currency risk

The Group's exposure to currency risk is attributable to cash and cash equivalents, accounts receivable, other receivables, accounts payable, other payables, lease liabilities/obligations under finance leases and interest-bearing bank loans and other borrowings which are denominated in the currencies other than the functional currency of the relevant group entities. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk (continued)

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**2,320,624**	4,875,274	**61,576,439**	35,270,717
EURO	**191,324**	95,180	**1,859,968**	862,176
HKD	**164,800**	161,398	**180,328**	234,604
JPY	**75,270**	68,891	**1,495,403**	1,484,694

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2018: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2018: 1%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% (2018: 1%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in the Group's post-tax profit and the Group's other comprehensive income, where functional currency of respective group entities had strengthened 1% (2018:1%) against the relevant foreign currency. For a 1% (2018: 1%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit and other comprehensive income for the year.

	2019	2018
	RMB'000	RMB'000
Increase in the Group's post-tax profit		
– if RMB strengthens against USD	**444,419**	227,966
– if RMB strengthens against EURO	**12,515**	5,752
– if RMB strengthens against HKD	**116**	549
– if RMB strengthens against JPY	**10,651**	10,619

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of financial guarantees provided by the Group disclosed in Note 44.

A significant portion of the Group's air tickets are sold by agents participating in the BSP, a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB1,094 million or 18% of accounts receivable as at 31 December 2019 (31 December 2018: RMB931 million or 17% of accounts receivable). The credit risk exposure to BSP and the remaining accounts receivable balance are monitored by the Group on an ongoing basis. In addition, the Group performs impairment assessment under ECL model on accounts receivable individually or based on provision matrix.

In the opinion of management, the Group has no significant credit risk with BSP as the Group maintains long-term and stable business relationships with BSP with healthy repayment history.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

Other than the above mentioned concentration of credit risk, the Group does not have any other significant concentration of credit risk associated with financial assets and financial guarantees contracts.

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

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

	Notes	External credit rating	12m or lifetime ECL	2019 Gross carrying amount		2018 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Debt instruments at FVTOCI							
Investments in listed bonds	27	AAA	12m ECL	**1,291,250**		941,192	
Negotiable certificates of deposit	27	AAA	12m ECL	**397,201**	**1,688,451**	99,227	1,040,419
Financial assets at amortised costs							
Accounts receivable	30	N/A	Lifetime ECL (provision matrix)	**6,033,921**		5,404,225	
			Credit-impaired	**208,320**	**6,242,241**	185,887	5,590,112
Deposits and other receivables	31	N/A	12m ECL	**1,845,384**		1,980,602	
			Lifetime ECL (not credit-impaired)	**49,169**		49,419	
			Credit-impaired	**808,891**	**2,703,444**	1,967,992	3,998,013
Deposits for aircraft under leases		N/A	12m ECL	**636,671**	**636,671**	613,346	613,346
Bills receivable		N/A	12m ECL	**362**	**362**	403	403
Loans to related parties		N/A	12m ECL	**740,224**	**740,224**	1,247,000	1,247,000
Other current assets-others	33	N/A	12m ECL	**512,628**	**512,628**	800,000	800,000
Restricted bank deposits	32	N/A	12m ECL	**728,385**	**728,385**	1,044,389	1,044,389
Cash and cash equivalents	32	N/A	12m ECL	**8,935,282**	**8,935,282**	6,763,183	6,763,183

Note:

For accounts receivable, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the ECL on these items by using a provision matrix. The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB208 million as at 31 December 2019 (31 December 2018: RMB186 million) were assessed individually.

