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

Air China is headquartered in Beijing, the capital of China, with two increasingly important hubs in Chengdu and Shanghai. With Star Alliance, our network covered 1,321 destinations in 193 countries as at 31 December 2014. Air China is dedicated to provide passengers with safe, convenient, comfortable and personalised services.

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

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

No. 30, Tianzhu Road, Tianzhu Airport Economic Development Zone,
Beijing, 101312, P.R. China
Tel 86-10-61461959
Fax 86-10-61462805
www.airchina.com.cn

Terminal

T3

CA753

CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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

WEBSITE ADDRESS:

www.airchina.com.cn

DIRECTORS:

Cai Jianjiang
Wang Yinxiang
Cao Jianxiong
Feng Gang
John Robert Slosar
Ian Sai Cheung Shiu
Song Zhiyong
Fan Cheng
Fu Yang
Yang Yuzhong
Pan Xiaojiang
Simon To Chi Keung

SUPERVISORS:

Li Qinglin
He Chaofan
Zhou Feng
Xiao Yanjun
Shen Zhen

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:

Rao Xinyu
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:

Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:

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

INTERNATIONAL AUDITOR:

KPMG

H SHARE REGISTRAR AND TRANSFER OFFICE:

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

LISTING VENUES:

Hong Kong, London and Shanghai

SUMMARY OF FINANCIAL INFORMATION

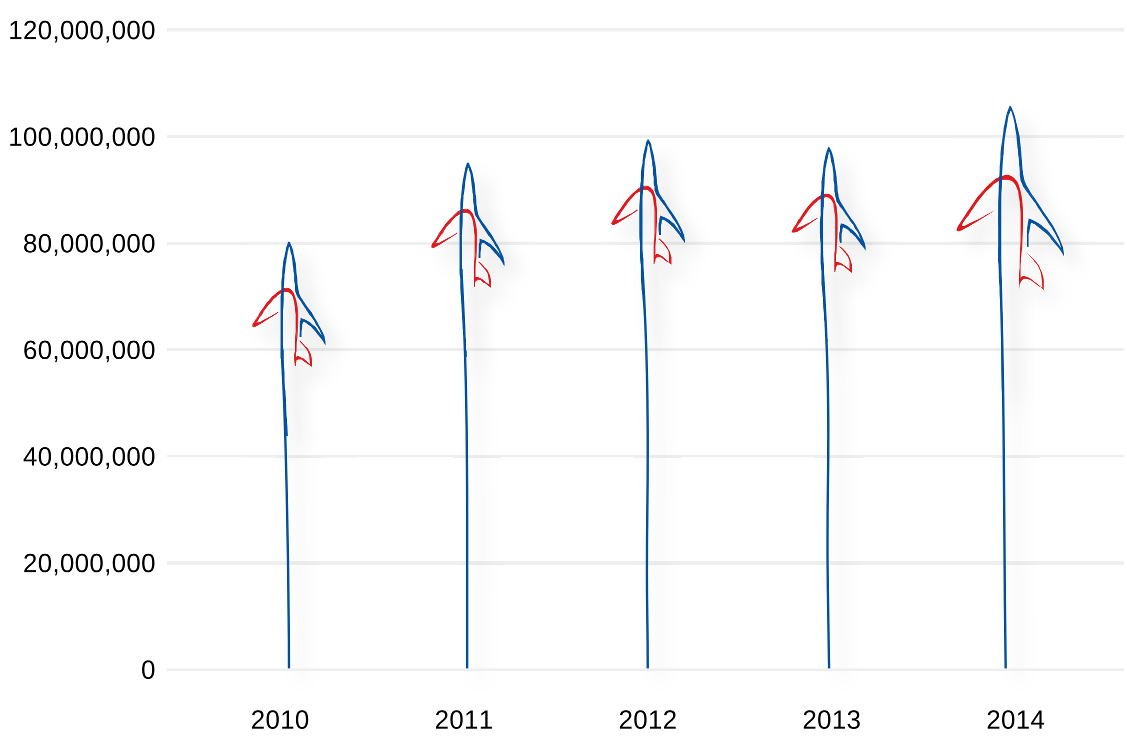
(RMB'000)

	2014	2013	2012 (Restated)	2011 (Restated)	2010 (Restated)
Turnover	105,884,322	98,180,790	99,472,780	95,820,643	80,402,846
Profit from operations	7,261,647	4,118,064	8,409,000	6,948,560	10,560,951
Profit before taxation	5,064,861	4,518,093	6,909,353	10,202,609	14,611,950
Profit after taxation (including profit attributable to non-controlling interests)	4,285,007	3,614,961	5,302,151	7,961,576	12,147,259
Profit attributable to non-controlling interests	467,538	351,319	486,394	420,754	246,709
Profit attributable to equity shareholders of the Company	3,817,469	3,263,642	4,815,757	7,540,822	11,900,550
EBITDA(1)	18,651,021	15,141,290	18,815,128	16,421,288	19,490,106
EBITDAR(2)	24,128,313	20,062,145	22,977,006	21,021,753	23,573,805
Earnings per share attributable to equity shareholders of the Company (RMB)	0.31	0.27	0.40	0.62	1.02
Return on equity attributable to equity shareholders of the Company (%)	7.07	6.07	9.64	16.32	28.79

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

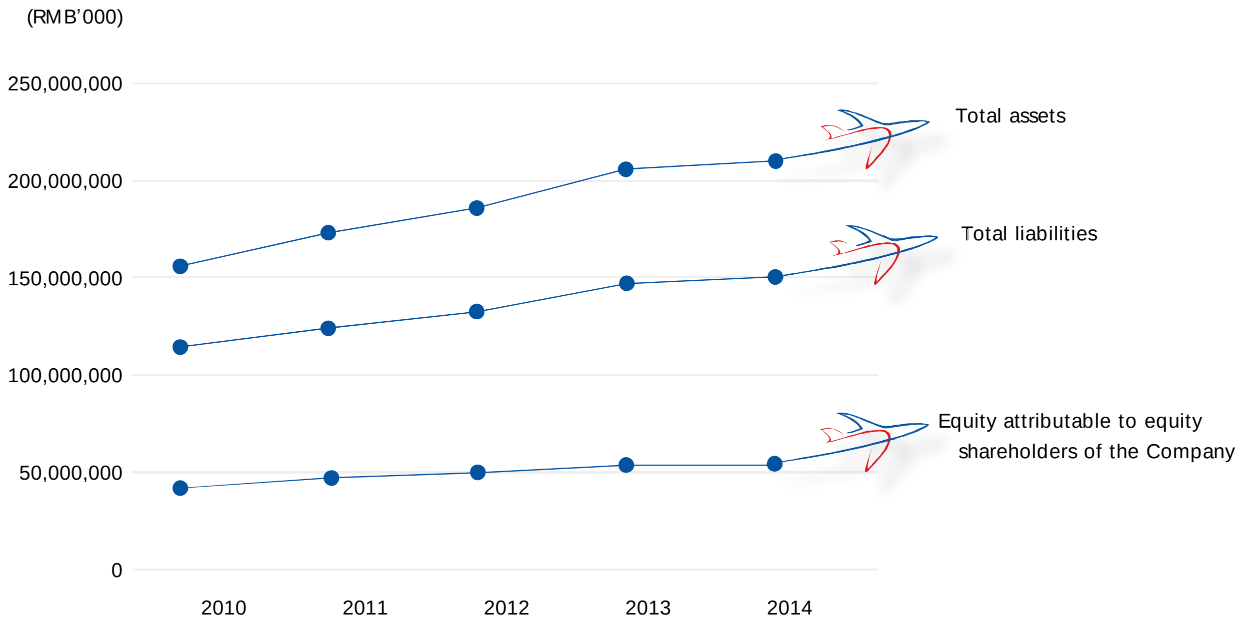
(2) EBITDAR represents EBITDA before deducting operating lease expenses on aircraft and engines as well as other operating lease expenses.

Turnover (RMB'000)



(RMB'000)

	31 December 2014	31 December 2013	31 December 2012 (Restated)	31 December 2011 (Restated)	31 December 2010 (Restated)
Total assets	209,310,697	205,083,287	185,283,484	172,798,298	155,626,350
Total liabilities	150,200,797	147,537,099	131,971,243	123,831,701	114,238,430
Non-controlling interests	5,131,612	3,788,803	3,367,991	2,763,503	46,695
Equity attributable to equity shareholders of the Company	53,978,288	53,757,385	49,944,250	46,203,094	41,341,225
Equity attributable to equity shareholders of the Company per share (RMB)	4.13	4.11	3.87	3.58	3.21



SUMMARY OF OPERATING DATA

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

	2014	2013	Change
Traffic			
RPK (in millions)	154,683.91	141,967.95	8.96%
International	47,594.82	41,513.50	14.65%
Domestic	100,100.44	94,340.75	6.11%
Hong Kong, Macau and Taiwan	6,988.66	6,113.70	14.31%
RFTK (in millions)	5,691.05	5,015.33	13.47%
International	4,115.89	3,496.03	17.73%
Domestic	1,456.80	1,423.31	2.35%
Hong Kong, Macau and Taiwan	118.36	95.99	23.31%
Passengers carried (in thousands)	83,009.61	77,676.86	6.87%
International	9,240.78	7,822.33	18.13%
Domestic	69,371.68	65,955.83	5.18%
Hong Kong, Macau and Taiwan	4,397.15	3,898.70	12.78%
Cargo and mail carried (tonnes)	1,552,893.14	1,456,787.68	6.60%
Kilometres flown (in millions)	1,073.18	980.32	9.47%
Block hours (in thousands)	1,700.01	1,568.95	8.35%
Number of flights	572,338	537,478	6.49%
International	62,188	53,409	16.44%
Domestic	474,900	451,676	5.14%
Hong Kong, Macau and Taiwan	35,250	32,393	8.82%
RTK (in millions)	19,437.64	17,651.07	10.12%
Capacity			
ASK (in millions)	193,631.46	175,676.68	10.22%
International	60,971.65	51,889.85	17.50%
Domestic	123,147.84	115,402.44	6.71%
Hong Kong, Macau and Taiwan	9,511.97	8,384.39	13.45%
AFTK (in millions)	10,147.93	8,663.97	17.13%
International	6,756.08	5,587.89	20.91%
Domestic	3,059.20	2,804.84	9.07%
Hong Kong, Macau and Taiwan	332.65	271.24	22.64%
ATK (in millions)	27,616.11	24,509.97	12.67%

	2014	2013	Change
Load factor			
Passenger load factor (RPK/ASK)	79.89%	80.81%	(0.93 ppts)
International	78.06%	80.00%	(1.94 ppts)
Domestic	81.28%	81.75%	(0.46 ppts)
Hong Kong, Macau and Taiwan	73.47%	72.92%	0.55 ppts
Cargo and mail load factor (RFTK/AFTK)	56.08%	57.89%	(1.81 ppts)
International	60.92%	62.56%	(1.64 ppts)
Domestic	47.62%	50.74%	(3.12 ppts)
Hong Kong, Macau and Taiwan	35.58%	35.39%	0.19 ppts
Overall load factor (RTKs expressed as a percentage of ATKs)	70.39%	72.02%	(1.63 ppts)
Daily utilisation of aircraft (block hours per day per aircraft)	9.57	9.57	–
Yield			
Yield per RPK (RMB)	0.60	0.61	(2.01%)
International	0.53	0.54	(2.08%)
Domestic	0.62	0.63	(1.79%)
Hong Kong, Macau and Taiwan	0.83	0.85	(1.77%)
Yield per RFTK (RMB)	1.54	1.57	(1.70%)
International	1.56	1.65	(6.01%)
Domestic	1.39	1.26	10.61%
Hong Kong, Macau and Taiwan	2.99	3.10	(3.60%)
Unit cost			
Operating cost per ASK (RMB)	0.51	0.54	(4.87%)
Operating cost per ATK (RMB)	3.57	3.84	(6.95%)

CHAIRMAN'S STATEMENT

In 2014, the global economy recovered moderately while China continued to experience a slowdown in its economic growth. The global air passenger market sustained growth while the air cargo market steadily recovered. Although falling oil prices have helped alleviate the pressure on operating costs, intensified industry competition, relatively slow-down growth in demand and exchange rate volatility have posed considerable challenges to the aviation industry. Facing these challenges, we adhered to our strategy of steady and prudent operation and sustainable development, optimised our operation arrangement, promoted our hub network strategy, strengthened our cost management, and enhanced our strategic synergies. As a result, profitability of our core business continued to strengthen and the quality of our earnings improved markedly.

During the reporting period, our capacity measured in ATK reached 27,616 million and RTK reached 19,438 million, representing an increase of 12.67% and 10.12%, respectively, over the previous year. We carried 83.01 million passengers, representing an increase of 6.87% over the previous year. Our revenue reached RMB105,884 million and our profit attributable to equity shareholders amounted to RMB3,817 million, representing a year-on-year growth of 7.85% and 16.97%, respectively.

We continued to optimise our fleet structure and dynamically adjusted our deployed capacity according to changes in market demand. During the year, we introduced 67 aircraft and retired 24 old inefficient aircraft. As at the end of 2014, we had a total of 540 aircraft and the average age of our fleet was lowered to 6.08 years, and our fleet structure was more rational. With regard to our international operations, we continued to increase the capacity for our European and American routes with the deployment of aircraft types such as B777-300ER and A330-300, and focused on the increase of utilisation rate of wide-body aircraft with more competitive advantages. We timely increased the capacity for our Japanese and Korean routes where passenger growth was faster, optimised our Australian route structure, and dynamically adjusted our capacity deployment in Southeast Asian routes. With regard to our domestic operation, we controlled our capacity increase at an appropriate level with more capacity deployed to the Central and Western regions. Our deployment of different aircraft types has increasingly matched the demand of our routes and markets.

We further implemented our hub network strategy to increase its commercial value. By commissioning and increasing the frequency of a number of international and domestic routes, the Beijing hub has tightened its grip on the trunk route market. It also optimised its flight banks and increased the number of connecting flights. The Chengdu regional hub introduced a new international route from Kunming to Yangon and increased flights from Chengdu to second-tier cities in Western China, which further strengthened its competitive edge as a regional hub. The Shanghai international gateway launched a long-haul route to Munich, thus increasing the number of its direct European destinations to four. It also launched through check-in service for international to international flights to strengthen its transfer service capability. As at 31 December 2014, our Company operated a total of 322 passenger routes, including 82 international routes, 15 regional routes and 225 domestic routes.

We enhanced renovation and reform to accelerate the transformation of our sales and marketing models. Through the mobile Internet, we introduced our B2C mobile application platform to diversify our sales models. To stimulate customer demand, we introduced a number of new products, such as upgrade coupon, seat selection fee and standby at boarding gate, thus establishing a range of products generating ancillary revenue. We launched a reform in our yield management model by commissioning a new yield management system to help consolidate our competitive edge in our base market. With IT measures, we enhanced the consolidation and management of our customer resources to help us identify target customers and achieve precision marketing. As international revenue accounts for an ever-increasing share of our total revenue, we strengthened our overseas sales and marketing capability by focusing on the improvement of our organisational functions, marketing expertise, sales network and marketing tools.

We continued to enhance our business synergies with associated corporations in the Group, and actively expanded our co-operation with external partners. During the reporting period, we strengthened the sharing of flight schedules and co-operation of frequent flyer programs among our member airlines, and enhanced the co-operation in areas such as MRO resources consolidation, joint aircraft purchase, control and prevention of payment risks, and the management of overseas operations. We strengthened the co-operation with Cathay Pacific, our strategic partner, and the joint operation of flights between Hong Kong and Beijing, Chengdu and Chongqing achieved tangible results. Within the Star Alliance, we gradually improved alliance products, promoted the cross benefits of brands and frequent flyer programs with a total of RMB2.71 billion contributed from alliance members to our Group's revenue. We proactively expanded aviation co-operation by entering into memoranda of understanding on passenger service joint venture with Lufthansa, Air Canada and Air New Zealand, respectively. We also expanded our co-operation with United Airlines and Austrian Airlines.

Driven by customer demand, we optimised our full-process service chain and improved our customer experience through better management and technology. We successively launched several self-operated lounges at the Beijing and Shanghai airports, and created special passenger channels for the Beijing-Shanghai and Beijing-Hangzhou "premium express" routes. We strengthened the coordination of operation departments to improve the punctuality of our flights and further optimised our ground services. We initiated and rolled out new cabin interior designs, added more in-flight entertainment programs, and introduced well-known brands to help improve the quality of food and beverages, thus improving our cabin service quality. We accelerated the in-flight network construction project and took the lead in the establishment of the "In-flight Internet Industry Alliance" with our partners from relevant industries. We actively expanded the scope of our self-services by upgrading self-service check-in product, developing and promoting online ticket and check-in, and full self-service baggage check, thus providing more convenience to our passengers in their travelling.

Our cargo business improved markedly. In 2014, the air cargo market showed signs of recovery. Seizing this opportunity, Air China Cargo vigorously promoted the transformation and upgrade of its business. We optimised our long-haul fleet structure, increased the utilisation rate of our aircraft with competitive advantages, and reduced our operating costs. We adjusted the structure of our US and Europe flight network, and explored new round-the-world freight routes. We continued to strengthen our strategic co-operation with China Post Aviation in the charter business and achieved excellent operating results with the operation of the four B757F freighters. We improved the refined management of our belly hold services and maintained its competitiveness. We also established a market-driven management mechanism at our freight terminal to improve its efficiency. All these measures effectively improved the operating conditions of our cargo business, thus enabling Air China Cargo to make up the deficits and achieve profits.

In 2015, although the Company faces challenges from the industry's changing landscape and intensifying competition inside or outside the industry, the global aviation industry is on a positive trend. As China's economy maintains its growth at a high to moderate rate under the "new normal", the increase of consumption level of Chinese consumers and the change of their consumption structure will provide a new dimension and a new strategic opportunity for the development of China's aviation industry. Our Group will proactively adjust to the new normal and new industry characteristics, and continue to pursue our goal of "building a large network airline with international competitiveness". We will move forward prudently, strive to increase our profitability, operating management capability and administrative ability, fortify our advantages, and seek new drivers under the new normal, thereby providing a better return to our shareholders and the society.

Cai Jianjiang
Chairman

Beijing, PRC
26 March 2015

BUSINESS OVERVIEW

In 2014, the Group's ASKs reached 193,631 million and RPKs reached 154,684 million, representing an increase of 10.22% and 8.96%, respectively, over the previous year. The Group's passenger load factor was 79.89%, representing a decrease of 0.93 ppts from 2013. The Group's AFTKs reached 10,148 million and RFTKs reached 5,691 million, representing an increase of 17.13% and 13.47%, respectively, over the previous year. The Group's cargo and mail load factor was 56.08%, representing a decrease of 1.81 ppts from 2013.

DEVELOPMENT OF FLEET

In 2014, the Group introduced 67 aircraft, including A320, A330, B737-800, B747-8, B777-300ER and B777F, and phased out 24 old aircraft, such as A340-300, B737, B747-400, B757-200 and B767-300ER. As at 31 December 2014, the Group had a total of 540 aircraft, with an average age of 6.08 years (excluding aircraft under wet leases).

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

	As at 31 December 2014					Introduction plan		
	Sub-total	Self-owned	Finance leased	Operating leased	Average age	2015	2016	2017
Passenger aircraft	519	226	153	140	6.04	63	36	38
Among which:								
Airbus series	256	97	93	66	5.46	23	17	17
A319	40	24	9	7	9.68	3	0	0
A320/A321	163	59	66	38	4.52	16	17	17
A330	49	10	18	21	4.27	4	0	0
A340	4	4	0	0	16.26	0	0	0
Boeing series	263	129	60	74	6.62	40	19	21
B737	223	105	47	71	6.41	37	14	16
B747	8	8	0	0	9.71	3	0	0
B757	2	2	0	0	22.37	0	0	0
B777	30	14	13	3	6.32	0	0	0
B787	0	0	0	0	–	0	5	5
Freighters	12	10	2	0	9.54	3	0	0
B747F	3	3	0	0	12.53	0	0	0
B757F	4	4	0	0	18.35	0	0	0
B777F	5	3	2	0	0.69	3	0	0
Business jets	9	1	0	8	3.63	0	2	0
Total	540	237	155	148	6.08	66	38	38

Among the aircraft set out above, the Company operated a fleet of 334 aircraft, with an average age of 6.04 years (excluding aircraft under wet leases). During the year, the Company introduced 40 aircraft and phased out 22 aircraft.

In 2014, the Company made new progress in hub network construction, sales and marketing, synergies and cooperation, products and services, and cost control, in accordance with our strategic emphasis.

HUB NETWORK

We continued to implement our hub network strategy. With the launch of new international routes from Beijing to Washington, Vienna (Barcelona), Yangon and Jeju, the Beijing hub expanded its network coverage. It sustained organic growth through rational use of time slots, increase of the deployment of wide-body jets, and optimised flight bank. The Shanghai international gateway launched a long-haul route to Munich, increasing the number of its direct European destinations to four. We offered through check-in service for 14 international transfer routes from Japan and Taiwan to Europe via Shanghai, elevating the construction of our international gateway to a new level. We actively promoted the construction of the Chengdu regional hub and launched an international route to Yangon via Kunming and a number of domestic routes such as Chengdu – Yining/Yulin. We also added some exclusive routes at our Chengdu hub in order to enhance our control over the Southwestern China market and consolidate its competitive edge as a regional hub. In 2014, the Company introduced a total of 16 international and domestic routes from Beijing, Chengdu and Shanghai, and increased the frequency of flights of a number of domestic trunk routes and routes to second- to third-tier cities. This has increased the number of transferable origin & destination pairs to 5,294 per week, an increase of 294 pairs from the previous year. Our revenue from transfer flights had a year-on-year growth of 5%.

As of 31 December 2014, the number of passenger routes operated by the Company reached 322, an increase of 24 from the previous year, among which 82 were international routes, 15 were regional routes and 225 were domestic routes, covering a total of 159 cities in 32 countries and regions, including 53 international cities, 3 regional cities and 103 domestic cities. Through the Star Alliance, the Company's network covers 1,321 destinations in 193 countries.

SALES AND MARKETING

We accelerated the transformation and innovation of our sales and marketing models. We closely monitored the market conditions and responded to market changes in a timely manner through a more precise and flexible pricing strategy. We made use of IT measures extensively and took delivery of the first phase of our Customer Relations Management (CRM) system, which enabled us to expand certain functions and target our sales and marketing more precisely. The Origin & Destination (OD) system has been fully applied to international routes, markedly improving our revenue management capability. As the first contracted airline, we successfully launched our government air ticket procurement project. The frequent flyer programme expanded steadily with a total of 32.96 million PhoenixMiles members whose revenue contribution increased by 10% over the previous year. Revenue contributed from first and business classes continued to grow with the expansion and optimisation of our customer base, resulting in a year-on-year growth of 8% in revenue. We also optimised our channel management, strengthened our direct marketing efforts and launched the re-construction of our B2C mobile application platform. As a result, our e-commerce revenue grew by 26% from the previous year, and the proportion of direct sales revenue continued to rise and reached 23%. We actively adjusted the management strategy of our agents, flattened the sales channel structure, and increased the loyalty of our agents. We also enhanced our co-operation with business travel service providers and continued to extend our overseas sales channels. By introducing a number of new products in our long-haul flights, such as seat selection fee, upgrade coupon, prepaid luggage fee and upgrade at boarding gate, we established a range of products generating ancillary revenue, which achieved positive results in collecting ancillary revenue. Taking advantage of a number of key events such as in-flight Internet connections, the 20th anniversary of PhoenixMiles, the introduction of our first Boeing 747-8 aircraft and the 50th anniversary of the establishment of diplomatic relationship between China and France, we launched a series of marketing campaigns to increase our brand value.

SYNERGY AND COOPERATION

We continued to enhance our strategic synergies with associated corporations in the Group. We adjusted a number of flights with Air China member airlines and swapped slots at Hongqiao, Pudong, Hangzhou and Nanjing airports among member airlines. We unified the PhoenixMiles brand within Air China member airlines, and completed our consolidation with Air Macau's frequent flyer programme. We optimised the publication process of international fare for our corporate customers with Shenzhen Airlines, achieving cross sales of RMB730 million with Shenzhen Airlines for 2014. We also established a payment risk communications mechanism for Air China member airlines such as Shenzhen Airlines so that we can share our blacklist databases. The MRO cost shared with Air China member airlines amounted to RMB730 million. Co-operation in areas such as joint aircraft purchase and the management of overseas operations also made good progress.

We continued to expand our co-operation with external partners. We strengthened our co-operation with Cathay Pacific in eight areas including aircraft maintenance, cabin service, joint purchases, IT construction, environmental protection, ground service, compliance and product design. We pushed forward, together with Lufthansa, to increase the capital injection of Aircraft Maintenance and Engineering Corporation, with the aim to commercialise our MRO business. We entered into memoranda of understanding on passenger service joint ventures with Lufthansa, Air Canada and Air New Zealand, respectively. We increased our code sharing with United Airlines in flights to Hawaii and Washington, and further extended it to beyond points such as Houston, Boston and Philadelphia. We also expanded our code sharing with Asiana Airlines and EVA Airways. We improved alliance products, promoted our brand through the alliance platform, and enhanced our frequent flyer co-operation with the alliance.

PRODUCTS AND SERVICES

We have steadily improved our service quality. Driven by customer demand, we optimised our customer service and improved our "Global Flight Manager Program" system. In key areas such as transfer service, food and beverage quality, luggage transport, flight delays and member services, we devised a number of detailed solutions. With respect to product innovation, we launched an "express lounge" at Terminal 3C and a lounge at Terminal 3D in Beijing, a Star Alliance lounge in Shanghai Pudong airport, and introduced well-known brands to help improve the quality of food and beverages. We actively expanded the scope of self-services with the rollout of self-service check-in machines at 123 stations domestically and overseas. Other self-service products included security clearance with Chinese identity card, smartphone check-in, pre-check-in with online booking, full self-service baggage check, as well as self-service flight change in the case of widespread flight delays. We accelerated the installation of in-flight Wi-Fi networks, with 18 networked aircraft (mainly comprising the A330 and B777 models) being deployed on key domestic and international routes. We developed mobile applications for cabin services and conducted trial runs on the A330 fleet, which improved our cabin service efficiency. We strongly advocated the concept of "service from the heart", and our cabin service has improved with our Golden Phoenix cabin crew being honoured the "Model of Our Era".

COST CONTROL

We further cemented our cost advantages. In 2014, we strengthened our cost controls by improving efficiency, optimising cost structure and implementing dedicated controls on key cost items, which reduced our transport cost by 7.2% year-on-year. The utilisation rate of our core resources such as aircraft was further raised. The daily utilisation rate of our B777-300ER models was raised to 13.68 hours, representing an increase of 0.36 hour from the previous year. We enhanced the co-ordination of our production resources with the A330 and B737 models achieving 56,000 hours and 49,000 hours of flight sharing respectively. To continue optimising route structure, fleet structure and route-aircraft matching, we increased capacity in international routes and increased use of wide-body jets on international long-haul routes, which saved RMB510 million from our variable costs. The extensive use of System Operation Control (SOC) helped rationalise aircraft deployment, while the use of Quick Access Recorder (QAR) data also helped optimise the computation of flight plan and increased load capacity. We focused on analysing our major cost items and proactively searched for room to squeeze costs. The further promotion of Flight Management Computer (FMC) application in flight optimisation helped enhance our fuel management capability.

ENVIRONMENTAL PROTECTION

We have established an environmental management system and optimised our environmental protection measures. We began to compile the “Air China ‘13-5’ Energy Conservation and Emission Reduction Plan”. We launched the construction and accreditation of our energy management system, which covers the entire process of our energy consumption, and set up a set of comprehensive and effective internal standards and regulations. We improved the duty allocation and monitoring system for conserving energy and reducing emission, enabling a monthly census and monitoring procedure for our fuel consumption from the sky all the way down to the ground. Our energy conservation and emission reduction measures continued to have positive effects. In 2014, the renewal of our fleet helped lower the fuel consumption per tonne-kilometre by 1.6% year-on-year, while the modification of engines also helped improve fuel efficiency. For example, a single modified engine on an A330-200 aircraft can save about 232 tonnes of fuel one year, reducing emission by about 731 tonnes. By using ground-based electricity instead of auxiliary power unit (APU), we saved about 38,700 tonnes of fuel. Other measures such as QAR system monitoring and FMC flight optimisation also helped save nearly 3,000 tonnes of fuel.

SOCIAL WELFARE

We were actively involved in social welfare activities, and worked hard to ensure that major assignments were carried out smoothly. We were very concerned about children in sickness or in poverty. By the end of 2014, China Special Fund for Children's Insurance, which we set up jointly with China Children Insurance Foundation and other entities, had raised more than RMB50 million. It extended more than a million major disease insurance policies to poor children in 24 provinces in the PRC including Qinghai, Ningxia, Tibet, Sichuan, Hunan, Hubei, Inner Mongolia and Guangdong. We signed an agreement with China Youth Development Foundation to establish an Air China Hope Primary School in Hebei to pass on the love and care of our staff. We earnestly pushed forward the national industry poverty relief project in Suniteyouqi, Inner Mongolia, where we would help the poor local herdsmen to work their way out of poverty. Air China Cargo responded quickly to assure a major transport assignment, and successfully completed the transfer of humanitarian relief materials from China to Liberia, thus helping the Liberian government establish an emergency medical centre in its fight against the Ebola pandemic. We also carefully planned and diligently carried out the transport work for the delegates to the Youth Olympic Games, receiving favourable comments from the Youth Olympic Games Committee and praises from industry peers.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS

Air China Cargo

Air China Cargo was established in 2003. In 2011, Air China completed the cargo joint venture project with Cathay Pacific on the basis of the former Air China Cargo. The registered capital of the joint venture is RMB3,235,294,118, and Air China holds 51% of its equity interest. In 2014, Air China and Cathay Pacific agreed to inject a total of RMB2 billion in proportion to their respective equity interest in Air China Cargo, thus increasing Air China Cargo's registered capital to RMB5,235,294,118. The business registration procedure is still ongoing.

As at 31 December 2014, Air China Cargo operated a fleet of 12 aircraft in total with an average age of 9.54 years. During the year, 7 new aircraft were introduced and 4 were phased out.

As at 31 December 2014, Air China Cargo operated 19 routes, including 5 domestic routes, 13 international routes and 1 regional route. Air China Cargo's flights covered 22 cities in 7 countries and regions, including 10 domestic cities, 11 international cities and 1 regional city.

In 2014, the AFTKs of Air China Cargo reached 9,438 million, representing a year-on-year increase of 17.59%. It achieved RFTKs of 5,181 million, representing a year-on-year increase of 14.08%. The volume of cargo and mail carried increased by 6.28% from 2013 to 1.2301 million tonnes and the cargo and mail load factor decreased by 1.69 ppts from 2013 to 54.89% in 2014.

In 2014, Air China Cargo’s turnover was RMB9,263 million, up by 14.33% from 2013. Of this, cargo and mail transportation revenue was RMB8,062 million, representing a year-on-year increase of 12.74%. During the year, Air China Cargo achieved profit after taxation of RMB69 million, compared with a net loss of RMB349 million in the previous year.

As at 31 December 2014, total assets of Air China Cargo amounted to RMB12,984 million and its net assets amounted to RMB2,709 million.

Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB812,500,000. Air China holds 51% of its equity interest.

As at 31 December 2014, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 160 aircraft in total with an average age of 5.58 years. 20 aircraft were introduced during the year.

As at 31 December 2014, Shenzhen Airlines operated 194 routes, including 182 domestic routes, 6 international routes and 6 regional routes, covering destinations across 87 cities in 7 countries and regions, including 80 domestic cities, 4 international cities and 3 regional cities.

In 2014, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 47,875 million, representing a year-on-year increase of 12.53%. It achieved RPKs of 38,668 million, representing a year-on-year increase of 11.36%. Shenzhen Airlines (including Kunming Airlines) carried 26.2514 million passengers, representing a year-on-year increase of 10.15%. Its average passenger load factor was 80.77%, representing a decrease of 0.85 ppts from the previous year.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 604 million, representing a year-on-year increase of 8.80%. It achieved RFTKs of 473 million, representing a year-on-year increase of 6.23%. The volume of cargo and mail carried by Shenzhen Airlines was 0.2942 million tonnes in 2014, representing a year-on-year increase of 5.65%, while the cargo and mail load factor was 78.26%, representing a decrease of 1.89 ppts from the previous year.

In 2014, Shenzhen Airlines recorded a turnover of RMB22,891 million, representing a year-on-year increase of 5.79%. Of this, air traffic revenue was RMB22,273 million, representing a year-on-year increase of 5.96%. The profit attributable to equity shareholders for the year was RMB780 million, representing a year-on-year decrease of 13.49%.

As at 31 December 2014, total assets of Shenzhen Airlines amounted to RMB42,397 million and net assets attributable to equity shareholders was RMB4,324 million.

Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP442,042,000. Air China holds 66.9% of its equity interest.

As at 31 December 2014, Air Macau operated a fleet of 16 aircraft with an average age of 11.16 years. During the year, 2 new aircraft were introduced.

As at 31 December 2014, Air Macau operated 23 routes, among which, 6 were international routes and 17 were regional routes, covering 22 cities in 5 countries and regions, including 6 international cities and 16 regional cities.

In 2014, the ASKs and RPKs of Air Macau reached 5,162 million and 3,521 million, respectively, representing an increase of 16.53% and 17.03%, respectively, from last year. A total of 2.1211 million passengers were carried, with an average load factor of 68.20%, representing an increase of 16.17% and 0.29 ppts, respectively, as compared with the previous year.

In terms of air cargo, the AFTKs and RFTKs of Air Macau reached 80.9511 million and 23.9882 million, respectively, representing an increase of 17.84% and 17.25%, respectively, from last year. It carried 15,900 tonnes of cargo and mail, representing an increase of 18.08% from the previous year, and the cargo and mail load factor was 29.63%, representing a decrease of 0.15 ppts as compared with last year.

In 2014, Air Macau recorded a turnover of RMB2,653 million, representing an increase of 0.86% over last year. Of this, air traffic revenue was RMB2,642 million, representing an increase of 3.85% from last year, with a profit after taxation of RMB106 million, representing a decrease of 51.18% over last year.

As at 31 December 2014, total assets of Air Macau amounted to RMB2,908 million and its net assets amounted to RMB1,453 million.

Dalian Airlines

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

As at 31 December 2014, Dalian Airlines operated a fleet of 7 aircraft with an average age of 3.46 years. 1 aircraft was introduced during the year.

As at 31 December 2014, Dalian Airlines operated 19 domestic routes covering 20 domestic cities.

In 2014, the ASKs and RPKs of Dalian Airlines reached 1,878 million and 1,521 million, representing a year-on-year increase of 31.83% and 29.71%, respectively. A total of 1.3859 million passengers were carried, representing an increase of 37.92%, with an average passenger load factor of 80.97%, down by 1.33 ppts from last year.

In terms of air cargo, the AFTKs and RFTKs of Dalia Airlines reached 22.1574 million and 12.1428 million, respectively, representing a year-on-year increase of 58.40% and 35.81%, respectively. A total of 10,100 tonnes of cargo and mail were carried, representing a 35.24% increase from last year. Cargo and mail load factor was 54.80%, a decrease of 9.12 ppts from last year.

In 2014, Dalian Airlines recorded a turnover of RMB979 million, representing a year-on-year increase of 23.48%. Of this, air traffic revenue was RMB979 million, up by 23.47%. Profit after taxation amounted to RMB9 million, a decrease of 72.93% from last year.

As at 31 December 2014, total assets of Dalian Airlines amounted to RMB1,425 million and the net assets amounted to RMB1,056 million.

Beijing Airlines

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

As at 31 December 2014, Beijing Airlines operated a fleet of 8 entrusted business jets and 1 self-owned business jet with an average age of 3.63 years. 1 aircraft was introduced and 3 aircraft were phased out during the year.

In 2014, Beijing Airlines completed 665 flights with 1,645.2 flying hours, and carried a total of 4,261 passengers.

In 2014, Beijing Airlines recorded a turnover of RMB138 million, among which, charter service revenue was RMB36 million, representing a year-on-year increase of 13.11% and 26.99%, respectively. Profit after taxation was RMB6 million, an increase of 236.07% from last year.

As at 31 December 2014, total assets of Beijing Airlines amounted to RMB1,140 million and its net assets amounted to RMB1,052 million.

Air China Inner Mongolia

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

As at 31 December 2014, Air China Inner Mongolia operated a fleet of 2 aircraft with an average age of 10.92 years. 1 aircraft was introduced during the year.

As at 31 December 2014, Air China Inner Mongolia operated 6 domestic routes covering 6 domestic cities.

In 2014, the ASKs and RPKs of Air China Inner Mongolia reached 274 million and 235 million, respectively. A total of 0.3580 million passengers were carried, with an average passenger load factor of 85.75%.

In terms of air cargo, the AFTKs and RFTKs of Air China Inner Mongolia reached 2.8667 million and 1.7821 million, respectively. The amount of cargo and mail carried by Air China Inner Mongolia was 2,639.14 tonnes, with a cargo and mail load factor of 62.16%.

In 2014, Air China Inner Mongolia recorded a turnover of RMB251 million, of which air traffic revenue was RMB250 million. Profit after taxation was RMB3.6 million.

As at 31 December 2014, total assets of Air China Inner Mongolia amounted to RMB1,065 million and its net assets amounted to RMB1,004 million.

Shandong Airlines

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

As at 31 December 2014, Shandong Airlines operated a fleet of 74 aircraft (excluding the 6 aircraft on wet lease to Air China) with an average age of 4.1 years. 10 aircraft were introduced and 2 were phased out during the year.

As at 31 December 2014, Shandong Airlines operated 150 routes, of which there were 9 international routes and 7 regional routes. Its destinations covered 73 cities in 8 countries and regions, including 63 domestic cities, 7 international cities and 3 regional cities.

In 2014, the ASKs and RPKs of Shandong Airlines reached 22,881 million and 17,580 million, representing a year-on-year increase of 13.81% and 12.83%, respectively. A total of 14.1166 million passengers were carried, representing an increase of 9.81% from last year, with an average passenger load factor of 76.83%, down by 0.67 ppts from last year.

In terms of air cargo, the AFTKs and RFTKs of Shandong Airlines reached 445 million and 185 million, representing a year-on-year increase of 21.66% and 9.37%, respectively. In 2014, a total of 0.1267 million tonnes of cargo and mail were carried, representing an increase of 8.59% from last year. The cargo and mail load factor was 41.62%, representing a decline of 4.48 ppts from last year.

In 2014, Shandong Airlines recorded a turnover of RMB11,570 million, an increase of 1.25% from last year. Profit after taxation was RMB288 million, representing a decrease of 26.21% from last year.

As at 31 December 2014, total assets of Shandong Airlines amounted to RMB12,119 million and net assets attributable to equity shareholders was RMB2,878 million.

Cathay Pacific

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

As at 31 December 2014, Cathay Pacific operated a fleet of 200 aircraft with an average age of 9.1 years. 16 aircraft were introduced and 7 were phased out during the year.

As at 31 December 2014, Cathay Pacific's destinations covered 202 cities in 50 countries and regions.

In 2014, the ASKs and RPKs of Cathay Pacific reached 134,711 million and 112,257 million, respectively, representing a year-on-year increase of 5.89% and 7.35%, respectively. A total of 31.5702 million passengers were carried, representing an increase of 5.52% from last year, with an average passenger load factor of 83.33%, down by 1.13 ppts from last year.

In terms of air cargo, the AFTKs and RFTKs of Cathay Pacific reached 15,630 million and 10,044 million, respectively, representing a year-on-year increase of 10.40% and 14.79%, respectively. In 2014, a total of 1.7232 million tonnes of cargo and mail were carried, representing an increase of 11.96% from last year. The cargo and mail load factor was 64.26%, representing an increase of 2.48 ppts from last year.

In 2014, Cathay Pacific recorded a turnover of RMB83,473 million, an increase of 5.48% from last year. Of this, air traffic revenue was RMB59,644 million, an increase of 5.44% from last year. Profit after taxation was RMB2,717 million, representing an increase of 18.80% from last year.

As at 31 December 2014, total assets of Cathay Pacific amounted to RMB135,665 million and net assets attributable to equity shareholders was RMB40,802 million.

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 prepared in accordance with the IFRSs and are designed to assist readers in further understanding the information in this report and to better understand the financial performance and results of operation of the Group as a whole.

PROFIT ANALYSIS

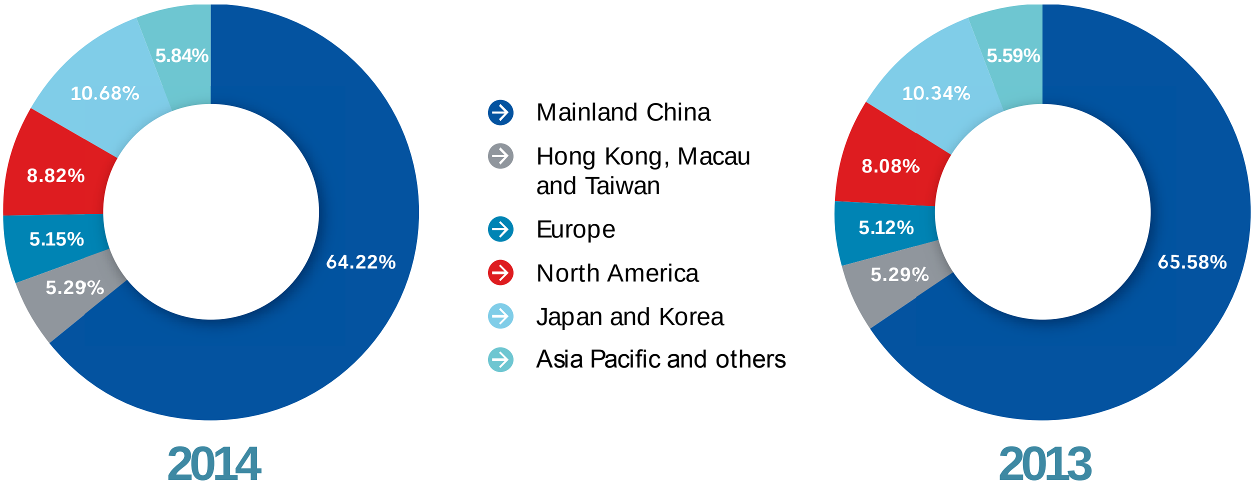
In 2014, we proactively responded to changes in the competitive landscape and market demand by adopting various measures such as optimising operational arrangement, accelerating marketing transformation and strengthening cost management. We recorded an operating profit of RMB7,262 million, representing an increase of RMB3,144 million or 76.34% as compared with that of the previous year. However, due to the offset by unfavorable factors including the depreciation of RMB against US dollars, profit attributable to equity shareholders of the Company and earnings per share amounted to RMB3,817 million and RMB0.31 respectively, representing a year-on-year increase of 16.97% and 16.95%, respectively.

TURNOVER

In 2014, the Group's total turnover was RMB105,884 million, representing an increase of RMB7,704 million or 7.85% as compared with that of the previous year. Revenue from our air traffic operations contributed RMB101,385 million to the total turnover, representing an increase of RMB6,782 million or 7.17% over last year. Our other operating revenue was RMB4,499 million, representing a year-on-year increase of RMB922 million or 25.76%, mainly due to the Group's increase of capacity and the year-on-year increase in ancillary revenue.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

(in RMB'000)	2014 Amount	2014 Percentage	2013 Amount	2013 Percentage	Change
Mainland China	68,003,280	64.22%	64,386,657	65.58%	5.62%
Hong Kong, Macau and Taiwan	6,186,245	5.84%	5,491,532	5.59%	12.65%
Europe	11,304,062	10.68%	10,152,698	10.34%	11.34%
North America	9,339,397	8.82%	7,929,394	8.08%	17.78%
Japan and Korea	5,452,765	5.15%	5,023,165	5.12%	8.55%
Asia Pacific and others	5,598,573	5.29%	5,197,344	5.29%	7.72%
Total	105,884,322	100.00%	98,180,790	100.00%	7.85%



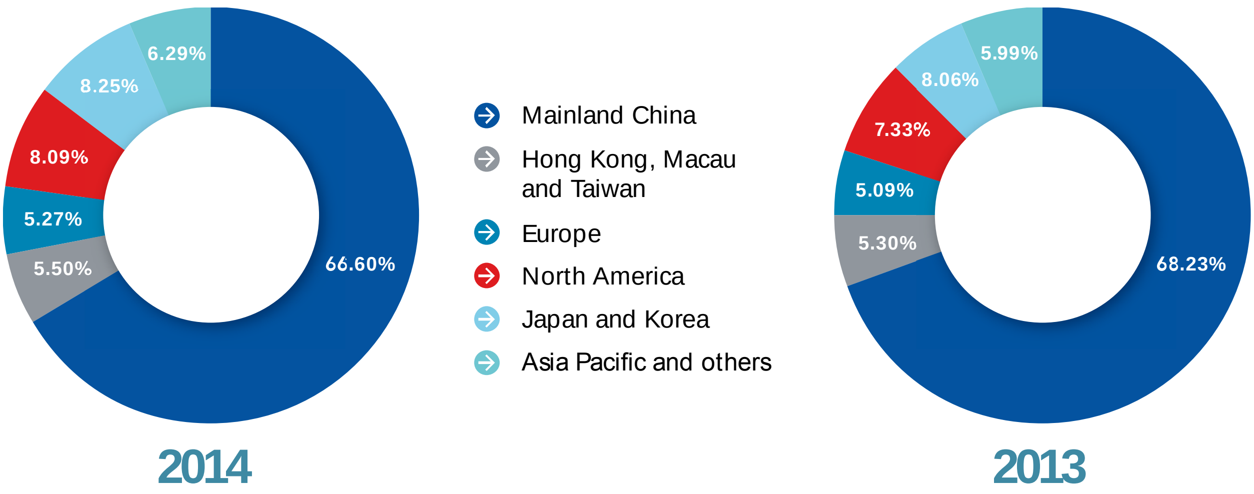
AIR PASSENGER REVENUE

In 2014, the Group recorded an air passenger revenue of RMB92,599 million, representing an increase of RMB5,872 million over that of 2013. Among the air passenger revenue, the increase of capacity contributed an increase of RMB8,864 million to the revenue, while the decreases of passenger yield and passenger load factor resulted in a decrease in revenue of RMB1,918 million and RMB1,074 million, respectively. The Group's capacity, load factor of passenger and yield per RPK in 2014 are as follows:

	2014	2013	Change
Available seat kilometers (million)	193,631.46	175,676.68	10.22%
Passenger load factor (%)	79.89	80.81	(0.93 ppts)
Yield per RPK (RMB)	0.60	0.61	(2.01%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2014		2013		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Mainland China	61,672,170	66.60%	59,178,621	68.23%	4.21%
Hong Kong, Macau and Taiwan	5,828,565	6.29%	5,190,785	5.99%	12.29%
Europe	7,640,985	8.25%	6,986,898	8.06%	9.36%
North America	7,490,522	8.09%	6,360,792	7.33%	17.76%
Japan and Korea	4,876,735	5.27%	4,411,101	5.09%	10.56%
Asia Pacific and others	5,090,340	5.50%	4,598,602	5.30%	10.69%
Total	92,599,317	100.00%	86,726,799	100.00%	6.77%