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

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Gross carrying amount

Customer group	2019 Loss rate	2019 Accounts receivable RMB'000	2018 Loss rate	2018 Accounts receivable RMB'000
Ground service receivable	**1%**	**78,577**	1%	85,928
BSP international	**1%**	**116,605**	1%	139,078
Others	**0.1%-4%**	**5,838,739**	0.1%-4%	5,179,219
		6,033,921		5,404,225

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

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

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	31,903	152,497	184,400
Changes due to financial instruments recognised as at 1 January 2018:			
– Transfer to credit-impaired	(1,512)	1,512	–
– Impairment losses recognised	39	46,614	46,653
– Write-offs	–	(13,607)	(13,607)
Exchange adjustments	177	–	177
Disposal of subsidiaries	(354)	(1,129)	(1,483)
As at 31 December 2018	30,253	185,887	216,140
Changes due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired	**(1,637)**	**1,637**	**–**
– Impairment losses recognised	**7,533**	**31,518**	**39,051**
– Write-offs	**–**	**(10,722)**	**(10,722)**
Exchange adjustments	**82**	**–**	**82**
As at 31 December 2019	**36,231**	**208,320**	**244,551**

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

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

	12m ECL RMB'000	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL credit–impaired RMB'000	Total RMB'000
As at 1 January 2018	25,653	7,164	2,368,355	2,401,172
Changes due to financial instruments recognised as at 1 January 2018:				
– Transfer to credit-impaired	(71)	(2,078)	2,149	–
– Impairment losses recognised/(reversed)	–	233	(299,719)	(299,486)
– Write-offs	–	–	(102,793)	(102,793)
Exchange adjustments	42	–	–	42
Disposal of subsidiaries	(312)	–	–	(312)
As at 31 December 2018	25,312	5,319	1,967,992	1,998,623
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer to credit-impaired	(700)	(53)	753	–
– Impairment losses recognised/(reversed)	7	(197)	–	(190)
– Write-offs	–	–	(1,159,854)	(1,159,854)
Exchange adjustments	20	–	–	20
As at 31 December 2019	24,639	5,069	808,891	838,599

FOR THE YEAR ENDED 31 DECEMBER 2019

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings to ensure compliance with loan covenants.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its financial obligations as and when they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB137,148 million as at 31 December 2019 (31 December 2018: RMB134,595 million), of which an amount of approximately RMB27,711 million was utilised (31 December 2018: RMB21,484 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2019. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

46. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Repayable on demand or within one year RMB'000	**In the second year RMB'000**	**In the third year RMB'000**	**In the fourth year RMB'000**	**In the fifth year RMB'000**	**After five years RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
At 31 December 2019								
Accounts payable	**16,578,153**	**–**	**–**	**–**	**–**	**–**	**16,578,153**	**16,578,153**
Other payables	**7,451,614**	**–**	**–**	**–**	**–**	**–**	**7,451,614**	**7,451,614**
Lease liabilities	**17,453,162**	**16,599,398**	**15,429,780**	**14,938,749**	**13,946,235**	**37,941,936**	**116,309,260**	**100,447,856**
Interest-bearing bank loans and other borrowings	**23,381,961**	**7,126,878**	**3,701,425**	**7,007,020**	**151,079**	**196,840**	**41,565,203**	**39,328,956**
Long-term payables	**–**	**68,554**	**–**	**–**	**–**	**–**	**68,554**	**65,000**
	64,864,890	**23,794,830**	**19,131,205**	**21,945,769**	**14,097,314**	**38,138,776**	**181,972,784**	**163,871,579**

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018								
Accounts payable	14,726,428	–	–	–	–	–	14,726,428	14,726,428
Other payables	6,553,085	–	–	–	–	–	6,553,085	6,553,085
Obligations under finance leases	8,690,029	8,149,776	7,847,898	7,326,397	7,258,642	20,676,553	59,949,295	52,973,681
Interest-bearing bank loans and other borrowings	27,797,710	2,366,181	6,976,150	866,062	7,155,036	343,103	45,504,242	42,780,382
Long-term payables	29,104	13,851	26,640	–	–	–	69,595	68,890
	57,796,356	10,529,808	14,850,688	8,192,459	14,413,678	21,019,656	126,802,645	117,102,466

46. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments

Fair value measurements for financial instruments measured at fair value on a recurring basis

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

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

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

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

	Fair value at 31 December 2019	**Fair value measurements as at 31 December 2019 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Equity instruments at FVTOCI	**253,113**	**–**	**–**	**253,113**
Debt instruments at FVTOCI	**1,688,451**	**–**	**1,688,451**	**–**
Total financial assets at fair value	**1,941,564**	**–**	**1,688,451**	**253,113**

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

46. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

Fair value measurements for financial instruments measured at fair value on a recurring basis (continued)

Due to changes in market conditions for certain debt securities, the quoted prices in the market were no longer active during the current year. Therefore, these securities were transferred from Level 1 to Level 2 of the fair value hierarchy. There was no transfer into or out of Level 3 during the current year. During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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..

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.

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

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in these consolidated financial statements approximate their fair values.

	Carrying amounts		**Fair values**	
	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	**15,830,021**	16,794,176	**15,695,850**	16,381,689

FOR THE YEAR ENDED 31 DECEMBER 2019

46. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

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

Fair value hierarchy as at 31 December 2019

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities				
– corporate bonds (fixed rate)	**–**	**15,695,850**	**–**	**15,695,850**

Fair value hierarchy as at 31 December 2018

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

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings Note 37 RMB'000	Corporate bonds Note 37 RMB'000	Lease liabilities/ obligations under finance leases Note 36 RMB'000	Total RMB'000
At 1 January 2018	30,679,284	20,575,102	44,143,281	95,397,667
Financing cash flows	(7,929,460)	(349,853)	(8,494,990)	(16,774,303)
New finance leases	–	–	19,314,919	19,314,919
Foreign exchange translation	432,761	–	1,446,168	1,878,929
Others	12,538	(419)	–	12,119
Disposal of a subsidiary (Note 43)	(700,966)	–	(3,520,195)	(4,221,161)
Accrued interest	24,567	36,828	84,498	145,893
At 31 December 2018	22,518,724	20,261,658	52,973,681	95,754,063
Adjustment upon application of IFRS 16	–	–	40,575,280	40,575,280
At 1 January 2019 (restated)	**22,518,724**	**20,261,658**	**93,548,961**	**136,329,343**
Financing cash flows	**(6,355,061)**	**2,900,000**	**(14,754,685)**	**(18,209,746)**
Foreign exchange translation	**(9,313)**	**–**	**935,143**	**925,830**
New leases entered/lease modified	**–**	**–**	**20,731,409**	**20,731,409**
Reduction upon completion/early termination of lease	**–**	**–**	**(81,642)**	**(81,642)**
(Decrease)/increase in accrued interest	**(37,348)**	**50,296**	**68,670**	**81,618**
At 31 December 2019	**16,117,002**	**23,211,954**	**100,447,856**	**139,776,812**

48. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of aircraft and engines, land, buildings and others and recognised right-of-use assets of RMB23,399 million and lease liabilities of RMB20,731 million.

49. RELATED PARTY TRANSACTIONS

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

(i) Transactions with related parties

	2019 RMB'000	2018 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**10,716**	10,061
Sale of cargo space	**4,894,265**	92,470
Government charter flights	**487,151**	558,254
Ground services income	**72,666**	4,904
Air catering income	**77,869**	17,485
Income from advertising media business	**13,105**	14,305
Aircraft maintenance income	**347,596**	822
Land and buildings rental income	**142,852**	1,877
Aviation communication expenses	**22,187**	–
Others	**203,804**	113,619
	6,272,211	813,797
Service provided by the CNAHC Group		
Sales commission expenses	**381,596**	755
Air catering charges	**1,249,755**	1,242,086
Airport ground services, take-off, landing and depot expenses	**1,688,929**	1,011,329
Repair and maintenance costs	**31,045**	14,953
Management fees	**128,056**	133,077
Short-term leases and leases of low-value assets (2018: operating lese charges)	**174,708**	267,209
Other procurement and maintenance	**293,717**	131,444
Aviation communication expenses	**624,996**	606,777
Interest expenses	**45,512**	5,546
Media advertisement expenses	**220,736**	165,289
Construction management expenses	**12,589**	16,626
Others	**10,179**	17,257
	4,861,818	3,612,348

49. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) Transactions with related parties (continued)

	2019 RMB'000	2018 RMB'000
Disposal of a subsidiary to CNAHC Group:		
Disposal of a subsidiary (Note 43)	–	2,438,838
Loans to the CNAHC Group by CNAF:		
Net repayment of loans	**495,000**	135,000
Interest income	**24,513**	29,781
Deposits from the CNAHC Group received by CNAF:		
Increase/(decrease) in deposits received	**215,623**	(777,529)
Interest expenses	**41,984**	34,827

	2018 RMB'000
Finance leases with CNAHC Group:	
Inception of finance lease	7,349,754

Leases as a lessee with CNAHC Group

	2019 RMB'000
Addition in right-of-use assets on new leases	**5,612,307**
Addition in lease liabilities on new leases	**5,612,307**
Lease payments paid	**1,132,337**
Interest on lease liabilities	**301,975**

FOR THE YEAR ENDED 31 DECEMBER 2019

49. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) Transactions with related parties (continued)

	2019 RMB'000	2018 RMB'000
Service provided to joint ventures and associates		
Sales commission income	**3,423**	27,254
Ground services income	**155,046**	155,359
Aircraft maintenance income	**170,124**	94,762
Air catering income	**5,100**	4,460
Frequent-flyer programme income	**52,273**	330,931
Land and buildings rental income	**8,972**	1,795
Others	**3,684**	2,488
	398,622	617,049

	2019 RMB'000	2018 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	**1,122**	3,558
Air catering charges	**23,586**	26,680
Airport ground services, take-off, landing and depot expenses	**395,892**	490,184
Repair and maintenance costs	**1,686,610**	1,055,086
Short-term leases and leases of low value assets (2018: operating lese charges)	**3,818**	1,983
Other procurement and maintenance	**27,990**	6,609
Aviation communication expenses	**6,072**	5,975
Interest expenses	**–**	20,253
Frequent-flyer programme expenses	**4,729**	65,099
Airline joint operation expenses	**3,549**	53,848
	2,153,368	1,729,275

49. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) Transactions with related parties (continued)

	2019 RMB'000	2018 RMB'000
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	**29,600**	29,600
Interest income	**8,216**	9,350
Deposits from joint ventures and associates received by CNAF:		
Increase in deposits received	**114,473**	34,922
Interest expenses	**1,071**	64

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

Part of the related transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of Listing Rules.

(ii) Balances with related parties

	2019 RMB'000	2018 RMB'000
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**192,820**	205,358
Amounts due from associates	**179,927**	131,523
Amounts due from joint ventures	**86,210**	3,670
Amounts due from other related companies	**3,396,452**	3,103,136
Amount due to the ultimate holding company	**44,188**	53,248
Amounts due to associates	**144,975**	138,094
Amounts due to joint ventures	**306,176**	292,113
Amounts due to other related companies	**14,582,574**	9,721,010

* Outstanding balances with related parties exclude borrowing balances with related parties and outstanding balances between CNAF and related parties.

49. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(ii) Balances with related parties (continued)

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

	2019 RMB'000	2018 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing borrowings:		
– Due to the ultimate holding company	**200,000**	1,500,000
– Due to other related companies	**775,856**	–

	2019 RMB'000	2018 RMB'000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**530,000**	1,025,000
Deposits received	**3,269,205**	3,053,582
Interest payable to related parties	**6,721**	11,618
Interest receivable from related parties	**313**	1,169
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**192,400**	222,000
Deposits received	**161,495**	47,022
Interest payable to related parties	**74**	11
Interest receivable from related parties	**240**	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.