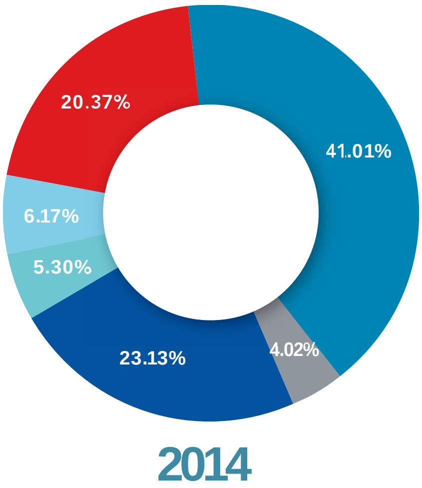
AIR CARGO REVENUE

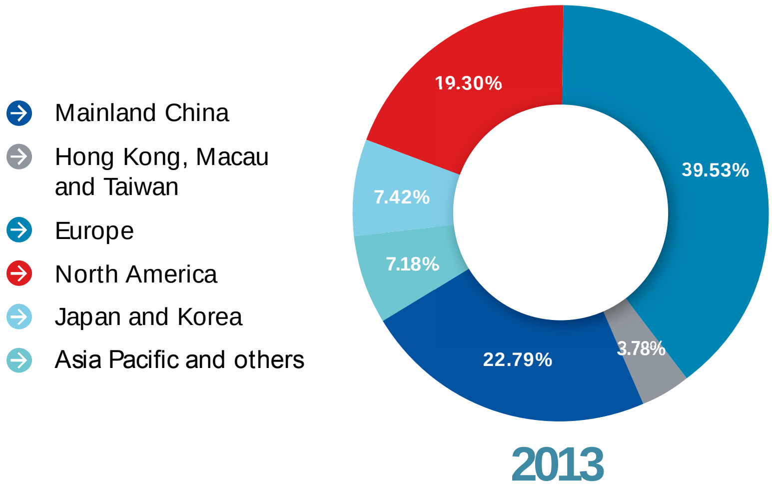
In 2014, the Group's air cargo and mail revenue was RMB8,786 million, representing an increase of RMB910 million as compared with that of the previous year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB1,350 million to the revenue, while the decreases of load factor and yield of cargo and mail resulted in a decrease in revenue of RMB288 million and RMB152 million, respectively. The capacity, load factor of cargo and mail and yield per RFTK in 2014 are as follows:

	2014	2013	Change
Available freight tonne kilometres (million)	10,147.93	8,663.97	17.13%
Cargo and mail load factor (%)	56.08	57.89	(1.81 ppts)
Yield per RFTK (RMB)	1.54	1.57	(1.70%)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2014		2013		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Mainland China	2,032,015	23.13%	1,794,941	22.79%	13.21%
Hong Kong, Macau and Taiwan	353,618	4.02%	297,469	3.78%	18.88%
Europe	3,602,942	41.01%	3,113,800	39.53%	15.71%
North America	1,789,924	20.37%	1,520,426	19.30%	17.73%
Japan and Korea	541,965	6.17%	584,105	7.42%	(7.21%)
Asia Pacific and others	465,418	5.30%	565,628	7.18%	(17.72%)
Total	8,785,882	100.00%	7,876,369	100.00%	11.55%





OPERATING EXPENSES

In 2014, the Group's operating expenses were RMB98,623 million, representing an increase of 4.85% from RMB94,063 million in 2013. The breakdown of the operating expenses is set out below:

	2014		2013		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Jet fuel costs	34,542,440	35.02%	33,722,281	35.85%	2.43%
Take-off, landing and depot charges	10,566,490	10.71%	9,585,090	10.19%	10.24%
Depreciation	11,322,989	11.48%	10,936,619	11.63%	3.53%
Aircraft maintenance, repair and overhaul costs	3,587,507	3.64%	3,063,647	3.26%	17.10%
Employee compensation costs	15,512,764	15.73%	14,023,639	14.91%	10.62%
Air catering charges	2,755,640	2.79%	2,571,550	2.73%	7.16%
Selling and marketing expenses	5,899,633	5.98%	5,760,403	6.12%	2.42%
General and administrative expenses	568,136	0.58%	1,221,429	1.30%	(53.49%)
Others	13,867,076	14.07%	13,178,068	14.01%	5.23%
Total	98,622,675	100.00%	94,062,726	100.00%	4.85%

In particular:

- Jet fuel costs increased by RMB820 million or 2.43% as compared to 2013, mainly due to the effect of the increase in flying hours.

- Take-off, landing and depot charges increased by RMB981 million as compared to 2013, primarily due to an increase in the number of take-offs and landings.

- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft during 2014.

- Aircraft maintenance, repair and overhaul costs recorded an increase of RMB524 million or 17.10% as compared to 2013 due to fleet expansion.

- Employee compensation costs increased by RMB1,489 million, mainly due to the adjustment of employee compensation level and the increase in number of employees.

- Air catering charges increased by RMB184 million, mainly due to the combined effect of the increase in number of passengers, improvement of the standard of meal served and rising costs of raw materials.

- Selling and marketing expenses increased by RMB139 million as compared to 2013, mainly due to the rising marketing expenses brought by an increase in sales revenue.

- General and administrative expenses decreased by RMB653 million as compared to 2013, mainly due to the reversal of bad debt provision on receivables for 2014.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items. Other operating expenses increased by 5.23% from the previous year, mainly due to the increase in the operating lease expenses of aircraft engines and buildings and contributions to the civil aviation development fund for 2014.

FINANCE REVENUE AND FINANCE COSTS

In 2014, the Group recorded a net exchange loss of RMB360 million, as compared to the net exchange gain of RMB1,938 million in 2013, representing a decrease in profits of RMB2,298 million or 118.59%, which was mainly due to the effect of depreciation of RMB against US dollars during the reporting period. The Group also incurred an interest expense (excluding the capitalised portion) of RMB2,940 million, representing a year-on-year increase of RMB254 million, primarily due to the growth in interest-bearing liabilities and the rising of financing costs in US dollars borrowings.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES AND JOINT VENTURES

In 2014, the Group's share in the profits of its associates and joint ventures was RMB874 million, representing an increase of RMB51 million from that of 2013, mainly due to the increase in profits of Cathay Pacific, an associate of the Group, among which the Group's recognition of gains on investment in Cathay Pacific increased by RMB167 million from that of 2013 to RMB590 million in 2014.

ANALYSIS OF ASSETS STRUCTURE

As at 31 December 2014, the total assets of the Group amounted to RMB209,311 million, representing an increase of 2.06% from the previous year, among which current assets accounted for RMB21,053 million or 10.06% of the total assets, while non-current assets accounted for RMB188,258 million or 89.94% of the total assets.

Among the current assets, cash and cash equivalents were RMB9,660 million, accounting for 45.88% of the current assets and representing a decrease of 34.56% from the beginning of 2014, mainly due to the repayment of the second tranche of medium-term notes of RMB3 billion issued in 2009 and the year-on-year increase in the re-payment of other long-term and short-term debts during the period, which resulted in an increase in cash outflow.

Among the non-current assets, the net book value of property, plant and equipment was RMB148,180 million, accounting for 78.71% of the non-current assets and representing an increase of 11.58% from the previous year, which was primarily attributable to the increase in the number of self-owned and financing leased aircraft.

ASSETS MORTGAGE

As at 31 December 2014, the Group, pursuant to certain bank loans and finance leasing agreements, has mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB98,674 million (approximately RMB85,307 million as at 31 December 2013) and land use rights with a net book value of approximately RMB37 million (approximately RMB38 million as at 31 December 2013). At the same time, the Group had approximately RMB75 million (approximately RMB746 million as at 31 December 2013) in bank deposits pledged as security for certain bank loans, operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

In 2014, the Company's capital expenditure amounted to a total of RMB15,220 million, of which the total in-vestment in aircraft and engines was RMB13,155 million.

Other capital expenditure amounted to RMB2,065 million, which was mainly spent on rotables, aircraft modifications, flight simulators, infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2014, the Group's equity investment in its associates totalled RMB11,894 million, representing a decrease of 18.39% from the beginning of 2014, mainly due to the effect of the recognition of the Group's shares of other comprehensive expense of associates in 2014. The equity investment balances of the Group in Cathay Pacific, Shandong Aviation Group Company Limited and Shandong Airlines amounted to RMB9,889 million, RMB992 million and RMB609 million, respectively, with such companies recording profits of RMB2,717 million, RMB352 million and RMB288 million in 2014, respectively.

As at 31 December 2014, the Group's equity investment in its joint ventures was RMB1,393 million, representing an increase of 8.45% from the beginning of 2014, mainly due to the recognition of the Group's shares in the profits of its joint ventures during the reporting period.

DEBT STRUCTURE ANALYSIS

As at 31 December 2014, the Group's total liabilities were RMB150,201 million, representing an increase of 1.81% from the previous year, among which current liabilities accounted for RMB60,843 million and non-current liabilities accounted for RMB89,358 million, representing 40.51% and 59.49% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB34,194 million, representing a decrease of 21.14% from the beginning of 2014, mainly due to the structural adjustment of long-term and short-term debts. Other advances and payables decreased by 0.24% from the previous year to RMB26,649 million.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB80,263 million, representing an increase of 17.62% from the beginning of 2014.

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

	2014		2013		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
US dollars	83,334,291	72.81%	78,197,358	70.07%	6.57%
RMB	30,163,637	26.35%	33,238,571	29.78%	(9.25%)
Others	959,705	0.84%	164,725	0.15%	482.61%
Total	114,457,633	100.00%	111,600,654	100.00%	2.56%

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, increased from RMB95,085 million as at 31 December 2013 to RMB104,516 million as at 31 December 2014. The Group's commitments under operating leases, which mainly consisted of the payables in the next few years for leasing certain aircrafts, offices and related equipment, amounted to RMB35,332 million as at 31 December 2014, representing an increase of 34.69% as compared to the previous year. The Group's investment commitments increased by RMB1,397 million from RMB56 million as at 31 December 2013 to RMB1,453 million as at 31 December 2014, mainly contributed by the signed investment agreements.

Details of the contingent liabilities of the Group are set out in note 41 to the financial statements of the Group for 2014.

GEARING RATIO

As at 31 December 2014, the Group's gearing ratio (total liabilities divided by total assets) was 71.76%, representing a decrease of 0.18 ppts from 71.94% as at 31 December 2013. As high gearing ratio is common among aviation enterprises, the Group continued to maintain a relatively reasonable gearing ratio. Taking into account of the Group's profitability and the market environment where it operates, its long-term insolvency risk is within control.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2014, the Group's net current liabilities (current liabilities minus current assets) were RMB39,790 million, representing a decrease of RMB4,467 million as compared to the previous year. The decrease in net current liabilities was mainly due to the decrease in current portion of long-term borrowings. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.35, representing a slight decrease from 0.37 as at 31 December 2013.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2014, the Group's net cash inflow from operating activities was RMB14,064 million, representing a decrease of 3.73% from RMB14,608 million in 2013, mainly due to the increase in interest payments from operating activities. Net cash outflow from investment activities was RMB10,313 million, representing a decrease of 50.03% from RMB20,638 million in 2013, mainly due to the decrease in the settlement of the final payment for the delivery of aircraft and the advance prepayment for the purchase of aircraft from the previous year. The Group's net cash outflow from financing activities was RMB8,859 million, representing a decrease of approximately RMB18,130 million from the net cash inflow of RMB9,271 million in 2013, mainly due to an increase in repayment of debts due in 2014 compared to 2013. The Company has obtained bank facilities of up to RMB110,396 million from a number of banks in the PRC, among which approximately RMB32,355 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to fluctuations in jet fuel prices, interest rates and exchange rates in its daily operation. International jet fuel prices are subject to market volatility and fluctuation in supply and demand. The Group's strategy for managing jet fuel price risk aims at managing and controlling the risk arising from the rise in fuel price. The Group has been engaging in fuel hedging transactions since March 2001. The hedging instruments used were mainly derivatives of Singapore kerosene together with Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. As of 30 November 2011, all fuel derivatives of the Company have been expired and no new position has been established at present. Considering the volatility of international jet fuel prices and cost sensitivity of the Company, the Company will develop its fuel hedging business in compliance with the regulatory requirements so as to cope with changes in the jet fuel market.

Certain finance lease liabilities, bank loans and other loans of the Group are principally denominated in US dollars and Euros. Certain expenses of the Group are also denominated in currencies other than RMB. The Group timely remits the foreign currency income arising from the sales of tickets at the overseas office branches to China for payment of foreign currency expenses incurred in the ordinary business of the Group and repayment of foreign currency debts repayable within one year. In the event of shortfall, the Group will timely use the RMB settlement for payment. However, the exchange rate of RMB against US dollars and Euros was volatile during the reporting period, mainly resulting in the exchange difference recognised by the Group during the reporting period.

As to interest rate risk management, through the entering into of interest rate derivative contracts, the Company reasonably adjusts the proportion of fixed interest rates and variable interest rates of interest-bearing liabilities so as to avoid the interest rate risks.

Details of the other financial risk management objectives and policies of the Group are set out in note 42 to the financial statements of the Group for 2014.

CORPORATE GOVERNANCE REPORT

The Company has been maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency and deliver long-term return to its shareholders. The Company has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Code") during the year ended 31 December 2014. The Company's corporate governance practices in 2014 are summarised and discussed below.

GOVERNANCE STRUCTURE

As at 31 December 2014, the governance structure of the Company is set out as follows:

Board of Directors of the Company (comprising 2 executive directors, 6 non-executive directors and 4 independent non-executive directors)

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Specialised Committees under the Board of Air China Limited →

- Audit and risk control committee
  (comprising 2 independent non-executive directors and 1 non-executive director)
- Nomination and remuneration committee
  (comprising 3 independent non-executive directors and 2 non-executive directors)
- Strategy and investment committee
  (comprising 3 non-executive directors and 1 executive director)
- Aviation safety committee
  (comprising 2 non-executive directors and 1 executive director)

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

Independent non-executive directors shall comprise one third of the Board

- As at 31 December 2014, the Board comprised 12 Directors, out of which 4 were independent non-executive directors. The Directors are elected at the shareholders' general meeting for a 3-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the independent non-executive directors has confirmed his or her independence with the Hong Kong Stock Exchange. As at 31 December 2014, the Company had already received from all independent non-executive directors the annual statements concerning their independence in which each of the independent non-executive directors re-confirmed his or her independence. The Company considers all independent non-executive directors as independent within the meaning of Rule 3.13 of the Listing Rules.

The Directors shall have a balance of skills and experience appropriate for the requirements of the business of the Company

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

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

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

Distinguished roles of the Chairman and President

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

- The Chairman shall be elected and dismissed by a simple majority of the Directors. The term of office of the Chairman shall be 3 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.

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

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

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

- The term of office of the existing non-executive directors is 3 years upon election at the shareholders' general meeting.

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

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

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

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

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

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

The management shall be accountable to the Board and its main responsibilities are: to formulate the strategic development plans and decide the establishment of the Company's internal bodies; to formulate and implement annual business plans, investment proposals, annual financial budgets and final accounts; to set up general management systems regarding employment, remuneration and other basic internal rules and regulations; to make decision on major issues such as safety operation and business management; to make decision on transactions relating to the Company's main business and the value of which shall not exceed a certain amount or a certain proportion of the Company's latest audited net asset value; to organise the implementation of board resolutions and exercise such other authorities as granted by the Board.

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

- Board meetings are held regularly throughout the year and generally include annual meetings, interim meetings 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 address to convene the Board meeting as well as financial reports to be considered at such regular meetings, and shall inform all Directors of such plans in the beginning of the year. Board meetings shall be convened by the Chairman and a 14-day notice shall be served to all Directors before each meeting. The Directors may attend live meetings or through or other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the secretary to the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of such proposal, and the relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least 3 days in advance.

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

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

- All Directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to acquaint him/herself with 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.

- All Directors have actively participated in the business operations of the Company. Attendance in person of all Directors at Board meetings in 2014 is set out as follows:

No. of meetings	12
Non-executive directors	
Cai Jianjiang (Chairman) (elected as Chairman on 21 February 2014)	12/12
Wang Changshun (Chairman) (resignation effective from 27 January 2014)	–
Wang Yinxiang	12/12
Cao Jianxiong	12/12
Sun Yude (resignation effective from 10 July 2014)	4/5
Feng Gang (appointment effective from 26 August 2014)	4/4
Christopher Dale Pratt (resignation effective from 14 March 2014)	2/2
John Robert Slosar (appointment effective from 22 May 2014)	6/7
Ian Sai Cheung Shiu	12/12
Executive directors	
Song Zhiyong (President) (appointment effective from 22 May 2014)	7/7
Fan Cheng	10/12
Independent non-executive directors	
Fu Yang	12/12
Yang Yuzhong	12/12
Pan Xiaojiang	12/12
Simon To Chi Keung	12/12

Notes:

Mr. Christopher Dale Pratt and Mr. Sun Yude resigned from the position of non-executive Director on 14 March 2014 and 10 July 2014, respectively. During the reporting period, Mr. Christopher Dale Pratt should have attended 2 Board meetings, whereas Mr. Sun Yude should have attended 5 Board meetings.

At the annual general meeting of the Company held on 22 May 2014, Mr. Song Zhiyong and Mr. John Robert Slosar were appointed as an executive Director and a non-executive director of the fourth session of the Board respectively. During the reporting period, each of Mr. Song Zhiyong and Mr. John Robert Slosar should have attended 7 Board meetings.

At the extraordinary general meeting of the Company held on 26 August 2014, Mr. Feng Gang was appointed as a non-executive Director of the fourth session of the Board. During the reporting period, Mr. Feng Gang should have attended 4 Board meetings.

For the year ended 31 December 2014, the number of Board meetings held, the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

- All Directors have actively participated in the general meetings of the Company. Attendance of all Directors at general meetings in 2014 is set out as follows:

No. of meetings	3
Non-executive directors	
Cai Jianjiang (Chairman) (elected as the Chairman on 21 February 2014)	3/3
Wang Changshun (Chairman) (resignation effective from 27 January 2014)	–
Wang Yinxiang	1/3
Cao Jianxiong	3/3
Sun Yude (resignation effective from 10 July 2014)	0/1
Feng Gang (appointment effective from 26 August 2014)	1/1
Christopher Dale Pratt (resignation effective from 14 March 2014)	–
John Robert Slosar (appointment effective from 22 May 2014)	0/2
Ian Sai Cheung Shiu	0/3
Executive directors	
Song Zhiyong (President) (appointment effective from 22 May 2014)	1/2
Fan Cheng	1/3
Independent non-executive directors	
Fu Yang	1/3
Yang Yuzhong	2/3
Pan Xiaojiang	2/3
Simon To Chi Keung	2/3

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

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

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

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

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

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

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

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

- After making specific enquiries, the Company confirmed that each Director and each Supervisor has complied with the required standards under the Model Code as set out in Appendix 10 of the Listing Rules throughout 2014.

- The Model Code contained in Appendix 10 to the Listing Rules requires the Board to adopt written guidelines regarding securities transactions of the issuer by its employees on terms no less exacting than the required standards under the Model Code. On 5 September 2005, the Company adopted and formulated a code of conduct which was revised on 19 March 2007 and 4 December 2009, regarding securities transactions by Directors on terms no less exacting than the required standards of the Model Code. The code of conduct of the Company also applies to the Supervisors and the relevant employees.

Corporate Governance Functions

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

B. Remuneration of Directors and Senior Management

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

- The Company has established a nomination and remuneration committee to recommend to the Board on the compensation of the Directors as well as candidates to fill vacancies on the Board of the Company. In addition, the nomination and remuneration committee reviews the performance of and determines the compensation structure of the senior management of the Company.

- The majority of the members of the nomination and remuneration committee are independent non-executive directors. As at 31 December 2014, the members of the nomination and remuneration committee were Mr. Fu Yang, Mr. Pan Xiaojiang, Mr. Simon To Chi Keung, Mr. Cai Jianjiang and Ms. Wang Yinxiang, with Mr. Fu Yang serving as the chairman. Due to resignation of Mr. Wang Changshun (being the former Chairman) on 27 January 2014, Mr. Cai Jianjiang has filled the vacancy on the nomination and remuneration committee.

- Attendance at the meetings of the nomination and remuneration committee in 2014 is set out as follows:

No. of meetings	7
Fu Yang (Chairman)	7/7
Wang Changshun (resignation effective from 27 January 2014)	–
Cai Jianjiang	7/7
Wang Yinxiang	7/7
Pan Xiaojiang	7/7
Simon To Chi Keung	7/7

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

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

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

  – The nomination and remuneration committee shall monitor the implementation of the Board Diversity Policy on an ongoing basis, and review this policy as appropriate.

- A shareholder holding 3% or more of the total shares of the Company is entitled to nominate a Director through the nomination and remuneration committee, which will review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the Board Diversity Policy and submit a report to the Board.

- During the reporting period, the nomination and remuneration committee was mainly responsible for performing the following duties:

  – to review the nomination of Mr. Cai Jianjiang as the Chairman of the fourth session of the Board, Mr. Song Zhiyong as the candidate for the President and executive Director of the Company, Mr. John Robert Slosar and Mr. Feng Gang as the candidates of the non-executive Directors of the Company, Mr. Liu Tiexiang as the Vice President of the Company, Mr. Xiao Feng as the Chief Financial Officer of the Company, Mr. Meng Xianbin as the Chief Economist of the Company, Mr. Wang Yingnian as the Chief Pilot of the Company, and Mr. Zhu Songyan and Mr. Li Yunchuan as the assistant to the President of the Company, and also to make appointment recommendation to the Board; and

  – to review the increase of emolument of the independent non-executive Directors from RMB100,000 (before tax) per person per year to RMB150,000 (before tax) per person per year, and make recommendation to the Board for its approval.

- The nomination and remuneration committee under the Board made recommendations to the Board on the remuneration packages of individual executive Directors and senior management. Remuneration payable to the Directors and senior management shall be determined according to the terms of their respective service contracts, if any, and the recommendation of the nomination and remuneration committee.

  Details of the remuneration of the Directors and senior management are disclosed in notes 11 and 44 to the financial statements of this annual report. Mr. Pan Xiaojiang waived to receive his emolument of independent non-executive Director from the Company, and also returned the emolument of independent non-executive Director already paid by the Company since the beginning of his term of office.

C. Accountability and Audit

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

- The Company has established an audit and risk control committee to review the financial information of the Company and the relevant disclosure, as well as to review the internal control systems of the Company.

- The Company has published its annual and interim results in accordance with the requirements of the Listing Rules and other relevant laws and regulations in a timely manner, i.e. within 3 months and 2 months, respectively, after the end of the relevant periods.

- The Company has set up an investor relations webpage, on which figures of operating results are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

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

The Board shall ensure that the Company maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets

- The Board takes ultimate responsibility for the internal controls of the Company. Every year, the Company conducts self-assessment on the comprehensiveness of the internal control system and the effectiveness of its implementation. The Board will publicly announce the self-assessment report on the internal control for the year after the audit and risk control committee reports to the Board.

The Board shall establish formal and transparent arrangements in relation to the application of financial reporting and internal control principles and the maintenance of an appropriate relationship with the Company's auditors

- Through the audit and risk control committee, the Board reviews and supervises the Company's financial reporting process, communicates with the auditors and reviews periodic financial reports so as to make sure the financial reporting and internal control principles are formal and transparent.

- As at 31 December 2014, the audit and risk control committee comprised 2 independent non-executive directors, Mr. Pan Xiaojiang and Mr. Fu Yang, and a non-executive director, Mr. Cao Jianxiong, with Mr. Pan Xiaojiang serving as the chairman.

- Attendance at the meetings of the audit and risk control committee in 2014 is set out as follows:

No. of meetings	6
Pan Xiaojiang (Chairman)	6/6
Fu Yang	6/6
Cao Jianxiong	5/5

Note: At the audit and risk control committee meeting of the fourth session of the Board of the Company held on 18 December 2014, Mr. Cao Jianxiong abstained from voting due to his interests in related matters and he did not attend the meeting.

- During the reporting period, the audit and risk control committee was mainly responsible for performing the following duties:

  – to review the annual report and financial statements as well as profit distribution plan for the year 2013, the first and third quarterly reports as well as interim report for the year 2014, and recommend the same to the Board for approval;

  – to review the financial plan, capital expenditure plan, fund raising and financing plans and fuel hedging strategies and supplementary proposals for the year 2014;

  – to receive the summary report on audit work for the year 2013 from KPMG and KPMG Huazhen (Special General Partnership); to discuss the appointment of KPMG and KPMG Huazhen (Special General Partnership) as the international and domestic auditors of the Company for the year 2014; and to consider the appointment of KPMG Huazhen (Special General Partnership) as the internal control auditor of the Company for the year 2014, and recommend the same to the Board for approval;

- to receive the self-assessment report on internal control for the year 2014 from the audit department of the Company and the audit plan on internal control of the Company for the year 2014 from the internal control auditor;

- to review the changes or adjustments made to the related items and amounts during the same period last year or at the beginning of the period due to implementation of new accounting standards by the Company, and recommend the same to the Board for approval;

- to review the aggregate credit guarantee of not more than US$700 million for a term of three years provided by the Company to its controlling subsidiaries, and recommend the same to the Board for approval;

- to review the joint capital injection of the Company and Cathay Pacific, a connected person, into Air China Cargo, a controlled subsidiary of the Company; the execution of the new Trademark Licence Framework Agreement (2015 to 2017) with CNAHC; the increase in holding of equity interests in CNAF and the execution of connected transactions of the Company during 2013, and to recommend the same to the Board for approval; and

- to review the Administrative Measures on Internal Control Evaluation of Air China Limited and Regulations on Managing Interest Rate and Exchange Rate Risks of Air China Limited (Interim), and recommend the same to the Board for approval.

• The annual report of the Company for the year ended 31 December 2014 had been reviewed by the audit and risk control committee.

The responsibility of the Directors in relation to the financial statements

The Company prepares and publishes annual reports, interim reports and quarterly reports each year. The responsibilities of the Directors in relation to the financial statements are set out below and shall be read together with the ”Independent Auditors’ 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 policy
  When preparing the financial statements of the Company and the Group, the Directors have consistently applied appropriate accounting policies under the relevant accounting standards.

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

- Ongoing operation

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

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

Auditors' remuneration

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (Special General Partnership), respectively. Breakdown of the remuneration to the Company's external auditors for providing audit services for the year ended 31 December 2014 is as follows:

RMB10,560,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2014 and for the audit of the Group's financial statements for the year ended 31 December 2014; an aggregate amount of RMB6,413,317 (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 2014; and fees for other audit services amounted to RMB948,000 (including value-added tax). An aggregate amount of approximately RMB527,058 (including value-added tax) was charged for the render of tax advisory related services to the Group. RMB880,000 (including value-added tax) was charged for internal control audit service for the year ended 31 December 2014.

D. Delegation by the Board

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

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

- The primary duties of the audit and risk control committee are: to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as give opinion in writing to the Board, in connection with the appointment of new accounting firms or re-appointment of the existing accounting firms for carrying out annual audits; to review and supervise our internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and receive and consider the work report prepared by the responsible person of the audit department; to be responsible for the communications between the internal auditors and external auditors; to review and verify the Company's financial information and its disclosure; to review the Company's internal control system and risk control system, evaluate the effectiveness of the detailed management and control rules and the operational standards relating to risk investments (including but not limited to financial derivatives instruments), and consider the strategies and proposals of the Company's risk investment; to review the Company's relevant significant connected transactions; to receive reports from the Company relating to fraudulent acts and discovery and complaints; and to fulfill other duties authorised by the Board.

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

- The primary duties of the strategy and investment committee are: to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; to make decisions on the establishment, merger and dissolution of branches of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2014, the strategy and investment committee comprised Mr. Cai Jianjiang, Mr. Cao Jianxiong, Mr. Feng Gang and Mr. Song Zhiyong, with Mr. Song Zhiyong serving as the chairman.

- The primary duties of the aviation safety committee are: to receive the safety report of the Company on a regular basis and report to the Board; to study and deal with significant problems in relation to aviation safety work of the Company; to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, facilities and materials to fulfill the needs of safety operation of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2014, the aviation safety committee comprised Mr. Cai Jianjiang, Mr. Feng Gang and Mr. Song Zhiyong, with Mr. Feng Gang serving as the chairman.

- The supervisory committee is responsible for: monitoring the Company's financial matters and supervising the conduct of the Board and our management. The functions and authority of the supervisory committee include: reviewing the financial reports and other financial information prepared by the Board and proposed to be tabled before the shareholders' general meeting; supervising the work of the Directors, President, Vice President and other senior management and preventing the abuse of power or conducts detrimental to the Company's interests. The current members of the supervisory committee are Mr. Li Qinglin, Mr. He Chaofan, Mr. Zhou Feng, Ms. Xiao Yanjun and Mr. Shen Zhen, with Mr. Li Qinglin serving as the chairman. In the event that any Director has a conflict of interests with the Company, a Supervisor may negotiate with the Director concerned or bring the case to court on behalf of the Company. Resolutions of meetings of the supervisory committee shall be passed by at least two-thirds of all Supervisors.

E. Communication with shareholders

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

- The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the Company's website.

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

- The annual general meetings represent an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective chairmen of the audit and risk control committee, nomination and remuneration committee, strategy and investment committee and aviation safety committee will answer queries raised by shareholders at general meetings.

- At the annual general meeting, the Board shall report to the shareholders and announce the implementation progress of the matters set out in the resolutions which were passed since the previous annual general meeting and which were implemented by the Board.

- Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions before 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 65 and 91 of the Articles of Association, shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company may request the Board to convene an EGM by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an EGM, it shall within 5 days of the board resolution resolving to hold an EGM issue a notice of EGM convening an EGM within 2 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 10 days of the receipt of such written request(s), such shareholder(s) shall request the supervisory committee to convene an EGM by written request(s). If the supervisory committee fails to issue a notice for convening a meeting within 5 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 67 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 2 days of the receipt of such written request, give supplemental meeting notice to each shareholder which specifies information on such proposal(s).

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

Address:	Air China Headquarter, 30 Tian Zhu Road, Tianzhu Airport Economic Development Zone, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61461959
Fax number:	86-10-61462805

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

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

F. Joint Company Secretaries

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

- Joint company secretaries (Ms. Rao Xinyu and Ms. Tam Shuit Mui) are responsible for facilitating the rules of procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the joint company secretaries are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. In 2014, each joint company secretary attended over 15 hours of professional training to update her skill and knowledge.

G. Amendments to the Articles of Association

In 2014, the Company did not make any amendments to the Articles of Association.

REPORT OF THE DIRECTORS

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing security management, continue to advance the implementation of its strategies, optimise the allocation of its core resources to improve the efficiency of resource utilisation; accelerate the transformation of marketing model to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience, with an aim to seize market opportunities to ensure sound operation and bring better returns to its shareholders and investors.

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2014 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 77 to 180 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 2014 are summarised and set out on pages 4 and 5 of this annual report.

SHARE CAPITAL

As at 31 December 2014, the total share capital of the Company was RMB13,084,751,004, divided into 13,084,751,004 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2014:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	8,522,067,640	65.13%
H Shares	4,562,683,364	34.87%
Total	13,084,751,004	100.00%

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

As at 31 December 2014, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest and short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO are as follows:

Name	Type of interests	Type and number of shares of the Company held	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short
CNAHC	Beneficial owner	5,427,546,093 A shares	41.48%	63.69%	–	–
CNAHC (1)	Attributable interests	1,332,482,920 A shares	10.18%	15.64%	–	–
CNAHC (1)	Attributable interests	223,852,000 H shares	1.71%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A shares	10.18%	15.64%	–	–
CNACG	Beneficial owner	223,852,000 H shares	1.71%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,633,725,455 H shares	20.13%	–	57.72%	–
Swire Pacific Limited (2)	Attributable interests	2,633,725,455 H shares	20.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited (2)	Attributable interests	2,633,725,455 H shares	20.13%	–	57.72%	–
John Swire & Sons Limited (2)	Attributable interests	2,633,725,455 H shares	20.13%	–	57.72%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2014:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A shares and 223,852,000 H shares of the Company directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 48.83% equity interest and 60.91% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2014, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 31 December 2014, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person (other than a Director, Supervisor or chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO.

PUBLIC FLOAT

Pursuant to public information available to the Company and to the knowledge of the Directors of the Company, the Company has maintained a public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange throughout the current reporting period.

DIVIDEND

Based on the 2014 profit distribution plan of the Company, the Board recommends the appropriation of 10% of the discretionary surplus reserve and to distribute a cash dividend of approximately RMB683 million, or RMB0.5223 (including tax) for every ten shares based on the current total number of 13,084,751,004 shares of the Company, for the year 2014.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares shall be paid in RMB while dividends payable to the 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 rate of RMB to 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 annual general meeting.

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 Enterprises to Offshore Non-resident Enterprise Holders of H Shares" (Guo Shui Han [2008] No. 897) promulgated on 6 November 2008, the Company is obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% from 2008 onwards when the Company distributes any dividends to non-resident enterprise shareholders whose names appear on the register of members of H shares of the Company. As such, any H shares of the Company which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name 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 wish to 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 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 2014 to individual shareholders whose names appear on the register of members of H shares of the Company.

Regarding the arrangement relating to withholding tax in respect of the final dividends to be paid by the Company to the investors who invest in the H shares of the Company through the Shanghai Stock Exchange, the Company will make further announcement as soon as practicable after the relevant arrangement is confirmed.

Shareholders are recommended to consult their tax advisors regarding the ownership and disposal of H shares of the Company in the PRC and in Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF SHARES

Save as disclosed otherwise, for the year ended 31 December 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities (the term “securities” has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules), without taking into account any issuance of new securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of appointment and if applicable, resignation as Director
Cai Jianjiang	51	Chairman and non-executive director	Appointed as Chairman on 21 February 2014 Re-designated as non-executive Director due to resignation from the position of President on 28 January 2014
Wang Changshun	57	Former Chairman and non-executive director	Resigned on 27 January 2014
Wang Yinxiang	59	Vice chairman and non-executive director	Appointed on 29 October 2013
Cao Jianxiong	55	Non-executive director	Appointed on 29 October 2013
Sun Yude	60	Former non-executive director	Resigned on 10 July 2014
Feng Gang	51	Non-executive director	Appointed on 26 August 2014
Christopher Dale Pratt	58	Former non-executive director	Resigned on 14 March 2014
John Robert Slosar	57	Non-executive director	Appointed on 22 May 2014
Ian Sai Cheung Shiu	60	Non-executive director	Appointed on 29 October 2013
Song Zhiyong	49	Executive director and president	Appointed on 22 May 2014
Fan Cheng	59	Executive director and vice president	Appointed on 29 October 2013
Fu Yang	65	Independent non-executive director	Appointed on 29 October 2013
Yang Yuzhong	70	Independent non-executive director	Appointed on 29 October 2013
Pan Xiaojiang	62	Independent non-executive director	Appointed on 29 October 2013
Simon To Chi Keung	63	Independent non-executive director	Appointed on 29 October 2013

Supervisors

Name	Age	Position in the Company	Date of appointment and if applicable, resignation as Supervisor
Li Qinglin	60	Chairman of the Supervisory Committee	Appointed on 29 October 2013
He Chaofan	52	Supervisor	Appointed on 29 October 2013
Zhou Feng	53	Supervisor	Appointed on 29 October 2013
Xiao Yanjun	50	Supervisor	Appointed on 29 October 2013
Shen Zhen	48	Supervisor	Appointed on 29 October 2013

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

At no time during the year ended 31 December 2014 had the Company granted its Directors, Supervisors or their respective spouses or children under the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its other associated corporations, and no such rights for the subscription of shares or debentures were exercised by them.

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

As at 31 December 2014, the Company's Directors, Supervisors or chief executive had following interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which shall be recorded in the register maintained by the Company 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:

	Number of Shares				
Name of associated corporation/company and relevant shareholder	Personal interest	Interest of children under the age of 18 or spouse	Corporate interest	Total	Shareholding percentage as at 31 December 2013
Cathay Pacific Airways Limited					
Ian Sai Cheung Shiu	1,000	–	–	1,000	0.00%
Air China Limited					
Zhou Feng	10,000 (A Shares)	–	–	10,000 (A Shares)	0.00%
Shen Zhen	33,200 (A Shares)	–	–	33,200 (A Shares)	0.00%

Save as disclosed above, as at 31 December 2014, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were 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 of the Company shall serve a term of 3 years.

None of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within 1 year without payment of compensation (other than statutory compensation).

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting as at 31 December 2014 and which is significant in relation to the business of the Group.

Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and concurrently the director of Cathay Pacific and Dragonair. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at 31 December 2014, which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, and it wholly owns Dragonair. During the year, Mr. Wang Changshun (until January 2014) and Mr. Cai Jianjiang (since February 2014), chairmen and non-executive Directors of the Company, executive Directors Mr. Song Zhiyong and Mr. Fan Cheng, non-executive Directors Mr. Christopher Dale Pratt, Mr. John Robert Slosar and Mr. Ian Sai Cheung Shiu, are concurrently directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

EMPLOYEES

As at 31 December 2014, the Company had 26,206 employees and its subsidiaries had 42,347 employees. The categories of employees of the Company are as follows:

Professional Categories	As at 31 December 2014	As at 31 December 2013	Change
Management	6,451	6,501	(50)
Marketing and Sales	1,922	1,911	11
Operation	1,435	1,462	(27)
Ground Handling	2,056	4,000	(1,944)
Cabin Service	2,274	2,309	(35)
Logistics and Support	3,239	1,397	1,842
Flight Crew	3,656	4,071	(415)
Engineering and Maintenance	2,878	2,896	(18)
Information Technology	377	361	16
Others	1,918	922	996
Total	26,206	25,830	376

A total of 287 employees of the Company retired in 2014.

REMUNERATION POLICY

The Company adheres to the principles of combining incentives with control and aligning the improvement in performance with the increase in wages, and upholds a remuneration concept of “paying salary with reference to the value of job, personal ability as well as performance appraisal” in developing and implementing the remuneration policies primarily based on the value of job. In order to further retain and inspire the key talents of the Company, the Company continued to improve the incentive mechanism for attracting and stabilising talents. In 2014, the Company adjusted the standards of remuneration package and improved the remuneration system for flight crew, which strongly promoted the stability of pilot team.

EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 7 to the audited financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

STOCK APPRECIATION RIGHTS

On 5 December 2012, the SASAC issued the Reply to Air China Limited in Relation to Implementation of Proposal of Second Grant of the Stock Appreciation Rights (Guo Zi Fen Pei [2012] No. 1100), approving the proposal of second grant of the stock appreciation rights of the Company.

On 6 February 2013, resolutions regarding the Measures on Management of the Stock Appreciation Rights of Air China Limited (Revised) and the Proposal of Second Grant of the Stock Appreciation Rights of Air China Limited were considered at the 33rd meeting of the 3rd session of the Board of the Company, and were passed at the 2012 annual general meeting of the Company held on 23 May 2013.

On 6 June 2013, the resolution regarding the Proposal of Second Grant of the Stock Appreciation Rights was passed at the 14th meeting of the Nomination and Remuneration Committee of the 3rd session of the Board of the Company to grant a total of 26.20 million shares under the second grant of stock appreciation rights to 160 incentive recipients and to confirm the grant date with respect to the second grant of stock appreciation rights (i.e. 6 June 2013) and the exercise price (i.e. grant price) with respect to the second grant of stock appreciation rights of HK$6.46. The grant of stock appreciation rights shall be valid for five years from the date of grant. As at 31 December 2014, the carrying amount of the liabilities related to the stock appreciation rights was RMB19.26 million.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Company as at 31 December 2014 are set out respectively in notes 21, 22 and 23 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 35 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2014 are set out in note 16 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2014 are set out in note 9 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 39 to the financial statements of this annual report.

DONATIONS

For the year ended 31 December 2014, the Company made donations for charitable and other purposes amounting to RMB6.8812 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the purchases from the largest supplier accounted for 23.15% of the total purchases of the Group, while the purchases from the 5 largest suppliers accounted for 50.39%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the 5 largest suppliers of the Company.

For the year ended 31 December 2014, the sales of the Group to the 5 largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected changes to the titles of assets, e.g. land use rights, buildings and vehicles, in accordance with its undertakings as disclosed in the Company's prospectus issued at the time of its offering of shares. The title transfer procedures for the motor vehicles of the Company's headquarters and branches have been completed. Except for certain regions, the title transfer procedures for the land use rights and buildings of the Company's headquarters and branches have been substantially completed. The Company is in the process of completing the outstanding formalities in this respect, which should not have any material adverse effect on the operation of the Company.

MATERIAL LEGAL PROCEEDINGS

Save as disclosed in note 41 to the financial statements of this annual report, the Company was not involved in any significant litigation or arbitration as at 31 December 2014. 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 a number of connected transaction agreements with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this Report of the Directors, hereinafter referred to as "CNAHC Group") and other connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

I. Connected Transactions Between the Group and CNAHC Group

Continuing Connected Transactions

Transactions with CNAHC

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

(a) Property Leasing

The Company (for itself and on behalf of its subsidiaries) entered into a properties leasing agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Properties Leasing Agreement").

Pursuant to the Properties Leasing Agreement, the Company leased from CNAHC Group a number of properties for various uses including business premises, offices and storage facilities.

The Company also leased to CNAHC Group a number of properties for various uses including business premises and offices.

The term of the Properties Leasing Agreement is from 1 January 2013 to 31 December 2015.

(b) Sales Agency Services of Airline Tickets and Cargo Space

The Company (for itself and on behalf of its subsidiaries) entered into a sales agency services framework agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Sales Agency Services Framework Agreement").

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents ("Sales Agency Companies"):

- procured purchasers for the Company's air tickets and cargo spaces on a commission basis; or
- purchased air tickets (other than domestic air tickets) and cargo spaces from the Company and resold such air tickets and cargo spaces to end customers.

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

Regarding the air cargo agency services, the Company and the Sales Agency Companies discussed and determined the applicable transportation prices based on the prevailing market prices, and the Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to its customers) based on the aforesaid transportation prices, with the differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

The term of the Sales Agency Services Framework Agreement is from 1 January 2013 to 31 December 2015.

(c) Comprehensive Services

The Company (for itself and on behalf of its subsidiaries) entered into a comprehensive services agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Comprehensive Services Agreement").

Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned or controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business ("Ancillary Business Companies"), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, primarily provided (including but not limited to) the following services to the Company as suppliers to the Company in respect of the Company's ancillary production and supply services:

  (i) supply of various items for in-flight services;

  (ii) manufacturing and repair of aviation-related ground equipment and vehicles;

  (iii) cabin decoration and equipment;

  (iv) properties management services;

  (v) frequent-flyer cooperation programme;

  (vi) hotel accommodation and staff recuperation;

  (vii) aviation tourist services with special features;

  (viii) warehousing services;

  (ix) airline catering services; and

  (x) printing of air tickets and other publications.

- The Company accepted the commission of CNAHC and provided welfare-logistics services for CNAHC's retired employees.

The charges of the services provided by the Ancillary Business Companies to the Company were based on the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate was available, a fair and reasonable price was adopted through arm's length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services were settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

The term of the Comprehensive Services Agreement is from 1 January 2013 to 31 December 2015.

(d) Subcontracting of Charter Flight Services

The Company entered into a government charter flight service framework agreement with CNAHC on 20 November 2012 (the "Charter Flight Service Framework Agreement").

Pursuant to the Charter Flight Service Framework Agreement, CNAHC resorted to the Company's charter flight services so as to fulfill the government charter flight assignment. The Company's hourly rate of the charter flight service fee was calculated on the basis of the following formula:

Hourly rate = Total cost per flight hour x (1 + 6.5%)

Total cost per flight hour includes direct costs and indirect costs.

The term of the Charter Flight Service Framework Agreement is from 1 January 2013 to 31 December 2015.

Media and Advertising Services

The Company entered into an advertising services framework agreement with CNAMC on 20 November 2012 (the "Advertising Services Framework Agreement").

As CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAMC and the Company constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

Pursuant to the Advertising Services Framework Agreement, CNAMC had the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;

- an exclusive operation right of the specific media of the Company, including the boarding passes, in-flight entertainment system and flight schedules;

- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;

- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (1) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the international e-commerce network check-in system and ticket envelops (including air ticket envelops and boarding pass envelops)) and (2) advertisements designed, produced and published by CNAMC, as commissioned by the Company directly or through public tender; and

- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

As a consideration, CNAMC agreed to:

- pay the Company RMB26.25 million, RMB27.5625 million and RMB28.9406 million, respectively, for the years ended 31 December 2013 and 2014 and the year ending 31 December 2015 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes and flight schedules that meet the Company's requirements; and

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

The Company agreed to pay immediately and directly to the independent entertainment programmes providers the purchasing price for those in-flight entertainment programmes provided or purchased by CNAMC for the Company. In the event that the relevant entertainment programmes were produced by CNAMC at the request of the Company, the Company would pay the corresponding production costs and expenses to CNAMC.

The term of the Advertising Services Framework Agreement is from 1 January 2013 to 31 December 2015.

Financial Services

The Company (for itself and on behalf of its subsidiaries) entered into a financial services agreement with CNAF on 20 November 2012 (the "Financial Services Agreement").

As CNAF is a 75.54% held subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAF and the Company constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

Pursuant to the Financial Services Agreement, CNAF agreed to provide the Company with a range of financial services including the following:

- deposit services;

- loan and finance leasing services;

- negotiable instrument and letter of credit services;

- trust loan and trust investment services;

- underwriting services for bond issuances;

- intermediary and consulting services;

- guarantee services;

- settlement services;

- internet banking services;

- bills and payment collection services;

- insurance agency services; and

- other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

In particular, CNAF was paid to provide the Company and its subsidiaries with bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services and ticket collection and financial consultancy services and charges fees incurred thereon. Such fees were charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China ("PBOC") or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company and its subsidiaries for financial services of similar type were not higher than those generally charged by state-owned commercial banks from the Company and its subsidiaries and those charged by CNAF to other group members.

With respect to the deposit and loan services, both parties agreed:

- the interest rate applicable to the Company and its subsidiaries for its deposits with CNAF would not be lower than the minimum interest rate specified by the PBOC for deposits of similar type. In addition, the interest rate for the Company and its subsidiaries' deposits with CNAF would not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and would not be lower than the interest rate for similar type of deposit services provided by state-owned commercial banks to the Company and its subsidiaries generally; and

- the interest rate for loans (including other credit business) granted to the Company and its subsidiaries by CNAF would not be higher than the maximum interest rate specified by the PBOC for loans of similar type. In addition, the interest rate for loans granted to the Company and its subsidiaries by CNAF would not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by state-owned commercial banks to the Company and its subsidiaries generally.