49. RELATED PARTY TRANSACTIONS (continued)

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

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**17,230**	17,128
Retirement benefits	**1,639**	1,411
Total emoluments for key management personnel	**18,869**	18,539

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

	2019 RMB'000	2018 RMB'000
Directors and supervisors	**2,482**	2,543
Senior management	**16,387**	15,996
	18,869	18,539

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

(c) Guarantee with related parties

Amount of guaranty at 31 December 2019:

Name of guarantor	**Name of guarantee**	**Amount of guaranty at 31 December 2019 RMB'000**	**Inception date of guaranty**	**Maturity date of guaranty**
Corporate bonds:				
CNAHC	**Air China Limited**	**5,000,000**	**18/01/2013**	**18/07/2023**
CNAHC	**Air China Limited**	**1,500,000**	**16/08/2013**	**16/02/2024**

Amount of guaranty at 31 December 2018:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2018 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

49. 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.

50. EVENTS AFTER THE REPORTING PERIOD

The outbreak of a coronavirus (COVID-19) has resulted in a challenging environment for aviation industry which is expected to create short term adverse impact on the Group's business activities. Air passenger travel within Mainland China was decreased after Spring Festival. Global travel restrictions have also reduced the demand for international routes. The government has launched certain supportive financial, tax and economic policies to support aviation industry. The Group has also taken a number of measures in response to reduce the impact of COVID-19, including optimizing the capacity resources distribution, enhancing yield management, strengthening cost control and enhancing risk management.

51. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period included:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets		
Property, plant and equipment	**74,596,782**	123,914,566
Right-of-use assets	**82,336,388**	–
Lease prepayments	–	2,185,323
Intangible assets	**11,312**	11,572
Interests in subsidiaries	**20,155,167**	18,562,980
Interests in associates	**2,237,606**	2,881,367
Interests in joint ventures	**1,428,247**	1,311,092
Advance payments for aircraft and flight equipment	**13,424,966**	12,049,805
Deposits for aircraft under leases	**497,008**	477,016
Equity instruments at fair value through other comprehensive income	**22,110**	22,110
Deferred tax assets	**3,745,093**	2,405,116
Other non-current assets	**701,900**	294,316
	199,156,579	164,115,263
Current assets		
Inventories	**79,558**	90,329
Accounts receivable	**4,746,976**	4,399,059
Prepayments, deposits and other receivables	**2,883,989**	2,400,347
Restricted bank deposits	**30,418**	30,311
Cash and cash equivalents	**6,751,816**	7,149,360
Other current assets	**1,773,630**	1,986,693
	16,266,387	16,056,099
Total assets	**215,422,966**	180,171,362

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Current liabilities		
Air traffic liabilities	**(8,200,724)**	(7,409,435)
Accounts payable	**(13,550,793)**	(12,249,455)
Other payables and accruals	**(10,523,520)**	(9,776,040)
Current taxation	**(845,292)**	(883,324)
Lease liabilities/obligations under finance leases	**(9,611,985)**	(4,882,131)
Interest-bearing bank loans and other borrowings	**(12,195,632)**	(13,468,700)
Provision for return condition checks	**(364,514)**	(543,724)
Contract liabilities	**(785,481)**	(767,900)
	(56,077,941)	(49,980,709)
Net current liabilities	**(39,811,554)**	(33,924,610)
Total assets less current liabilities	**159,345,025**	130,190,653
Non-current liabilities		
Lease liabilities/obligations under finance leases	**(59,443,076)**	(30,729,202)
Interest-bearing bank loans and other borrowings	**(11,151,779)**	(12,023,388)
Provision for return condition checks	**(4,346,678)**	(2,180,490)
Provision for early retirement benefit obligations	**(1,989)**	(3,105)
Contract liabilities	**(2,345,017)**	(2,654,793)
Deferred income	**(385,246)**	(371,494)
Long-term payables	**(42,850)**	(80,189)
	(77,716,635)	(48,042,661)
NET ASSETS	**81,628,390**	82,147,992
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	14,524,815
Reserves	**67,103,575**	67,623,177
TOTAL EQUITY	**81,628,390**	82,147,992