The Company agreed that it would under the same conditions accord priority to and use the financial services provided by CNAF. CNAF had treated the Company and its subsidiaries as its major client and undertook to provide the Company and its subsidiaries with financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company and its subsidiaries at the same time.

CNAF shall not carry out any business that is not permitted by the CBRC or any illegal activities. CNAF is not allowed, during the term of the Financial Services Agreement, to make use of the deposits of the Company for investments with high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangement for such inspection within 10 days after receiving the notice of the Company.

The Company and CNAF agree that the maximum daily balance of deposits placed by the Company and its subsidiaries with CNAF shall be less than the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries, and the average daily balance of deposits placed by the Company and its subsidiaries with CNAF in each accounting year shall be less than the average daily balance of loans and other credit services actually granted by CNAF to the Company and its subsidiaries in the relevant year.

The unpaid services provided by CNAF to the Company and its subsidiaries include settlement services and financial information services ("Unpaid Services").

In addition to the specific services set out in the Financial Services Agreement, CNAF also explored and developed other licensed financial services and provided new financial services to other members of CNAHC Group ("New Financial Services").

The fees and charges payable by the Group to CNAF for the Unpaid Services and New Financial Services were determined with reference to the standards stipulated by the PBOC or the CBRC for services of similar type and were not higher than those charged by state-owned commercial banks to the Company and its subsidiaries for similar type of financial services and those charged by CNAF to other members of CNAHC Group.

The term of the Financial Services Agreement is from 1 January 2013 to 31 December 2015.

Acquisitions of Equity Interests in CNAF and Capital Injection into CNAF

On 24 December 2014, the Company entered into equity transfer agreements with each of Air China Import and Export Co., Ltd. (國航進出口有限公司) ("AIE"), Air China Shantou Industrial Development Company (中國國際航空汕頭實業發展公司) ("Shantou Industrial") and Beijing Phoenix Aviation Industrial Company (北京鳳凰航空實業公司) ("Phoenix Industrial"), pursuant to which, AIE, Shantou Industrial and Phoenix Industrial agreed to transfer to the Company, and the Company agreed to acquire, their respective equity interests in CNAF, at a consideration of RMB28,065,845.88, RMB4,726,113.94 and RMB2,326,702.25, respectively.

On the same day, the Company and CNAHC entered into a capital injection agreement, pursuant to which, the Company and CNAHC agreed to (a) increase the registered capital of CNAF from RMB505,269,500 to RMB1,127,961,864; and (b) inject additional capital in CNAF in the amount of RMB571,819,449.68 and RMB171,020,919.65, respectively, and the portion in excess of the proposed increment of registered capital of CNAF pursuant to subparagraph (a) above will be contributed to the capital reserve of CNAF, but only on the condition that the Company and AMS Global Transportation Co., Ltd. (華力環球運輸有限公司) ("AMS Global") enter into an equity transfer agreement for the Company to acquire the equity interests in CNAF owned by AMS Global. Upon completion of the capital injection, each of the Company and CNAHC will have an interest of 51% and 49% in the enlarged registered capital of CNAF respectively, while CNAF will become a non-wholly owned subsidiary of the Company.

The above equity transfer agreements and capital injection agreement will become effective upon obtaining approval from the Beijing Bureau of China Banking Regulatory Commission.

CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company. As Phoenix Industrial is a subsidiary of CNAHC, it is an associate of CNAHC and therefore a connected person of the Company under the Listing Rules. Accordingly, the acquisitions and capital injection constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements thereunder. For details, please refer to the announcement of the Company dated 24 December 2014.

To date, the Company has entered into an equity transfer agreement with AMS Global and all of the equity transfer agreements and capital injection agreement have been submitted to the Beijing Bureau of China Banking Regulatory Commission for approval.

II. Continuing Connected Transactions between the Group and CNACG

The Company entered into a framework agreement with CNACG on 26 August 2008 which was renewed on 26 September 2013 (the “CNACG Framework Agreement”) for a term from 1 January 2014 to 31 December 2016.

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

The CNACG Framework Agreement provides a framework for relevant agreements between the Group and CNACG Group covering transactions relating to ground handling and engineering services, management services and other services and transactions as may be agreed by parties to be undertaken under the CNACG Framework Agreement excluding those transactions which have been contemplated by the Properties Leasing Agreement, Sales Agency Services Framework Agreement, Comprehensive Services Agreement, Charter Flight Service Framework Agreement, Tourism Cooperation Agreement and the Financial Services Agreement.

Pursuant to the CNACG Framework Agreement, upon the expiry of such term, the agreement shall automatically renew for successive terms of three years unless either party gives to the other party a notice of not less than three months for termination of the agreement on the expiry of any 31 December.

III. Continuing Connected Transactions between the Group and Cathay Pacific

The Company entered into a framework agreement with Cathay Pacific on 26 June 2008 which was renewed on 26 September 2013 (the “Cathay Pacific Framework Agreement”) for a term from 1 January 2014 to 31 December 2016.

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

The Cathay Pacific Framework Agreement provides the framework under which relevant agreements (the “Cathay Pacific Relevant Agreements”) between members of the Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. The transactions under the Cathay Pacific Relevant Agreements are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline 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.

Pursuant to the Cathay Pacific Framework Agreement, upon the expiry of such term, the agreement shall automatically be renewed for successive terms of three years unless either party gives to the other party a notice of not less than three months for termination of the agreement on the expiry of any 31 December.

IV. Connected Transactions between the Group and Air China Cargo

Continuing Connected Transactions

The Company entered into a framework agreement with Air China Cargo on 27 October 2011 (the "Cargo Framework Agreement"), which was renewed on 26 September 2013 with a term from 1 January 2014 to 31 December 2016.

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

Pursuant to the Cargo Framework Agreement, the Group has agreed to provide the following services to Air China Cargo:

- the provision of bellyhold space of the passenger aircraft operated by the Company;
- ground support and aircraft maintenance engineering including, among others, the repair and maintenance of aircraft and engines; and
- other services to Air China Cargo including, among others, labour management and import and export agency services.

Pursuant to the Cargo Framework Agreement, Air China Cargo has agreed to provide the following services to the Group:

- ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and
- other services provided to the Group.

The consideration of specific continuing connected transactions under the Cargo Framework Agreement shall be agreed between the Company and Air China Cargo on a case-by-case basis.

Pursuant to the Cargo Framework Agreement, upon the expiry of such term, the agreement shall automatically be renewed for successive terms of three years unless either party gives to the other party a notice of not less than three months for termination of the agreement on the expiry of any 31 December.

Capital Injection into Air China Cargo

On 26 June 2014, the Company, Cathay Pacific China Cargo Holdings and Fine Star (i.e., existing shareholders of Air China Cargo) entered into a capital increase agreement with Air China Cargo, pursuant to which, the Company agreed to make a cash contribution and contribution in kind to subscribe for additional registered capital of Air China Cargo of RMB1,020,000,000, while Cathay Pacific China Cargo Holdings and Fine Star agreed to subscribe for additional registered capital of Air China Cargo of RMB500,000,000 and RMB480,000,000 respectively in cash. Upon completion of the capital injection, the respective shareholding of the Company, Cathay Pacific China Cargo Holdings and Fine Star in the enlarged registered capital of Air China Cargo will remain unchanged at 51%, 25% and 24%, respectively.

As Air China Cargo is a connected person of the Company, the capital contribution constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting and announcement requirements under the chapter. For details, please refer to the announcement of the Company dated 26 June 2014.

Currently, the procedures for business registration changes for the above registered capital are still being processed.

V. Transaction Caps and Actual Transaction Amounts in 2014

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2014 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2014	
		Cap (in millions)	Actual Amount (in millions)
Transactions with the CNAHC Group:			
Properties leasing	RMB	138	84
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	324	78
Comprehensive services	RMB	1,045	853
Subcontracting of charter flight services	RMB	900	421
Media and advertising services	RMB	151.8	111
Financial services			
Maximum daily outstanding deposits with CNAF	RMB	4,000	2,712
Maximum daily outstanding loans from CNAF	RMB	4,500	2,228
Transactions with the CNACG Group:			
Ground handling, engineering, management and other services	RMB	350	262
Transactions with Cathay Pacific Group:			
Amount paid by the Group to Cathay Pacific Group	HK$	900	224
Amount paid by Cathay Pacific Group to the Group	HK$	900	434
Transactions with Air China Cargo:			
Amount paid/payable by the Group to Air China Cargo	RMB	1,060	792
Amount paid/payable by Air China Cargo to the Group	RMB	6,120	4,892

VI. Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2014 to which the Company was a party have been entered into:

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

2. on normal commercial terms or better; and

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

VII. Confirmation from the Auditors

For the purpose of Rule 14A.56 of the Listing Rules, the Company's auditor, KPMG has performed the procedural work on the continuing connected transactions for the year ended 31 December 2014 in accordance with Hong Kong Standard on Assurance Engagement 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, and reported on the above connected transactions as follows:

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

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

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

4. with respect to the aggregate amount of the continuing connected transactions, nothing has come to its attention that causes it to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 20 November 2012 and 26 September 2013, made by the Company in respect of the disclosed continuing connected transactions.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2014 are set out in note 44 to the audited financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

Save as disclosed in "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. None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

AUDITORS

CNAHC, being the controlling shareholder of the Company, is a central state-owned enterprise regulated by the State-owned Assets Supervision and Administration Commission of the State Council. According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Council, there are restrictions on the number of years an accounting firm can continuously provide audit services to a central state-owned enterprise and its subsidiaries. Since the number of years the Company has engaged Ernst & Young and Ernst & Young Hua Ming CPAs Limited Company (Special General Partnership) (collectively, "E&Y") has exceeded the prescribed time limit, E&Y has retired as the auditors of the Company upon conclusion of the 2012 annual general meeting of the Company. At the same time, the appointment of KPMG as the international auditor of the Company for 2013 and KPMG Huazhen (Special General Partnership) as the domestic auditor of the Company for 2013 was approved at the 2012 annual general meeting of the Company. The resolution regarding the re-appointment of KPMG as the international auditor and KPMG Huazhen (Special General Partnership) as the domestic auditor of the Company for the year ended 31 December 2014 was considered and approved at the 2013 annual general meeting of the Company. KPMG has audited the accompanying financial statements, which have been prepared in accordance with International Financial Reporting Standards.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. DIRECTORS

Cai Jianjiang, aged 51, is the Chairman and a non-executive Director of the Company. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the company and a member of the Communist Party Group of CNAHC from January 2007 to January 2014. He has been serving as the non-executive director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of Communist Party Group of CNAHC since January 2014. Mr. Cai has been serving as a Director of the Company since September 2004 and the Chairman of the Company since February 2014.

Wang Yinxiang, aged 59, is the Vice Chairman and a non-executive Director of the Company. Ms. Wang graduated from the Party School of the Central Committee of the Communist Party of China ("C.P.C.") majoring in economics and management. Ms. Wang is senior professional of political work and senior flight attendant. Ms. Wang served several positions at Air China International Corporation, including Vice Captain of the in-flight service team of the Chief Flight Team, Deputy Manager of the in-flight service division, Deputy Manager of the passenger cabin service division and Deputy Secretary of the Communist Party Committee. In October 2002, Ms. Wang served several positions in CNAHC, including Deputy General Manager, Head of the Disciplinary and Supervisory Committee of the Communist Party Group and Secretary of the Communist Party Committee of CNAHC. Since March 2008, Ms. Wang has been serving as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee of CNAHC, and was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009. Ms. Wang has been serving as the Vice Chairman of the Company since October 2008.

Cao Jianxiong, aged 55, is a non-executive Director of the Company. Mr. Cao holds a master degree in economics from the Eastern China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines 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 was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the President and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC. Mr. Cao has been serving as a non-executive Director of the Company since June 2009.

Feng Gang, aged 51, is a non-executive director of the Company. Mr. Feng graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. Mr. Feng became the Deputy General Manager of China Southwest Airlines in October 1995, and was the Assistant to President of Air China International Corporation since October 2002. He also served as General Manager and Party Secretary of China National Aviation Holding Assets Management Company since February 2003, and was appointed as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Co., Ltd. in May 2007. He served as Vice President of the Company from April 2010 to August 2014, and concurrently served as a director, President and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines from May 2010 to May 2014. He has also been serving as Deputy General Manager and Member of the Communist Party Group of China National Aviation Holding Company since April 2014. He has served as non-executive director of the Company since August 2014.

John Robert Slosar, aged 57, is a non-executive director of the Company. Mr. Slosar holds degrees in Economics from Columbia University and Cambridge University. He joined the Swire group in 1980 and worked with the group in Hong Kong, the United States and Thailand. Mr. Slosar has been a director of Cathay Pacific since July 2007 and served as Chief Operating Officer from July 2007 to March 2011 and as Chief Executive since March 2011, and has become Chairman of Cathay Pacific, John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited from March 2014. Mr. Slosar was appointed as non-executive director of the Company in May 2014.

Ian Sai Cheung Shiu, aged 60, is a non-executive Director of the Company. Mr. Shiu holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from the University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He has been a director of Cathay Pacific and Hong Kong Dragon Airlines Limited since October 2008. He has also been a director of John Swire & Sons (H.K.) Limited since July 2010. He has been serving as a director of Swire Pacific Limited since August 2010. Mr. Shiu has been serving as a non-executive Director of the Company since October 2010.

Song Zhiyong, aged 49, is the President and an executive director of the Company. Mr. Song is a first-class pilot. He graduated from the Second Flying Academy of China Air Force with a bachelor's degree in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Deputy Team Captain, Flight Director, and Deputy Group Captain of the Third Group of the Chief Flight Team, Deputy Captain of the Chief Flight Team and Director of the Training Department of Air China International Corporation. He served as Captain of the Chief Flight Team and Deputy Secretary of the Communist Party Committee of the Company from November 2002 to June 2008. Mr. Song held the post of Assistant to President from September 2004 to October 2006. He was the Vice President, a Member of the Communist Party Committee, and a Member of the Standing Committee of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of China National Aviation Holding Company from December 2010 to April 2014. He has been a Member of the Communist Party Group of China National Aviation Holding Company since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company since January 2014 as well as an executive director of the Company since May 2014.

Fan Cheng, aged 59, is the Vice President and an executive Director of the Company. Mr. Fan graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company from September 2004 to July 2014. Since October 2006, he has been serving as Vice President of the Company. From December 2009 to May 2010, he served as Secretary of the Communist Party Committee of Shenzhen Airlines. From March 2010 to April 2010, he served as President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. Since January 2011, he has been serving as Director and Chairman of Beijing Airlines Company Limited. Since February 2011, he has been serving as Secretary of the Communist Party Committee of the Company. Since April 2011, he has been serving as Chairman of Air China Cargo Co., Ltd. Mr. Fan has been serving as an executive Director of the Company since October 2004 and a member of the Communist Party Group of China National Aviation Holding Company since April 2014.

Fu Yang, aged 65, is an independent non-executive Director of the Company. Mr. Fu previously served as Deputy Director of the Economic Law Office of the National People's Congress Law Committee, Vice President of the third, fourth and fifth sessions of the All China Lawyers Association, a visiting professor of Center for Environment Law at the Law School of Renmin University of China. He is a partner and the director of Kang Da Law Firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission. Mr. Fu has been serving as an independent non-executive Director of the Company since June 2009.

Yang Yuzhong, aged 70, is an independent non-executive Director of the Company. Mr. Yang graduated from Beijing Aeronautical Institute majoring in aircraft design and manufacturing. From July 1999 to July 2006, Mr. Yang served as the Deputy General Manager of China Aviation Industry Corporation I, during which period he was also the head of Chinese Aeronautical Establishment and the chairman of AVIC1 Commercial Aircraft Co., Ltd. Mr. Yang has been a consultant of Aviation Industry Corporation of China since August 2006. He served as an independent non-executive director of China National Materials Company Limited from June 2007 to December 2009. Mr. Yang was an independent non-executive director of China South Locomotive & Rolling Stock Corporation Limited from December 2007 to June 2014 and he has been serving as an external director of China National Materials Group Corporation Ltd. since December 2009. Mr. Yang has been serving as an independent non-executive Director of the Company since May 2011.

Pan Xiaojiang, aged 62, is an independent non-executive Director of the Company. Mr. Pan holds a doctoral degree in Management from Tsinghua University and is a senior economist and China Certified Public Accountant. He served as Deputy Director of the Accounting Management Department of the Ministry of Finance ("MOF"); Deputy Director of Chinese Institute of Certified Public Accountants; Deputy Director, Director and Deputy Director-general of the World Bank Department of the MOF; and Deputy Director-general of the International Department of the MOF. Mr. Pan was appointed as full-time supervisor and deputy office director of the board of supervisors of Bank of China Limited in July 2000; full-time supervisor and office director of the board of supervisors of Bank of China Limited in November 2001; full-time supervisor and office director of the board of supervisors of Agricultural Bank of China Limited in July 2003; supervisor representing shareholders and office director of the board of supervisors of Agricultural Bank of China Limited from January 2009 to January 2012; leader of the fifth patrol team of the Communist Party Committee of Agricultural Bank of China Limited from March 2012 to January 2013. Since May 2013, Mr. Pan has been serving as an independent director of Tsinghua Tongfang Limited. Mr. Pan has been serving as an independent non-executive Director of the Company since October 2013.

Simon To Chi Keung, aged 63, is an independent non-executive Director of the Company. Mr. To holds a First Class Bachelor's Honours Degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of the Industrial Project Division and was appointed managing director in 1981. From 1999 to 2005, he served as an independent non-executive director of China Southern Airlines Company Limited. From 2000 to 2011, he served as a non-executive director of Shenzhen International Holdings Limited. He is currently the managing director of Hutchison Whampoa (China) Limited and chairman of Hutchison China MediTech Limited. He is concurrently the vice chairman of Guangzhou Aircraft Maintenance & Engineering Co. Ltd, director of China Aircraft Services Limited, chairman of Beijing Greatwall Hotel, chairman of Hutchison Whampoa (China) Commerce Limited, chairman of Guangzhou Hutchison Logistics Services Company Limited, chairman of Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited, vice chairman of Shanghai Hutchison Pharmaceuticals Limited, chairman of Hutchison Optel Telecom Technology Co., Ltd. and chairman of Shanghai Hutchison Whitecat Co., Ltd. Mr. To has been serving as an independent non-executive Director of the Company since October 2013.

2. SUPERVISORS

Li Qinglin, aged 60, is the chairman of the supervisory committee of the Company. Mr. Li graduated from Beijing Television University majoring in Chinese and Zhongnanhai Amateur University majoring in administrative management, and is a senior professional of political work. Mr. Li served various positions, including a Section Chief, Deputy director, director, Vice Director-General and Director-General, as well as the Chairman of the Labour Union, of the Government Office Administration of the State Council. From 1998 to 2000, he served as a Deputy director of the Hebei Leading Group Office of Poverty Alleviation and Development. Since 2000, he had served different positions, including a Deputy director of the Work Department under the Supervisory Committee of Central Enterprises Working Commission, Deputy director of the Office of Central Enterprises Working Commission, Deputy director and Inspector of the General Office of the SASAC and a director of the Office of the Stability Preservation Leading Team of the SASAC. In September 2008, he was appointed as the Head of the Disciplinary and Supervisory Committee and a member of the Communist Party Group of CNAHC. Mr. Li has been serving as chairman of the Company since October 2010.

He Chaofan, aged 52, is a Supervisor of the Company. Mr. He graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of CAAC, and served various positions in Air China International Corporation, including the section chief, deputy head and head of the finance department and general manager of the revenue accounting center of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager of China National Aviation Finance Co., Ltd. He served as the General Manager of the finance department of CNAHC and a supervisor of the Company concurrently from October 2008 to April 2011. He was appointed as a director and vice president of CNACG in May 2011, and has been concurrently served as the general manager, party committee member and deputy secretary to the party committee of Zhongyi Aviation Investment Co., Ltd. since July 2013. Mr. He has been serving as a Supervisor of the Company since October 2013.

Zhou Feng, aged 53, is a Supervisor of the Company. Mr. Zhou obtained a master's degree in economics from Shanghai University of Finance and Economics. He held various positions, including the Accountant, the Deputy Division Head, the Division Head of the finance division and the director of the finance and audit department of Zhejiang Administration of CAAC; the director, the Chief Accountant of finance department of CNAC Zhejiang Airlines; the Assistant General Manager of China National Aviation Corporation (Macau) Company Limited; the Deputy General Manager, the Chief Accountant and a member of the party committee of CNAF, the director, the Executive Vice President of Samsung Air China Life Insurance Co., Ltd. Mr. Zhou has been Secretary of the Communist Party Committee and the Deputy General Manager of CNAF since August 2010. He has also been the General Manager of the finance department of CNAHC since April 2011. Mr. Zhou has been serving as a Supervisor of the Company since November 2011.

Xiao Yanjun, aged 50, is a Supervisor of the Company. Ms. Xiao obtained a Juris Master from Renmin University of China and an EMBA degree from Tsinghua University and is a professional of political work. From July 1988 to April 2002, Ms. Xiao held various positions in Air China International Corporation, including an Instructor at the Training Department, the Secretary of the Communist Party Committee, an Organisor at division level, Secretary of the Party branch and Head of Officer Training. She served as the Training Manager of the Human Resource Department of the Company from April 2002 to March 2008 and Deputy director of the Labour Union of Air China Limited from March 2008 to November 2012. She has been Director of the Labour Union of the Company since November 2012. Ms. Xiao has been serving as a Supervisor of the Company since June 2011.

Shen Zhen, aged 48, is a Supervisor of the Company. Mr. Shen graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. He started his career in China's civil aviation industry since October 1985 and held various positions in Vehicle Administrative Office and Chief Flight Team at Beijing Ad-ministration of CAAC. From August 2003 to November 2012, Mr. Shen served as the Deputy Captain of the Fourth Group (1st team) of Chief Flight Team of the Company. He has been serving as the Party branch secretary of the First Group (5th team) of Chief Flight Team of the Company since November 2012. Mr. Shen has been serving as a Supervisor of the Company since October 2013.

3. OTHER SENIOR MANAGEMENT

Ma Chongxian, aged 49, graduated from Inner Mongolia University majoring in planning and statistics. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China, including Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia branch, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President of the Company as well as Chairman, President of Shandong Aviation and Vice Chairman of Shandong Airlines since April 2010.

Xu Chuanyu, aged 50, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team and an Inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as Deputy Operation Executive Officer of the Company and General Manager of Operation Control Centre of the Company as well as a Member and Deputy Secretary of the Communist Party Committee from January 2009 to March 2011. He served as the Chief Pilot from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as the Chief Pilot of China National Aviation Holding Company and Chief Safety Officer of the Company since December 2012.

Wang Mingyuan, aged 49, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in July 1988 and served various positions in 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 the Company, including Deputy General Manager of the Marketing Department, Member of the Commerce Commission, Member of the Communist Party Committee and General Manager of Network Revenue Department. Mr. Wang was appointed as a director of the Commerce Commission and Deputy Secretary of the Communist Party Committee of the Company from July 2008 to March 2012. He has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since February 2011.

Zhao Xiaohang, aged 53, graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration of CAAC, Assistant, Section Chief and Deputy Division Chief of the Planning Department of Air China, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China. He served as director and Vice President of CNACG from September 2003 to May 2004, director, Vice President and Secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as director and General Manager of China National Aviation Company Limited in July 2005 and director and General Manager of China National Aviation Corporation (Macau) Company Limited in April 2007. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President of the Company since February 2011, a director of Shandong Aviation since April 2011 and Chairman of Dalian Airlines since August 2011.

Feng Rune, aged 52, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an Instructor of Science & Education Division of Inner Mongolia Administration of CAAC, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Air China Inner Mongolia branch; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Air China Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Air China Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. From January 2009 to March 2011, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company since February 2011 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011. She served as president of the Labour Union of the Company from June 2011 to October 2013.

Chai Weixi, aged 52, 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 Aircraft Maintenance and Engineering Corporation (AMECO), Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China, Manager of Aircraft Maintenance Subdivision and Manager of Aircraft Overhaul Division of AMECO, General Manager of Aircraft Engineering Department of Air China and Deputy General Manager of the Engineering Technology Branch of Air China. He served as General Manager, director, member of the Communist Party Committee of AMECO and a member of the Communist Party Committee of the Engineering Technology Branch of the Company in October 2005. In April 2009, he served as General Manager and Deputy Secretary of the Communist Party Committee of the Engineering Technology Branch of the Company and director of AMECO. Mr. Chai has been serving as Vice President of the Company since March 2012.

Chen Zhiyong, aged 51, 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 pilot and squadron leader of the Third Squadron of the Seventh Flight Team of CAAC, squadron leader and head of Chengdu Flight Department of China Southwest Airlines and manager of Flight Technology Management Department of China Southwest Airlines, head of Chengdu Flight Department of Southwest Branch of Air China, and Deputy General Manager and Chief Pilot of Southwest Branch of Air China. 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 of the Company since December 2012 till now. He has also been serving as Director and President of Shenzhen Airlines Company Limited since May 2014.

Liu Tiexiang, aged 48, graduated from State Organ Branch of Party School of the Central Committee of C.P.C. majoring economics and management. Mr. Liu is a first-class pilot. He started his career in June 1983 and has previously served various positions in Air China, including pilot, squadron leader of the Third Team of the General Flight Group, deputy director and deputy manager of Flight Training Centre, deputy general manager of Aviation Security Technology Department, deputy general manager and general manager of Flight Technical Management Department and vice captain of the Chief Flight Team of Air China. He served as captain of the Chief Flight Team of Air China and Deputy Secretary of the Communist Party Committee from June 2008 to April 2011. He served as Chief Pilot of the Company from April 2011 to November 2014. Mr. Liu has been serving as Vice President of the Company since August 2014.

Long Qiang, aged 54, graduated from Sichuan Normal University. Ms. Long started her career in August 1983 and served various positions including teacher of the Technical School of Chengdu Administration of CAAC, Deputy Secretary of the Communist Youth Party Committee of Chengdu Administration Bureau, Deputy Secretary of the Communist Party General Branch of the Customer Service Company of Chengdu Administration Bureau, Section Chief of the Student Department for the Training Centre of China Southwest Airlines, Secretary of the Communist Youth Party Committee, Secretary of the Communist Party Committee of the Marketing and Sales Department, manager and Secretary of the Communist Party Committee of the Transportation and Service Company of China Southwest Airlines, Deputy General Manager of Chongqing Company of China Southwest Airlines, and Deputy General Manager, Secretary of the Communist Party Committee and General Manager of Chongqing Branch of Air China. She served as Secretary of the Communist Party Committee and Deputy Director of the Commerce Commission of the Company from July 2009 to December 2012. She has been serving as Chief Service Officer of the Company since December 2012 till now.

Wang Yantang, aged 58, graduated from Open College of Party School of the Central Committee of C.P.C. majoring in economic management. Mr. Wang is a first-class pilot. He started his career in October 1973 and served as squad leader, technician and Deputy Company Commander of Artillery Brigade 601 of the Beijing Military Region. He started his career in China's civil aviation industry from September 1986 and served various positions in Air China including Head of Integrated Business Section of the Passenger Department, Manager of Customer Service Office and Manager of International Passenger Office of the Ground Services Department as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee, Secretary of the Communist Party Committee and Deputy General Manager of the Ground Services Department. He served as Party General Branch Secretary and Deputy General Manager of the Aircraft Engineering Department of Air China from July 2003 to February 2004 as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee and Chairman of the trade union of the Company's engineering branch from February 2004 to August 2007. He served as Member, Executive Member, Secretary and Deputy Commander of Chief Flight Team of the Company from August 2007 to July 2014. Mr. Wang has been serving as Chairman of the Company's trade union since October 2013.

Xiao Feng, aged 47, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He started his career in July 1990, and served as an accountant of the Infrastructure Office, Deputy Section Chief and Section Chief of the Finance Office, Treasury Manager of the Finance Department and Deputy General Manager of the Finance Department of the Company and the Chief Financial Officer and Deputy General Manager of Shandong Airlines Company Limited. Mr. Xiao served as the General Manager of the Finance Department of the Company from December 2009 to July 2014. Mr. Xiao has been serving as the Chief Financial Officer of the Company since July 2014.

Meng Xianbin, aged 58, graduated from Airforce and Missile Institute majoring in management engineering and holds an undergraduate degree. Mr. Meng started his career in December 1974 and served as a machinist of the Mechanics Team of a certain division of the Air Force, an officer and the head of the Political Department of a certain force of the Air Force and the deputy head of the Political Department of the Air Force in Beijing. He joined the Company in July 2001. He worked as the Secretary of the Communist Party Committee of the Fifth Group of the Chief Flight Team, Deputy Director of the President Office and Deputy General Manager and General Manager of the Human Resource Department of the Company. Mr. Meng has been serving as the Secretary of the Communist Party Committee and Deputy General Manager of the Engineering Technology Branch of the Company since December 2009. Mr. Meng has been serving as the Chief Economic Officer of the Company since July 2014.

Wang Yingnian, aged 52, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting. A first-class pilot, Mr. Wang started his career in China's civil aviation industry in August 1984 and has been engaged in work related to piloting. He was the Flying Corps deputy chief, member and standing member of the Communist Party Committee of the Company from August 2007 to April 2011. Mr. Wang served as the Flying Corps captain and Deputy Secretary of Communist Party Committee of the Company in April 2011. He has been serving as Chief Pilot of the Company since November 2014.

Rao Xinyu, aged 48, graduated from Beijing Foreign Studies University with a postgraduate diploma. Ms. Rao started her career in July 1990 and served as an officer at vice-director level and an officer at director level of the International Department of the CAAC, Deputy Manager of the General Office, Deputy Director of the Administration Office and Deputy General Manager of the Planning and Investment Department of China National Aviation Corporation, respectively. From December 2002, Ms. Rao was appointed as Deputy General Manager of the Planning and Investment Department of CNAHC. From October 2003, she served as Deputy General Manager of the Planning and Development Department of CNAHC. Ms. Rao has been Deputy Director of the Secretariat of the Board and General Manager of Investor Relation Department of the Company since April 2005. She has been serving as the Secretary to the Board of the Company since December 2011 and the Director of the Secretariat of the Board since March 2012.

4. JOINT COMPANY SECRETARIES

Rao Xinyu, Ms. Rao's biography is set out in the section headed "Other Senior Management" above.

Tam Shuit Mui, aged 43, 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 and a member of The American Institute of Certified Public Accountants, USA. 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 Chaoyue Group Limited (formerly known as Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as one of the Joint Company Secretaries of the Company since October 2008.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Air China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 77 to 180 which comprise the consolidated and company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

26 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover			
Air traffic revenue	5	101,385,199	94,603,168
Other operating revenue	6	4,499,123	3,577,622
		105,884,322	98,180,790
Operating expense			
Jet fuel costs		(34,542,440)	(33,722,281)
Take-off, landing and depot charges		(10,566,490)	(9,585,090)
Depreciation		(11,322,989)	(10,936,619)
Aircraft maintenance, repair and overhaul costs		(3,587,507)	(3,063,647)
Employee compensation costs	7	(15,512,764)	(14,023,639)
Air catering charges		(2,755,640)	(2,571,550)
Aircraft and engine operating lease expenses		(4,536,641)	(4,006,096)
Other operating lease expenses		(940,651)	(914,759)
Other flight operation expenses		(8,389,784)	(8,257,213)
Selling and marketing expenses		(5,899,633)	(5,760,403)
General and administrative expenses		(568,136)	(1,221,429)
		(98,622,675)	(94,062,726)
Profit from operations	8	7,261,647	4,118,064
Finance revenue	9	230,088	2,265,331
Finance costs	9	(3,300,723)	(2,688,089)
Share of profits less losses of associates		753,658	646,815
Share of profits less losses of joint ventures		120,191	175,972
Profit before taxation		5,064,861	4,518,093
Taxation	10	(779,854)	(903,132)
Profit for the year		4,285,007	3,614,961
Attributable to:			
– Equity shareholders of the Company		3,817,469	3,263,642
– Non-controlling interests		467,538	351,319
		4,285,007	3,614,961
Earnings per share	14		
– Basic and diluted		RMB31.05cents	RMB26.55cents

The notes on pages 86 to 180 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 39(d).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Profit for the year		4,285,007	3,614,961
Other comprehensive (expense)/income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified subsequently to profit or loss:			
– Share of other comprehensive (expense)/income of associates and joint ventures		(75,943)	241,958
Items that may be reclassified subsequently to profit or loss:			
– Share of other comprehensive (expense)/income of associates and joint ventures		(3,025,321)	884,117
– Gains or losses arising from changes in fair value of available-for-sale financial assets		31,390	–
– Exchange realignment		82,107	(698,195)
Other comprehensive (expense)/income for the year	15	(2,987,767)	427,880
Total comprehensive income for the year		1,297,240	4,042,841
Attributable to:			
– Equity shareholders of the Company		815,140	3,707,418
– Non-controlling interests		482,100	335,423
Total comprehensive income for the year		1,297,240	4,042,841

The notes on pages 86 to 180 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	16	148,179,827	132,805,844
Lease prepayments	17	2,633,658	2,203,377
Investment properties	18	683,655	246,291
Intangible asset	19	36,859	54,524
Goodwill	20	1,099,975	1,099,975
Interests in associates	22	11,893,859	14,574,190
Interests in joint ventures	23	1,392,728	1,284,232
Advance payments for aircraft and flight equipment		18,148,989	23,261,879
Deposits for aircraft under operating leases		523,338	426,375
Available-for-sale investments	24	88,179	45,925
Deferred tax assets	25	3,576,594	3,263,246
		188,257,661	179,265,858
Current assets			
Aircraft and flight equipment held for sale	26	460,028	997,666
Inventories	27	1,100,179	1,044,617
Accounts receivable	28	2,834,130	2,861,167
Bills receivable		155	131
Prepayments, deposits and other receivables	29	4,250,376	3,918,465
Financial assets	30	12,534	11,350
Due from the ultimate holding company		150,079	239,417
Pledged deposits	31	74,570	745,847
Cash and cash equivalents	31	9,659,987	14,761,830
Other current assets		2,510,998	1,236,939
		21,053,036	25,817,429
Total assets		209,310,697	205,083,287

The notes on pages 86 to 180 form part of these financial statements.

	Note	2014 RMB'000	2013 RMB'000
Current liabilities			
Air traffic liabilities		(4,830,806)	(4,461,448)
Accounts payable	32	(9,788,921)	(10,349,535)
Bills payable		(150,000)	–
Other payables and accruals	33	(10,535,972)	(10,785,877)
Financial liabilities	30	(7,712)	(24,070)
Due to the ultimate holding company		(21,377)	(36,729)
Tax payable		(607,378)	(355,617)
Obligations under finance leases	34	(4,751,714)	(3,859,317)
Interest-bearing bank loans and other borrowings	35	(29,292,425)	(39,502,216)
Provision for major overhauls	36	(856,789)	(699,378)
		(60,843,094)	(70,074,187)
Net current liabilities		(39,790,058)	(44,256,758)
Total assets less current liabilities		148,467,603	135,009,100
Non-current liabilities			
Obligations under finance leases	34	(31,240,298)	(25,972,715)
Interest-bearing bank loans and other borrowings	35	(49,023,196)	(42,266,406)
Provision for major overhauls	36	(3,363,176)	(3,283,480)
Provision for early retirement benefit obligations		(19,210)	(35,331)
Long-term payables	37	(38,855)	(93,072)
Deferred income	38	(3,336,106)	(3,797,501)
Deferred tax liabilities	25	(2,336,862)	(2,014,407)
		(89,357,703)	(77,462,912)
NET ASSETS		59,109,900	57,546,188

The notes on pages 86 to 180 form part of these financial statements.

	Note	2014 RMB'000	2013 RMB'000
CAPITAL AND RESERVES			
Issued capital	39	13,084,751	13,084,751
Treasury shares	39	(3,047,564)	(3,047,564)
Reserves		43,941,101	43,720,198
Total equity attributable to equity shareholders of the Company		53,978,288	53,757,385
Non-controlling interests		5,131,612	3,788,803
TOTAL EQUITY		59,109,900	57,546,188

Approved and authorised for issue by the board of directors on 26 March 2015.

Song Zhiyong
Director

Fan Cheng
Director

The notes on pages 86 to 180 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	16	102,138,037	97,020,607
Lease prepayments	17	1,576,050	1,554,115
Intangible assets	19	12,842	30,507
Interests in subsidiaries	21	19,643,911	17,971,735
Interests in associates	22	766,148	766,148
Interests in joint ventures	23	951,879	865,479
Advance payments for aircraft and flight equipment		13,275,785	15,560,292
Deposits for aircraft under operating leases		349,500	260,921
Entrust loans		1,020,000	–
Available-for-sale investments	24	22,110	22,110
Deferred tax assets	25	2,101,472	2,206,620
		141,857,734	136,258,534
Current assets			
Aircraft and flight equipment held for sale	26	460,028	580,881
Inventories	27	633,178	619,845
Accounts receivable	28	1,883,131	3,192,939
Prepayments, deposits and other receivables	29	3,514,733	3,363,109
Due from the ultimate holding company		150,079	239,348
Pledged deposits	31	–	663,317
Cash and cash equivalents	31	3,258,265	5,924,189
Other current assets		1,895,153	1,022,022
		11,794,567	15,605,650
Total assets		153,652,301	151,864,184

The notes on pages 86 to 180 form part of these financial statements.

	Note	2014 RMB'000	2013 RMB'000
Current liabilities			
Air traffic liabilities		(3,917,724)	(3,700,228)
Accounts payable	32	(7,189,711)	(7,631,767)
Other payables and accruals	33	(6,515,213)	(5,114,462)
Financial liabilities	30	–	(3,819)
Due to the ultimate holding company		(21,377)	(36,729)
Tax payable		(574,177)	(144,526)
Obligations under finance leases	34	(3,972,048)	(3,556,549)
Interest-bearing bank loans and other borrowings	35	(18,542,372)	(25,306,051)
Provision for major overhauls	36	(407,775)	(358,399)
		(41,140,397)	(45,852,530)
Net current liabilities		(29,345,830)	(30,246,880)
Total assets less current liabilities		112,511,904	106,011,654
Non-current liabilities			
Obligations under finance leases	34	(23,895,151)	(23,444,512)
Interest-bearing bank loans and other borrowings	35	(33,612,658)	(29,937,026)
Provision for major overhauls	36	(1,757,510)	(1,656,739)
Provision for early retirement benefit obligations		(18,751)	(34,942)
Deferred income	38	(2,798,912)	(2,650,844)
Deferred tax liabilities	25	(130,177)	(244,745)
		(62,213,159)	(57,968,808)
NET ASSETS		50,298,745	48,042,846
CAPITAL AND RESERVES			
Issued capital	39	13,084,751	13,084,751
Reserves	39	37,213,994	34,958,095
TOTAL EQUITY		50,298,745	48,042,846

Approved and authorised for issue by the board of directors on 26 March 2015.

Song Zhiyong Director	Fan Cheng Director

The notes on pages 86 to 180 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Proposed dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2013	12,891,955	(2,896,092)	18,777,048	4,572,881	(3,045,439)	18,867,317	776,580	49,944,250	3,367,991	53,312,241
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	3,263,642	–	3,263,642	351,319	3,614,961
Other comprehensive income/(expense)	–	–	1,126,075	–	(682,299)	–	–	443,776	(15,896)	427,880
Total comprehensive income/(expense)	–	–	1,126,075	–	(682,299)	3,263,642	–	3,707,418	335,423	4,042,841
Issue of new shares	192,796	–	851,653	–	–	–	–	1,044,449	–	1,044,449
Elimination of reciprocal shareholding	–	(151,472)	–	–	–	–	–	(151,472)	–	(151,472)
Capital contribution by the non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	200,000	200,000
Appropriation of statutory reserve funds	–	–	–	248,011	–	(248,011)	–	–	–	–
Transfer to reserve funds and others	–	–	–	412,353	–	(423,033)	–	(10,680)	(1,013)	(11,693)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(113,598)	(113,598)
Dividends declared in respect of the previous year	–	–	–	–	–	–	(776,580)	(776,580)	–	(776,580)
Proposed final dividends	–	–	–	–	–	(592,870)	592,870	–	–	–
31 December 2013 and 1 January 2014	13,084,751	(3,047,564)	20,754,776	5,233,245	(3,727,738)	20,867,045	592,870	53,757,385	3,788,803	57,546,188
Changes in equity for 2014:										
Profit for the year	–	–	–	–	–	3,817,469	–	3,817,469	467,538	4,285,007
Other comprehensive income/(expense)	–	–	(3,084,824)	–	82,495	–	–	(3,002,329)	14,562	(2,987,767)
Total comprehensive	–	–	(3,084,	–	82,495	3,817,4	–	815,14	482,10	1,297,2

income/(expense)			824)			69		0	0	40
Issue of new shares	–	–	–	–	–	–	–	–	–	–
Elimination of reciprocal shareholding	–	–	–	–	–	–	–	–	–	–
Capital contribution by the non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	980,000	980,000
Appropriation of statutory reserve funds	–	–	–	285,331	–	(285,331)	–	–	–	–
Transfer to reserve funds and others	–	–	–	248,011	–	(249,378)	–	(1,367)	(1,274)	(2,641)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(118,017)	(118,017)
Dividends declared in respect of the previous year	–	–	–	–	–	–	(592,870)	(592,870)	–	(592,870)
Proposed final dividends	–	–	–	–	–	683,417	(683,417)	–	–	–
As at 31 December 2014	13,084,751	(3,047,564)	17,669,952	5,766,587	(3,645,243)	24,833,222	(683,417)	53,978,288	5,131,612	59,109,900

The notes on pages 86 to 180 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	31(b)	18,052,301	18,001,555
Income tax paid		(529,450)	(565,439)
Interest paid		(3,458,903)	(2,827,786)
Net cash generated from operating activities		14,063,948	14,608,330
Investing activities			
Purchases of items of property, plant and equipment		(18,514,371)	(17,914,726)
Purchases of investment properties		–	(49)
Purchases of intangible assets		–	(18)
Increase in lease prepayments		(429,315)	(138,763)
Decrease/(increase) in advance payments for aircraft and flight equipment		5,112,890	(4,564,895)
Proceeds from disposal of items of property, plant and equipment		281,909	675,922
Proceeds from disposal of held-for-sale assets		865,518	590,337
Decrease of intangible assets		17,665	4,710
Net settlements of financial liabilities		(10,342)	(81,008)
Decrease in pledged deposits		672,172	54,997
Interest received		288,424	247,575
Capital contributions by non-controlling interests of a subsidiary		980,000	200,000
Purchase of an associate and a joint venture		(400)	(10,403)
Dividends received from associates and joint ventures		422,692	298,250
Net cash used in investing activities		(10,313,158)	(20,638,071)
Financing activities			
Proceeds from issue of new shares		–	1,044,449
New bank loans and other loans		39,092,053	35,070,880
Proceeds from issue of corporate bonds		1,834,120	10,700,000
Repayment of bank loans and other loans		(40,862,478)	(31,475,329)
Repayment of principals under finance lease obligations		(4,511,974)	(3,679,115)
Repayment of corporate bonds		(3,700,000)	(1,500,000)
Dividends paid		(710,887)	(890,178)
Net cash (used in)/generated from financing activities		(8,859,166)	9,270,707
Net (decrease)/increase in cash and cash equivalents		(5,108,376)	3,240,966
Cash and cash equivalents at 1 January	31(a)	14,761,830	11,787,943
Effect of foreign exchange rate changes		6,533	(267,079)
Cash and cash equivalents at 31 December	31(a)	9,659,987	14,761,830

The notes on pages 86 to 180 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1 CORPORATE INFORMATION

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

Pursuant to the approval of China Securities Regulatory Commission [2013] 37 on 16 January 2013, the Company issued 192,796,331 new A shares with RMB1,050,740,004 at the price of RMB5.45 per share to CNAHC. By deducting of the RMB6,290,821 issue fee, the net cash inflow was RMB1,044,449,183. After the issuance of A shares as at 30 January 2013, the registered capital and paid in capital of the Company have increased to RMB13,084,751,004.

The principal activities of the Company and its subsidiaries (together referred to the "Group") consist of the provision of airline, airline-related services, including aircraft engineering services, air catering services and airport ground handling services, mainly in Mainland China, Hong Kong and Macau.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

As at 31 December 2014, the Group's and the Company's current liabilities exceeded its current assets by approximately RMB39.79 billion and RMB29.35 billion respectively. The liquidity of the Group and the Company 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 approximately RMB78 billion as at 31 December 2014, the Directors of the Company believe that adequate funding is available to fulfill the Group's and the Company's debt obligations and capital expenditure requirements when preparing the financial statements for the year ended 31 December 2014. Accordingly, the financial statements have been prepared on a basis that the Group and the Company will be able to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2014 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as trading securities (see note 2(g)).

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(cc)).

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The IASB has issued and the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group.

- Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities
- Amendments to IAS 32, Offsetting financial assets and financial liabilities
- Amendments to IAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting
- IFRIC 21, Levies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company and its subsidiaries do not qualify to be investment entities.

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have any material impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have any material impact on these financial statements.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have any material impact on these financial statements as the Group has not novated any of its derivatives.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have any material impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(s) or (t) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sales (or included in a disposal group that is classified as held for sale) (see note 2(cc)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(cc)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, 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 that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(cc)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in note 2(w)(iii) and 2(w)(iv), respectively.

(g) Other investments in debt and equity securities (Continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(w)(iv) and 2(w)(iii), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses (see note 2(m)). The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives and residual values used for this purpose are as follows:

	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%
Overhaul of engine	2 to 15 years	Nil	6.67%-50%
Rotable	3 to 15 years	Nil	6.67%-33.33%
Buildings	10 to 50 years	Nil-5%	1.90%-10%
Machinery	4 to 20 years	Nil-5%	4.75%-25%
Transportation equipment	3 to 20 years	Nil-5%	4.75%-33.33%
Office equipment	4 to 8 years	Nil-5%	11.88%-25%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Property, plant and equipment under finance leases are depreciated over the same terms as self-owned fixed assets. If it is reasonably assured that the ownership of the leased property, plant and equipment could be transferred to the Group after the lease periods, the leased assets are depreciated over its estimated useful life. Otherwise, leased assets are depreciated over the shorter of the estimated useful lives of the assets and the lease terms.

Construction in progress represents buildings or various infrastructure projects under construction, and equipment pending for installation in aircraft. Construction in progress is stated at cost less any impairment losses (see note 2(m)) and is not depreciated. Costs of construction in progress comprise the direct costs of construction, the cost of equipment as well as capitalised borrowing costs on related borrowed funds during the construction or installation period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

(i) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent costs are recognised in the carrying amount of the investment properties if it is probable that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably. Otherwise, these costs are recognised in profit or loss as incurred.