SUPPLEMENTARY INFORMATION

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

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

	Notes	**2019 RMB'000**	2018 RMB'000
Net profit attributable to shareholders of the Company under CASs		**6,408,576**	7,336,327
Deferred taxation	(i)	**(3,906)**	(4,778)
Differences in value of fixed assets and other non-current assets	(ii)	**15,624**	19,112
Net profit attributable to shareholders of the Company under IFRSs		**6,420,294**	7,350,661

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Equity attributable to shareholders of the Company under CASs		**93,505,857**	93,216,239
Deferred taxation	(i)	**60,948**	64,854
Differences in value of fixed assets and other non-current assets	(ii)	**(248,047)**	(263,671)
Unrealised profit of the disposal of Hong Kong Dragon Airlines Limited	(iii)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**93,458,677**	93,157,341

Notes:

(i) The differences in deferred taxation were mainly caused by the differences under IFRSs and CASs as explained below.

(ii) The differences in the value of fixed assets and other non-current assets mainly consist of the following three types: (1) fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government-prescribed rates) under CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under IFRSs and CASs; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (3) the differences were caused by the adoption of component accounting in different years under IFRSs and CASs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) The difference was caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

GLOSSARY OF TECHNICAL TERMS

CAPACITY MEASUREMENTS

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

TRAFFIC MEASUREMENTS

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

EFFICIENCY MEASUREMENTS

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

YIELD MEASUREMENTS

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

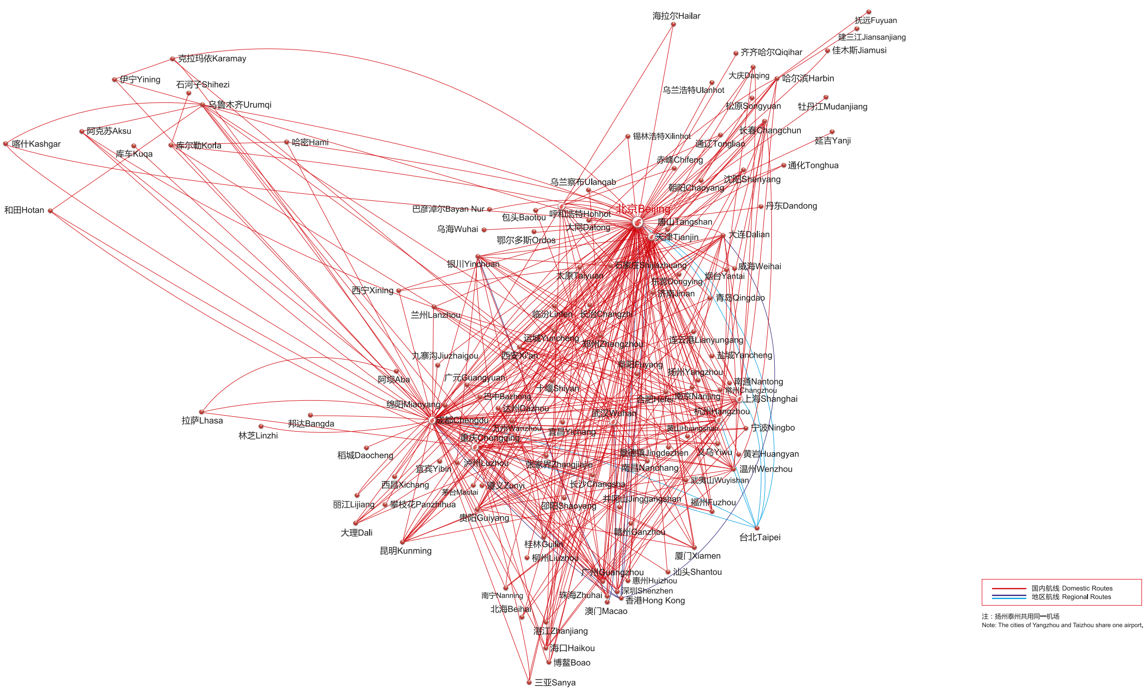
DEFINITIONS

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

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

"International Financial Reporting Standards" or "IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Reporting Period"	from 1 January 2019 to 31 December 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd., a non-wholly owned 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 non-wholly owned 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

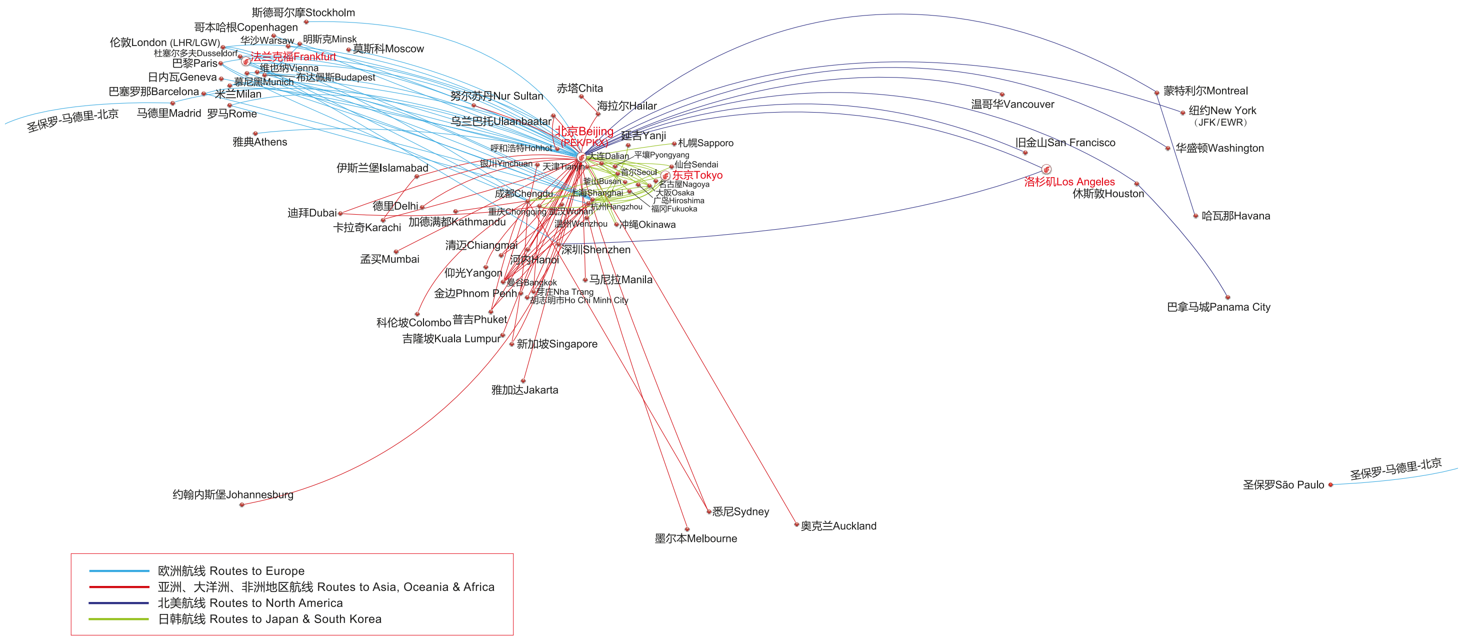
中国国际航空股份有限公司国内及地区航线
AIR CHINA'S DOMESTIC & REGIONAL ROUTES



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

中国国际航空股份有限公司国际航线

AIR CHINA'S INTERNATIONAL ROUTES



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