The Group chooses the cost method to measure its investment properties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment properties (Continued)

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful life	Residual value	Depreciation rate
Buildings	20 to 30 years	5%	3.17%-4.75%
Lease prepayments	50 years	–	2%

The carrying amounts of investment properties measured at the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and reduction of the outstanding liability so as to achieve a constant periodical rate of interest on the remaining balance of the liability. Finance charges are charged to the profit or loss.

(k) Leases (Continued)

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(l) Advance payments for aircraft and flight equipment

Advance contractual payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years, including attributable finance costs, are included in assets. The advances are accounted for as part of the cost of property, plant and equipment upon delivery of the aircraft and flight equipment.

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- advance payments for aircraft and flight equipment;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) Treasury shares

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

(o) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to be incurred to completion and disposal.

(p) Trade and other receivable

Trade and other receivable is initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivable is stated at cost less allowance for impairment of bad and doubtful debts.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Manufacturers' credits

In connection with the acquisition of certain aircraft and flight equipment, the Group receives various credits from the manufacturers. Such credits are deferred until the aircraft and flight equipment are delivered, at which time they are applied as a reduction of the cost of acquiring the aircraft and flight equipment.

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the profit or loss.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Provision of airline and airline-related services

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(ii) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the Group's rights to receive payments is established.

(v) Rental income and aircraft and flight equipment lease income

Rental income is recognised on a time proportion basis over the terms of the respective leases.

(x) Frequent-flyer programmes

The Group operates frequent-flyer programmes which allow customers to earn miles when they purchase air tickets from the Group. The miles can then be redeemed for free services or products, subject to a minimum number of points to be obtained. The consideration received or receivable from the tickets sold is allocated between the miles earned by the frequent-flyer programme members and the other components of the sales transactions. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfills its obligations to supply services or products or when the miles expire.

(y) Maintenance and overhaul costs

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

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

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

(z) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the profit or loss over the expected useful life of the relevant asset by equal annual installments.

(aa) Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of aircraft borrowing costs ceases when the assets are substantially ready for their intended use or sale are interrupted or complete. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(bb) Employee benefits

(i) Pension obligations

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formula. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. In addition to these plans, the Company, Air China Cargo Co., Ltd. (“Air China Cargo”), Beijing Airlines Co., Ltd. (“Beijing Airlines”), Dalian Airlines Co., Ltd. (“Dalian Airlines”), Shenzhen Airlines Co., Ltd. (“Shenzhen Airlines”), Beijing Golden Phoenix Human Resource Co., Ltd. (“Golden Phoenix”), Zhejiang Air Services Co., Ltd.(“Zhejiang Air Services”), Air China Group Import and Export Trading Co. (“AIE”), Shanghai Air China Aviation Service Co., Ltd. (“Shanghai Air Services”) and Chengdu Falcon Aircraft Engineering Service Co., Ltd. (“Chengdu Falcon”) had implemented defined contribution retirement scheme for voluntary employees. Contributions are made based on a percentage of the employees’ total salaries and are charged to the profit or loss in accordance with the rules of the scheme.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Employee benefits (Continued)

(ii) Termination and early retirement benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(iv) Share-based payments

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. Employees (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 recognises the services received, and a liability to pay for those services, as the employees render services.

The cost of cash-settled transactions with employees is measured initially at fair value at the grant date using a binomial model. The liability is remeasured at each reporting date up to and including the settlement date, with any changes in fair value recognised in profit or loss for the period.

(cc) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(dd) Translation of foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on the items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the rates of exchange prevailing at the end of the reporting period and their profits or losses are translated into RMB at the average exchange rates for the period of the translations. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign entity is recognised in the profit or loss.

(ee) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ff) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those polices and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

– Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 was RMB1,100 million (31 December 2013: RMB1,100 million). More details are given in note 20 to the financial statements.

– 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. Indefinite life intangible assets 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 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 to sell and its value in use. The calculation of the fair value less costs to sell 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.

– Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to estimate 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

– Overhaul cost

Cost of overhaul for aircraft and engines under operating leases are accrued and charged to the profit or loss over the estimated overhaul period. This requires estimation of the expected flying hours/cycles, overhaul cost and overhaul cycle, which are largely based on the past experience of overhauls of aircraft and engines of the same or similar types. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

– Deferred income

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

4 OPERATING 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 comprises the provision of air passenger and air cargo services; and

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

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

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.

4 OPERATING 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 2014 and 2013 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2014

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
Revenue				
Sales to external customers	104,651,713	173,970	–	104,825,683
Intersegment sales	–	2,213,054	(2,213,054)	–
Revenue for reportable segments under CASs	104,651,713	2,387,024	(2,213,054)	104,825,683
Business tax not included in segment revenue				(188,016)
Other income not included in segment revenue				1,157,998
Effects of differences between IFRSs and CASs				88,657
Revenue for the year under IFRSs				105,884,322
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,940,011	78,075	–	5,018,086
Effects of differences between IFRSs and CASs				46,775
Profit before taxation for the year under IFRSs				5,064,861

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2013

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
Revenue				
Sales to external customers	97,498,291	129,962	–	97,628,253
Intersegment sales	–	2,008,008	(2,008,008)	–
Revenue for reportable segments under CASs	97,498,291	2,137,970	(2,008,008)	97,628,253
Business tax not included in segment revenue				(308,512)
Other income not included in segment revenue				772,392
Effects of differences between IFRSs and CASs				88,657
Revenue for the year under IFRSs				98,180,790
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,413,935	169,453	–	4,583,388
Effects of differences between IFRSs and CASs				(65,295)
Profit before taxation for the year under IFRSs				4,518,093

4 OPERATING 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 2014 and 2013 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	Eliminations RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2014 under CASs	206,322,496	4,243,977	(923,604)	209,642,869
Effects of differences between IFRSs and CASs				(332,172)
Total assets under IFRSs				209,310,697
Total assets for reportable segments as at 31 December 2013 under CASs	202,124,315	4,365,913	(1,128,345)	205,361,883
Effects of differences between IFRSs and CASs				(278,596)
Total assets under IFRSs				205,083,287

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2014 under CASs	150,552,686	542,163	(923,604)	150,171,245
Effects of differences between IFRSs and CASs				29,552
Total liabilities under IFRSs				150,200,797
Total liabilities for reportable segments as at 31 December 2013 under CASs	147,507,445	1,039,790	(1,128,345)	147,418,890
Effects of differences between IFRSs and CASs				118,209
Total liabilities under IFRSs				147,537,099

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2014

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	701,060	172,789	–	873,849	–	873,849
Impairment losses recognised in profit or loss, net	(131,591)	1,840	–	(129,751)	40,193	(89,558)
Depreciation and amortisation	11,596,312	16,390	–	11,612,702	(223,328)	11,389,374
Finance revenue	210,633	11,984	(3,407)	219,210	10,878	230,088
Finance costs	3,463,882	(350)	(3,407)	3,460,125	(159,402)	3,300,723
Taxation	751,416	16,744	–	768,160	11,694	779,854
Interests in associates and joint ventures	11,455,632	1,912,373	–	13,368,005	(81,418)	13,286,587
Additional to non-current assets	31,196,654	14,413	–	31,211,067	–	31,211,067

Year ended 31 December 2013

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	605,881	216,906	–	822,787	–	822,787
Impairment losses recognised in profit or loss, net	490,714	47	–	490,761	107,927	598,688
Depreciation and amortisation	11,113,873	13,884	–	11,127,757	(104,531)	11,023,226
Finance revenue	2,245,239	15,835	–	2,261,074	4,257	2,265,331
Finance costs	3,035,034	2,801	–	3,037,835	(349,746)	2,688,089
Taxation	897,222	16,234	–	913,456	(10,324)	903,132
Interests in associates and joint ventures	14,123,664	1,816,176	–	15,939,840	(81,418)	15,858,422
Additional to non-current assets	31,605,706	23,886	–	31,629,592	–	31,629,592

4 OPERATING 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 2014 and 2013, respectively:

Year ended 31 December 2014

	Mainland China	Hong Kong, Macau and Taiwan	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers and total revenue	68,003,280	6,186,245	11,304,062	9,339,397	5,452,765	5,598,573	105,884,322

Year ended 31 December 2013

	Mainland China	Hong Kong, Macau and Taiwan	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers and total revenue	64,386,657	5,491,532	10,152,698	7,929,394	5,023,165	5,197,344	98,180,790

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

Information about a major customer

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year (2013: Nil).

5 AIR TRAFFIC REVENUE

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

	2014	2013
	RMB'000	RMB'000
Passenger	92,599,317	86,726,799
Cargo and mail	8,785,882	7,876,369
	101,385,199	94,603,168

6 OTHER OPERATING REVENUE

	2014 RMB'000	2013 RMB'000
Aircraft engineering income	113,863	93,610
Ground service income	930,733	765,613
Government grants:		
– Recognition of deferred income	149,601	121,377
– Others	999,052	689,105
Service charges on return of unused flight tickets	871,254	744,767
Cargo handling service income	124,399	101,688
Training service income	40,429	28,970
Rental income	133,936	131,913
Sale of materials	11,780	17,111
Import and export service income	36,828	34,422
Others	1,087,248	849,046
	4,499,123	3,577,622

7 EMPLOYEE COMPENSATION COSTS

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

	2014 RMB'000	2013 RMB'000
Wages, salaries and other benefits	13,903,544	12,569,478
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	1,611,377	1,446,155
– Early retirement benefits	(13,992)	579
Share-based benefits (note 40)	11,835	7,427
	15,512,764	14,023,639

8 PROFIT FROM OPERATIONS

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

	2014 RMB'000	2013 RMB'000
Depreciation	11,322,989	10,936,619
Amortisation:		
– Lease prepayments	54,075	54,222
– Investment properties	12,310	32,385
Impairment/(reversal of impairment):		
– Property, plant and equipment	35,105	222,438
– Aircraft and flight equipment held for sale	361,892	332,014
– Inventories	1,740	19,748
– Accounts receivable	2,675	17,929
– Prepayments, deposits and other receivables	(490,970)	6,559
Losses on disposal of property, plant and equipment	39,510	140,141
Minimum lease payments under operating leases:		
– Aircraft and flight equipment	4,536,641	4,006,096
– Land and buildings	866,533	728,925
Auditors' remuneration:		
– Audit related services	18,801	16,440
– Other services	527	–

9 FINANCE REVENUE AND FINANCE COSTS

An analysis of the Group's finance revenue and finance costs during the year is as follows:

Finance revenue

	2014 RMB'000	2013 RMB'000
Exchange gains, net	–	1,937,887
Interest income	219,210	323,188
Others	10,878	4,256
	230,088	2,265,331

9 FINANCE REVENUE AND FINANCE COSTS (Continued)

Finance costs

	2014 RMB'000	2013 RMB'000
Interest on interest-bearing bank loans and other borrowings	2,902,509	2,804,229
Interest on finance leases	503,376	383,787
Loss on interest rate derivative contracts, net	371	1,646
Exchange losses, net	360,290	–
	3,766,546	3,189,662
Less: Interest capitalised	(465,823)	(501,573)
	3,300,723	2,688,089

The interest capitalisation rates during the year range from 0.77% to 6.55% (2013: 0.81% to 8.46%) per annum relating to the costs of related borrowings during the year.

10 TAXATION

(a) Taxation in the consolidated statement of profit or loss represents:

	2014 RMB'000	2013 RMB'000
Current income tax:		
– Mainland China	774,564	842,656
– Hong Kong and Macau	13,339	29,214
Over-provision in respect of prior years	(6,692)	(8,178)
Deferred income tax (note 25)	(1,357)	39,440
	779,854	903,132

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches which are taxed at a preferential rate of 15% (2013: 15%) and a subsidiary which is exempted from the local income tax of Inner Mongolia Autonomous Region from year 2013 to 2015, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2013: 25%) during the year. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (2013: 16.5% and 12%), respectively.

In respect of majority of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC governments, 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.

10 TAXATION (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014 RMB'000	2013 RMB'000
Profit before taxation	5,064,861	4,518,093
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	1,266,215	1,129,523
Tax rate differential in foreign jurisdictions	(66,149)	(79,531)
Tax effect of share of profits less losses of associates and joint ventures	(218,462)	(205,697)
Tax effect of non-deductible expenses	23,313	24,474
Tax effect of non-taxable income	(83,675)	(49,791)
Deductible temporary differences and tax losses not recognised	64,296	228,275
Utilisation of tax losses not recognised in prior years	(3,156)	(4,440)
Utilisation of deductible temporary differences not recognised in prior years	(73,207)	(121,904)
Effect of prior years' recognised taxable temporary differences written-back during the year	–	(15,599)
Effect of the reversal of impairment of prepayments, deposits and other receivables that was recognised as permanent differences in previous years	(122,629)	–
Over-provision in prior years	(6,692)	(8,178)
Others	–	6,000
Actual tax expense	779,854	903,132
Effective tax rate	15.4%	20.0%

11 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), for the year ended 31 December 2014 are as follows:

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Retirement benefits	SARs (note 40)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Song Zhiyong (Appointed on 22 May 2014) (1)	–	574	157	81	–	812
Fan Cheng	–	292	565	82	–	939
	–	866	722	163	–	1,751
Non-executive directors						
Cai Jianjiang (Appointed on 28 January 2014)	–	28	433	7	–	468
Wang Changshun (Resigned on 27 January 2014)	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Feng Gang (Appointed on 26 August 2014)	–	111	387	32	–	530
John Robert Slosar (Appointed on 22 May 2014)	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
Sun Yude (Resigned on 10 July 2014)	–	–	–	–	–	–
Christopher Dale Pratt (Resigned on 14 March 2014)	–	–	–	–	–	–
	–	139	820	39	–	998
Independent non-executive directors						
Fu Yang	131	–	–	–	–	131
Yang Yuzhong	131	–	–	–	–	131
Pan Xiaojiang	–	–	–	–	–	–
To Chi Keung, Simon	131	–	–	–	–	131
	393	–	–	–	–	393
Supervisors						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	359	118	59	–	536
Li Qinglin	–	–	–	–	–	–
He Chaofan	–	–	–	–	–	–
Shen Zhen	–	183	33	43	–	259
	–	542	151	102	–	795
	393	1,547	1,693	304	–	3,937

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Details of directors' and supervisors' emoluments for the year ended 31 December 2013 are as follows:

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Retirement benefits	SARs (note 40)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Cai Jianjiang	–	348	603	85	–	1,036
Fan Cheng	–	287	606	79	–	972
	–	635	1,209	164	–	2,008
Non-executive directors						
Wang Changshun	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Sun Yude	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Li Shuang (Resigned on 29 October 2013)	83	–	–	–	–	83
Fu Yang	100	–	–	–	–	100
Han Fangming (Resigned on 29 October 2013)	83	–	–	–	–	83
Yang Yuzhong	100	–	–	–	–	100
Pan Xiaojiang (Appointed on 29 October 2013)	17	–	–	–	–	17
To Chi Keung, Simon (Appointed on 29 October 2013)	17	–	–	–	–	17
	400	–	–	–	–	400
Supervisors						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	338	109	56	–	503
Su Zhiyong (Resigned on 29 October 2013)	–	203	56	41	–	300
Li Qinglin	–	–	–	–	–	–
Zhang Xueren (Resigned on 29 October 2013)	–	–	–	–	–	–
He Chaofan (Appointed on 29 October 2013)	–	–	–	–	–	–
Shen Zhen (Appointed on 29 October 2013)	–	29	5	7	–	41
	–	570	170	104	–	844
	400	1,205	1,379	268	–	3,252

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Song Zhiyong is both a director and the chief executive of the Company for the year ended 31 December 2014.

(2) Certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in note 40 to the financial statements.

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors (2013: none), whose emoluments are reflected in the note 11, was among the five highest paid individuals in the Group for 2014. The aggregate of the emoluments in respect of the five (2013: five) individuals during the year are as follows:

	2014 RMB'000	2013 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	11,166	11,379
Discretionary bonuses	181	305
	11,347	11,684

The emoluments of the five (2013: five) individuals with the highest emoluments are within the following bands:

	2014 Number of individuals	2013 Number of individuals
HK$2,500,001 to HK$3,000,000	5	3
HK$3,000,001 to HK$3,500,000	–	2
	5	5

During the year, Mr. Pan Xiaojiang had waived the remuneration, and there was no other arrangement under which a director, a supervisor or a chief executive waived or agreed to waive any remuneration during the year (2013: Nil).

13 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company includes a profit of RMB2,848,769,000 in 2014 (2013: RMB2,191,536,000) (note 39(a)) which has been dealt with in the financial statements of the Company.

	2014 RMB'000	2013 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	2,514,291	1,887,666
Final dividends from subsidiaries, associates and joint ventures attributable to the profits of the previous financial year, approved and paid during the year	334,478	303,870
The Company's profit for the year (note 39(a))	2,848,769	2,191,536

Details of dividends paid and payable to equity shareholders of the Company are set out in note 39(d).

14 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2014 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,817 million (2013: RMB3,264 million) and the weighted average of 12,294,896,740 ordinary shares (2013: 12,294,184,525 ordinary shares) in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited ("Cathay Pacific") through reciprocal shareholding.

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

15 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2014 and 2013.

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2013	169,528,062	7,082,182	2,857,438	2,099,460	1,369,716	7,280,987	190,217,845
Additions	2,483,315	6,918	101,646	46,047	115,026	19,668,734	22,421,686
Transfer from construction in progress	17,179,615	521,300	582,144	46,573	109,466	(18,439,098)	–
Reclassification to aircraft and flight equipment held for sale	(8,501,157)	–	–	–	–	–	(8,501,157)
Disposals	(5,297,468)	(160,354)	(69,973)	(94,377)	(42,400)	–	(5,664,572)
Exchange realignment	(17,229)	–	(715)	940	(3,080)	–	(20,084)
At 31 December 2013 and 1 January 2014	175,375,138	7,450,046	3,470,540	2,098,643	1,548,728	8,510,623	198,453,718
Additions	5,059,235	1,913	264,227	39,270	42,013	22,581,995	27,988,653
Transfer from construction in progress	21,517,066	760,860	324,402	60,882	129,864	(22,793,074)	–
Reclassification to aircraft and flight equipment held for sale	(3,244,361)	–	–	–	–	–	(3,244,361)
Disposals	(4,915,679)	(64,092)	(25,632)	(46,266)	(32,752)	–	(5,084,421)
Exchange realignment	15,800	–	414	260	1,188	–	17,662
At 31 December 2014	193,807,199	8,148,727	4,033,951	2,152,789	1,689,041	8,299,544	218,131,251
Accumulated depreciation							
1 January 2013	(58,248,623)	(2,137,323)	(1,252,210)	(1,219,035)	(900,087)	–	(63,757,278)
Reclassification to aircraft and flight equipment held for sale	6,254,560	–	–	–	–	–	6,254,560
Charge for the year	(10,021,662)	(273,849)	(229,905)	(177,094)	(234,109)	–	(10,936,619)
Written back on disposals	4,201,379	43,395	60,563	83,735	42,879	–	4,431,951
Exchange realignment	13,460	–	685	423	1,182	–	15,750
At 31 December 2013 and 1 January 2014	(57,800,886)	(2,367,777)	(1,420,867)	(1,311,971)	(1,090,135)	–	(63,991,636)
Reclassification to aircraft and flight equipment held for sale	2,397,931	–	–	–	–	–	2,397,931
Charge for the year	(10,406,010)	(258,252)	(309,160)	(173,098)	(176,469)	–	(11,322,989)
Written back on disposals	3,753,363	26,613	21,452	40,314	32,351	–	3,874,093
Exchange realignment	(8,389)	–	(395)	(160)	(803)	–	(9,747)
At 31 December 2014	(62,063,991)	(2,599,416)	(1,708,970)	(1,444,915)	(1,235,056)	–	(69,052,348)
Impairment							
1 January 2013	(2,980,829)	–	–	–	–	–	(2,980,829)
Reclassification to aircraft and flight equipment held for sale	916,917	–	–	–	–	–	916,917
Charge for the year	(222,438)	–	–	–	–	–	(222,438)

Written back on disposals	630,112	–	–	–	–	–	630,112
At 31 December 2013 and 1 January 2014	(1,656,238)	–	–	–	–	–	(1,656,238)
Reclassification to aircraft and flight equipment held for sale	151,085	–	–	–	–	–	151,085
Charge for the year	(35,105)	–	–	–	–	–	(35,105)
Written back on disposals	641,182	–	–	–	–	–	641,182
At 31 December 2014	(899,076)	–	–	–	–	–	(899,076)
Net book value							
At 31 December 2014	130,844,132	5,549,311	2,324,981	707,874	453,985	8,299,544	148,179,827
At 31 December 2013	115,918,014	5,082,269	2,049,673	786,672	458,593	8,510,623	132,805,844

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2013	133,723,083	5,323,140	1,753,306	1,505,409	1,172,716	4,457,198	147,934,852
Additions	318,200	490	122	10,038	18,097	15,601,380	15,948,327
Transfer from construction in progress	14,126,850	507,420	567,841	46,152	78,463	(15,326,726)	–
Reclassification to aircraft and flight equipment held for sale	(7,432,675)	–	–	–	–	–	(7,432,675)
Disposals	(5,374,369)	(26,973)	(58,026)	(19,522)	(32,646)	–	(5,511,536)
At 31 December 2013 and 1 January 2014	135,361,089	5,804,077	2,263,243	1,542,077	1,236,630	4,731,852	150,938,968
Additions	414,292	–	13,785	5,332	29,266	14,926,127	15,388,802
Transfer from construction in progress	13,691,107	364,776	249,793	60,587	101,118	(14,467,381)	–
Reclassification to aircraft and flight equipment held for sale	(3,244,361)	–	–	–	–	–	(3,244,361)
Disposals	(3,954,615)	(77,227)	(10,972)	(36,130)	(27,674)	–	(4,106,618)
Transferred to subsidiaries	(2,579,526)	(48,997)	(7,079)	(35,450)	(10,914)	–	(2,681,966)
At 31 December 2014	139,687,986	6,042,629	2,508,770	1,536,416	1,328,426	5,190,598	156,294,825
Accumulated depreciation							
1 January 2013	(50,420,462)	(1,705,181)	(688,328)	(822,897)	(781,132)	–	(54,418,000)
Reclassification to aircraft and flight equipment held for sale	5,792,690	–	–	–	–	–	5,792,690
Charge for the year	(7,715,671)	(218,783)	(132,444)	(125,476)	(150,679)	–	(8,343,053)
Written back on disposals	4,486,730	12,032	48,114	19,184	30,238	–	4,596,298
At 31 December 2013 and 1	(47,856,71	(1,911,932	(772,658)	(929,189)	(901,573)	–	(52,372,06

January 2014	3)	)					5)
Reclassification to aircraft and flight equipment held for sale	2,397,931	–	–	–	–	–	2,397,931
Charge for the year	(7,737,747)	(203,037)	(166,238)	(123,216)	(134,307)	–	(8,364,545)
Written back on disposals	2,868,307	24,430	9,334	32,437	27,397	–	2,961,905
Transferred to subsidiaries	1,814,952	29,218	5,024	22,722	8,555	–	1,880,471
At 31 December 2014	(48,513,270)	(2,061,321)	(924,538)	(997,246)	(999,928)	–	(53,496,303)
Impairment							
1 January 2013	(2,427,202)	–	–	–	–	–	(2,427,202)
Reclassification to aircraft and flight equipment held for sale	727,090	–	–	–	–	–	727,090
Charge for the year	(222,438)	–	–	–	–	–	(222,438)
Written back on disposals	376,254	–	–	–	–	–	376,254
At 31 December 2013 and 1 January 2014	(1,546,296)	–	–	–	–	–	(1,546,296)
Reclassification to aircraft and flight equipment held for sale	151,085	–	–	–	–	–	151,085
Charge for the year	–	–	–	–	–	–	–
Written back on disposals	613,831	–	–	–	–	–	613,831
Transferred to subsidiaries	120,895	–	–	–	–	–	120,895
At 31 December 2014	(660,485)	–	–	–	–	–	(660,485)
Net book value							
At 31 December 2014	90,514,231	3,981,308	1,584,232	539,170	328,498	5,190,598	102,138,037
At 31 December 2013	85,958,080	3,892,145	1,490,585	612,888	335,057	4,731,852	97,020,607

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, the Group recognised an impairment loss of approximately RMB35 million relating to aircraft and flight equipment (2013: RMB222 million). The recoverable amounts of these impaired aircraft and flight equipment are the higher of their fair value less costs to sell and value in use.

As at 31 December 2014, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB40,001 million (2013: RMB36,906 million) were pledged to secure certain bank loans of the Group (note 35(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group and the Company amounted to approximately RMB58,673 million (2013: RMB48,401 million) and RMB48,275 million (2013: RMB45,142 million) (note 34), respectively.

As at 31 December 2014, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB1,965 million (2013: RMB2,103 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2014.

17 LEASE PREPAYMENTS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000

Cost				
As at 1 January	2,611,034	2,474,210	1,846,624	1,791,173
Additions	484,499	138,763	103,856	57,390
Disposal	(32,093)	(1,939)	(55,789)	(1,939)
As at 31 December	3,063,440	2,611,034	1,894,691	1,846,624
Accumulated amortisation				
As at 1 January	(407,657)	(353,715)	(292,509)	(253,526)
Amortisation for the year	(54,075)	(54,222)	(37,330)	(39,263)
Disposal	31,950	280	11,198	280
As at 31 December	(429,782)	(407,657)	(318,641)	(292,509)
Net carrying amount				
As at 31 December	2,633,658	2,203,377	1,576,050	1,554,115

17 LEASE PREPAYMENTS (Continued)

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

As at 31 December 2014, the Group's land use rights with an aggregate net book value of approximately RMB37 million (2013: RMB38 million) were pledged to secure certain bank loans of the Group (note 35(a)).

As at 31 December 2014, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB604 million (2013: RMB555 million). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2014.

18 INVESTMENT PROPERTIES

The Group's investment properties are subsequently measured at the cost method.

	2014 RMB'000	2013 RMB'000
Cost		
As at 1 January	387,466	338,614
Addition	449,674	48,852
As at 31 December	837,140	387,466
Accumulated amortisation		
As at 1 January	(141,175)	(108,790)
Amortisation for the year	(12,310)	(32,385)
As at 31 December	(153,485)	(141,175)
Net carrying amount		
As at 31 December	683,655	246,291

As at 31 December 2014, among the carrying amount of investment properties, there are RMB40 million (2013: RMB41 million) relating to land use rights held under a medium term lease.

19 INTANGIBLE ASSET

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	54,524	59,216	30,507	35,217
Additions	–	18	–	–
Reduction upon admission of new Star Alliance members	(17,665)	(4,710)	(17,665)	(4,710)
As at 31 December	36,859	54,524	12,842	30,507

The Group's intangible asset represents admission rights of the Company and Shenzhen Airlines to Star Alliance which is stated at cost less impairment losses and has an indefinite useful life.

20 GOODWILL

	2014	2013
	RMB'000	RMB'000
As at 31 December:		
– Cost	1,276,866	1,276,866
– Impairment	(176,891)	(176,891)
Net carrying amount	1,099,975	1,099,975

Impairment testing of goodwill

Goodwill acquired through business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Air China Cargo cash-generating unit
- Shenzhen Airlines cash-generating unit

Air China Cargo cash-generating unit

The Group accrued full impairment provision for goodwill allocated impairment to the Air China Cargo in 2011.

20 GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Shenzhen Airlines cash-generating unit

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to the cash flow projections is 10% (2013: 10%) and cash flows beyond the three-year period were extrapolated using a growth rate of 2% by reference to the long-term average growth rate.

Assumptions were used in the value in use calculation for 31 December 2014 and 31 December 2013. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used reflect specific risks relating to the relevant units.

With regard to the assessment of value in use of the Shenzhen Airlines cash-generating unit, the Directors of the Company believe that no reasonably possible change in any of the above key assumption would cause the carrying value of the unit to materially exceed its recoverable amount.

21 INTERESTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted investments, at cost	19,643,911	17,971,735

21 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2014 are as follows:

Company name	Place of incorporation / registration and operations	Legal status	Nominal value of registered capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$331,268,000	69	31	Investment holding
AIE (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Air Services # (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 Air China Aviation Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Golden Phoenix # (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau	Limited liability company	MOP442,042,000	–	67	Airline operator
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB5,235,294,118	51	–	Provision of cargo carriage services
Chengdu Falcon # (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB37,565,216	60	–	Provision of aircraft overhaul and maintenance services

Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB812,500,000	51	–	Airline operator
Shenzhen Jinpeng Industrial & Trading Co., Ltd.# (深圳金鵬工貿有限責任公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	–	100	Tickets agent
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# (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 (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator

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

21 INTERESTS IN SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2014 or formed a substantial portion of the net assets of the Group as at 31 December 2014. To give details of other subsidiaries would, in the opinion of the Directors, result in particular of excessive length.

The following table lists out the information relating to Shenzhen Airlines and Air China Cargo, the subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2014		2013	
	Shenzhen Airlines	Air China Cargo	Shenzhen Airlines	Air China Cargo
	RMB'000	RMB'000	RMB'000	RMB'000
NCI percentage	49%	49%	49%	49%
Current assets	3,242,187	2,158,168	2,951,611	2,183,731
Non-current assets	40,722,584	10,936,980	36,379,227	8,175,604
Current liabilities	(18,126,461)	(3,565,665)	(17,302,682)	(8,265,177)
Non-current liabilities	(21,338,885)	(6,709,104)	(18,074,771)	(1,341,685)
Net assets	4,499,425	2,820,379	3,953,385	752,473
– Equity contributed to equity shareholder of the subsidiary	4,457,500	2,820,379	3,914,480	752,473
– Equity contributed to the NCI at the subsidiary level	41,925	–	38,905	–
Carrying amount of NCI	2,226,100	1,381,986	1,957,000	368,712
Revenue	22,891,427	9,263,321	21,637,583	8,102,114
Profit/(loss) for the year	747,810	67,789	888,166	(348,416)
Total comprehensive income/(expenses)	779,220	67,906	888,046	(349,412)
Total comprehensive income/(expenses)	381,818	33,274	435,142	(171,212)

allocated to NCI				
Capital contribution by NCI	–	980,000	–	–
Dividend paid to NCI	(115,738)	–	(112,602)	–
Cash flows from operating activities	3,540,033	(1,083,733)	3,381,728	426,018
Cash flows from investing activities	(1,532,503)	(960,831)	(3,031,803)	(4,761,236)
Cash flows from financing activities	(2,011,338)	1,962,257	(742,895)	4,629,667

22 INTERESTS IN ASSOCIATES

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Listed shares in the PRC, at cost	–	–	163,477	163,477
Unlisted investments, at cost	–	–	602,671	602,671
Share of net assets				
– Listed shares in the PRC	542,058	512,031	–	–
– Listed shares in Hong Kong	7,186,996	9,929,488	–	–
– Unlisted investments	1,297,295	1,265,161	–	–
Goodwill	2,914,352	2,914,352	–	–
	11,940,701	14,621,032	766,148	766,148
Less: impairment	46,842	46,842	–	–
As at 31 December	11,893,859	14,574,190	766,148	766,148
Market value of listed shares	16,858,414	16,363,884	1,129,968	1,151,856

22 INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2014 are as follows:

Company name	Place of incorporation/registration and operations	Nominal value of registered capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific* (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Corporation (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
China National Aviation Finance Co., Ltd. ("CNAF") ** (中航集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Provision of aircraft overhaul and maintenance services
CAAC Cares Chongqing 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 CAAC 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
Zhengzhou Aircraft Maintenance Engineering Co., Ltd.*# (鄭州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	Provision of aircraft overhaul and maintenance 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.

** 19.3% of the Group's equity interest in CNAF is held directly by the Company, and the remaining 4.2% is 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 for the year ended 31 December 2014 or formed a substantial portion of the net assets of the Group as at 31 December 2014. To give details of other associates would, in the opinion of the Directors, result in particular of excessive length.

22 INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of Cathay Pacific, the only individually material associate of the Group, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	Cathay Pacific	
	2014	2013
	RMB'000	RMB'000
Gross amounts of the associate's		
Current assets	26,401,111	30,808,422
Non-current assets	109,264,017	104,088,990
Current liabilities	(36,099,479)	(32,060,100)
Non-current liabilities	(58,660,373)	(53,294,601)
Equity	40,905,276	49,542,711
– Equity contributed to equity shareholders of the associate	40,801,934	49,444,432
– Equity contributed to NCI of the associate	103,342	98,279
Revenue	83,473,212	80,240,493
Profit for the year	2,717,048	2,318,960
Other comprehensive (expense)/income	(10,471,265)	3,832,992
Total comprehensive (expense)/income	(7,754,217)	6,151,952
Dividend received from the associate	241,976	129,859
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	40,801,934	49,444,432
Group's effective interest	29.99%	29.99%
Group's share of net assets of the associate	12,236,500	14,828,385
Elimination of reciprocal shareholding	(5,049,504)	(4,898,897)
Goodwill	2,701,567	2,701,567
Carrying amount in the consolidated financial statements	9,888,563	12,631,055

Aggregate information of associates that are not individually material:

	Group	
	2014	2013
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	2,005,296	1,943,135
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	164,107	223,737
Other comprehensive income/(expense)	27,141	(1,174)
Total comprehensive income	191,248	222,563

23 INTERESTS IN JOINT VENTURES

	Group 2014 RMB'000	Group 2013 RMB'000	Company 2014 RMB'000	Company 2013 RMB'000
Unlisted investment, at cost	–	–	951,879	865,479
Share of net assets	1,386,218	1,277,722	–	–
Goodwill	6,510	6,510	–	–
	1,392,728	1,284,232	951,879	865,479

Particulars of the joint ventures of the Group at 31 December 2014 are as follows:

Company name	Place of incorporation/registration and operations	Nominal value of registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing ("Ameco") (北京飛機維修工程有限公司)	PRC/Mainland China	US$187,533,000	60	57.1	60	Provision of aircraft and engine overhaul and maintenance services
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
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	28.6	39	Provision of cargo carriage services
GA Innovation China (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	50	Wholesale and import of aircraft and components
Sichuan Services Aero-Engine Maintenance Company (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$71,900,000	60	60	60	Provision of engine overhaul and maintenance services
Shanghai International Airport Service Co. Ltd (上海國際機場地面服務	PRC/Mainland China	RMB360,000,000	24	24	24	Provision of airport ground handling services

有限公司)						

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

23 INTERESTS IN JOINT VENTURES (Continued)

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

	Group	
	2014	2013
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	1,392,728	1,284,232
Aggregate amounts of the Group's share of those joint ventures'		
Profit from continuing operations	120,191	175,972
Other comprehensive income/(expense)	118	(1,003)
Total comprehensive income	120,309	174,969

24 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments				
– Unlisted	36,725	36,325	22,110	22,110
– Listed	51,454	9,600	–	–
	88,179	45,925	22,110	22,110

25 DEFERRED TAX ASSETS AND LIABILITIES

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
As at 1 January	3,263,246	2,849,703	2,206,620	2,024,156
Charge to profit or loss (note 10)	313,348	413,543	(105,148)	182,464
Gross deferred tax assets as at 31 December	3,576,594	3,263,246	2,101,472	2,206,620
Deferred tax liabilities:				
As at 1 January	2,014,407	1,561,424	244,745	210,441
Charge to profit or loss (note 10)	311,991	452,983	(114,568)	34,304
Recognised in other comprehensive income	10,464	–	–	–
Gross deferred tax liabilities as at 31 December	2,336,862	2,014,407	130,177	244,745
Net deferred tax assets as at 31 December	1,239,732	1,248,839	1,971,295	1,961,875

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Differences in value of property, plant and equipment	84,629	74,159	84,629	74,159
Provisions and accruals	2,542,263	2,180,112	1,659,635	1,440,161
Unrealised profit of intra-group transactions	41,658	–	–	–
Unrealised loss on derivative financial instruments	–	955	–	955
Impairment	511,511	978,468	349,820	661,793
Deductible loss	389,145	–	–	–
Government grants and subsidies	7,388	29,552	7,388	29,552
Gross deferred tax assets	3,576,594	3,263,246	2,101,472	2,206,620
Deferred tax liabilities:				
Unrealised exchange gain	(29,591)	(45,746)	(29,591)	(45,746)
Changes in fair value of available-for-sale financial assets	(10,464)	–	–	–
Depreciation allowance in excess of the related depreciation	(2,111,098)	(1,822,708)	(100,586)	(198,999)
Others	(185,709)	(145,953)	–	–
Gross deferred tax liabilities	(2,336,862)	(2,014,407)	(130,177)	(244,745)
Net deferred tax assets	1,239,732	1,248,839	1,971,295	1,961,875

Deferred tax assets not recognised are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Tax losses	2,268,480	2,253,267
Deductible temporary differences	624,277	687,758
	2,892,757	2,941,025

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The Group has no tax losses arising from operations outside Mainland China (2013: Nil). The Group has tax losses arising from the operation in Mainland China of RMB2,892,757,000 (2013: RMB2,941,025,000) 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26 AIRCRAFT AND FLIGHT EQUIPMENT HELD FOR SALE

Aircraft and flight equipment held for sale represent aircraft and the related flight equipment to retire in the next 12 months and are measured at the lower of their carrying amounts and fair values less costs to sell.

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft and flight equipment held for sale	460,028	997,666	460,028	580,881

An impairment loss charged of approximately RMB361,892,000 and RMB361,892,000, for the Group and the Company respectively, was made against these aircraft and flight equipment by reference to the contracted selling prices for the year ended 31 December 2014 (2013: RMB332,014,000 and RMB332,014,000, respectively).

27 INVENTORIES

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Spare parts of flight equipment	901,512	848,828	546,514	532,317
Catering supplies	100,665	104,750	46,839	57,507
Ordinary equipment	22,354	34,206	16,843	17,647
Others	75,648	56,833	22,982	12,374
	1,100,179	1,044,617	633,178	619,845

28 ACCOUNTS RECEIVABLE

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	2,903,464	2,935,838	1,937,140	3,250,979
Impairment	(69,334)	(74,671)	(54,009)	(58,040)
	2,834,130	2,861,167	1,883,131	3,192,939

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers while some major customers are granted a credit period of up to six months or above. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

The ageing analysis of the accounts receivable as at the end of the reporting period, net of provision for impairment, is as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	2,262,237	2,245,022	1,435,628	1,311,589
31 to 60 days	263,514	259,966	71,405	350,112
61 to 90 days	110,406	120,542	241,155	352,688
Over 90 days	197,973	235,637	134,943	1,178,550
	2,834,130	2,861,167	1,883,131	3,192,939

28 ACCOUNTS RECEIVABLE (Continued)

The movement in the provision for impairment of accounts receivable during the year, including both specific and collective loss components, is as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	74,671	58,899	58,040	41,978
Impairment losses recognised	5,892	20,820	5,482	18,241
Amount reversed	(3,217)	(2,891)	(2,725)	(1,603)
Amount written off	(8,031)	(2,071)	(6,788)	(576)
Exchange realignment	19	(86)	–	–
As at 31 December	69,334	74,671	54,009	58,040

At 31 December 2014, the Group's and the Company's accounts receivable of RMB61,905,000 (2013: RMB64,382,000) and RMB46,580,000 (2013: RMB47,751,000) respectively were impaired and fully provided for. The individually impaired accounts receivable related to customers that were in financial difficulties and the probability to recover these receivables is remote.

The ageing analysis of the accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	2,154,027	2,047,645	1,327,419	1,114,213
Less than 3 months past due	315,703	311,549	254,343	633,841
More than 3 months past due	154,506	220,370	91,475	1,163,282
	2,624,236	2,579,564	1,673,237	2,911,336

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

29 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments				
Advances and others	394,389	295,854	257,031	194,392
Manufacturers' credits	1,375,606	1,414,371	1,323,429	1,407,806
Prepaid aircraft operating lease rentals	449,412	384,108	302,547	200,431
	2,219,407	2,094,333	1,883,007	1,802,629
Deposits and other receivables	2,030,969	1,824,132	1,631,726	1,560,480
	4,250,376	3,918,465	3,514,733	3,363,109

The movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	2,888,567	2,888,674	822	–
Impairment losses recognised	273	8,904	–	822
Amount reversed	(491,243)	(2,345)	–	–
Amount written off	(822)	(6,447)	(822)	–
Exchange realignment	15	(219)	–	–
As at 31 December	2,396,790	2,888,567	–	822

At the end of each reporting period, the Group would assess the collectability of the receivables and provision will be made if necessary. For those receivables which are individually significant and the possibility of recoverable is remote, full impairment will be provided. Should further information obtained in subsequent periods indicate the receivables could be collected partially or entirely, the provision would be partially or entirely reversed accordingly.

As at 31 December 2014, the gross amount due from Shenzhen Huirun Investment Co., Ltd. ("Huirun") was RMB1,124,325,000 (31 December 2013: RMB1,520,700,000) which had been provided the provision of RMB1,075,182,000 (31 December 2013: RMB1,520,700,000). The provision of RMB445,518,000 was received/reversed during 2014. Considering the additional interest expense of RMB92,853,000 accrued which offset the receivable from Huirun, the total impact charged for 2014's profit and loss was RMB352,665,000.

As at 31 December 2014, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property") and its subsidiaries was RMB650,819,000 (31 December 2013: RMB695,819,000). Full provisions for the above receivables were made in prior years. In 2014, the impairment of RMB45,000,000 was reversed upon receipt of RMB45,000,000 repayment from Shenzhen Property.

30 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Interest rate swaps	1,761	7,712	2,825	24,070
Listed equity securities	10,773	–	8,525	–
	12,534	7,712	11,350	24,070

The Company

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Interest rate swaps	–	–	–	3,819

The above financial assets and liabilities are accounted for as held-for-trading financial instruments and any fair value changes are recognised in the profit or loss.

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendlemen-Barter model, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include volatility of short term interest rate and the LIBOR curve, which can be obtained from observable markets.

31 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		Group		Company	
		2014	2013	2014	2013
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits with banks and other financial institution		4,842,264	8,945,829	2,045,000	4,601,317
Less: Pledged deposits	(ii)	(74,570)	(745,847)	–	(663,317)
Non-pledged deposits		4,767,694	8,199,982	2,045,000	3,938,000
Cash and bank		4,892,293	6,561,848	1,213,265	1,986,189
Cash and cash equivalents		9,659,987	14,761,830	3,258,265	5,924,189

Notes:

(i) As at 31 December 2014, the Group's and the Company's deposits with CNAF, an associate of the Group, amounted to RMB1,988 million and RMB1,672 million, respectively (2013: RMB2,126 million and RMB1,926 million, respectively).

(ii) Details of pledged deposits are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged deposits against:				
– Aircraft operating leases	57,553	66,535	–	–
– Bank loan (note 35(b))	–	663,317	–	663,317
– Others	17,017	15,995	–	–
	74,570	745,847	–	663,317

31 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	2014 RMB'000	2013 RMB'000
Cash flows from operating activities		
Profit before taxation	5,064,861	4,518,093
Adjustments for:		
Share of profits less losses of associates and joint ventures	(873,849)	(822,787)
Exchange gains, net	360,290	(1,937,887)
Interest income	(219,210)	(323,188)
Finance costs	2,940,062	2,688,089
Changes of fair value on financial assets and financial liabilities, net	371	1,646
Depreciation	11,322,989	10,936,619
Impairment of property, plant and equipment	35,105	222,438
Losses on disposal of property, plant and equipment, net	33,937	137,781
Amortisation of lease prepayments	54,075	54,222
Amortisation of investment properties	12,310	32,385
Impairment of aircraft held for sale	361,892	332,014
Losses on disposal of aircraft held for sale	5,573	2,360
Impairment of inventories	1,740	19,748
Impairment of accounts receivable	2,675	17,929
(Reversal of impairment)/impairment of prepayments, deposits and other receivables	(490,970)	6,559
(Increase)/decrease in deposits for aircraft under operating leases	(96,963)	17,164
(Increase)/decrease in inventories	(57,302)	40,683
Decrease/(increase) in accounts receivable	24,362	(134,993)
(Increase)/decrease in bills receivable	(24)	1,122
Decrease in prepayments, deposits and other receivables	159,059	100,469
Decrease/(increase) in amount due from the ultimate holding company	89,338	(16,370)
Increase in other current assets	(1,274,059)	(1,092,387)
Increase in air traffic liabilities	369,358	584,661
Increase in accounts payable	636,564	970,401
Increase/(decrease) in bills payable	150,000	(1,503)
(Decrease)/increase in other payables and accruals	(249,905)	849,127
(Decrease)/increase in amount due to the ultimate holding company	(15,352)	7,759
Increase in provision for major overhauls	237,107	537,682
Decrease in provision for early retirement benefit obligations	(16,121)	(11,639)
(Decrease)/increase in deferred income	(461,395)	317,554
Decrease in long-term payables	(54,217)	(54,196)
Cash generated from operations	18,052,301	18,001,555

(c) Major non-cash transactions

During the year, the Group entered into several finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB10,676 million (2013: RMB5,394 million).

32 ACCOUNTS PAYABLE

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	5,507,172	7,315,999	3,544,406	4,923,028
31 to 60 days	789,788	826,040	550,864	803,250
61 to 90 days	1,366,348	785,549	1,244,956	750,291
Over 90 days	2,125,613	1,421,947	1,849,485	1,155,198
	9,788,921	10,349,535	7,189,711	7,631,767

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

33 OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	1,814,534	2,442,395	711,958	1,395,292
Receipts in advance for employee residence	1,874,773	1,882,580	–	–
Accrued operating expenses	1,308,280	1,304,706	466,934	833,452
Business tax, customs duties and levies tax payable	366,242	356,032	206,508	214,658
Deposits received from sales agents	664,490	599,758	394,872	375,279
Due to a non-controlling shareholder of a subsidiary	100,000	207,787	–	–
Interest payable	659,180	712,165	574,389	631,840
Land lease payable	–	207,734	–	–
Current portion of deferred income related to the frequent-flyer programme	890,322	581,455	412,732	446,955
Current portion of deferred income related to government grants	76,588	122,218	76,588	122,218
Current portion of long-term payables	55,414	51,698	–	–
Provision for staff housing benefits	88,062	88,062	88,062	88,062
Others	2,638,087	2,229,287	3,583,170	1,006,706
	10,535,972	10,785,877	6,515,213	5,114,462

34 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2016 to 2026 (2013: 2016 to 2025) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, is as follows:

The Group

	Minimum lease payments 2014 RMB'000	Present values of minimum lease payments 2014 RMB'000	Minimum lease payments 2013 RMB'000	Present values of minimum lease payments 2013 RMB'000
Amounts repayable:				
– Within 1 year	5,311,426	4,751,714	4,228,660	3,859,317
– After 1 year but within 2 years	5,304,020	4,803,263	4,328,448	3,999,168
– After 2 years but within 5 years	13,108,105	11,971,446	11,764,859	11,026,088
– After 5 years	15,200,907	14,465,589	11,421,534	10,947,459
Total minimum finance lease payments	38,924,458	35,992,012	31,743,501	29,832,032
Less: Amounts representing finance charges	(2,932,446)		(1,911,469)	
Present value of minimum lease payments	35,992,012		29,832,032	
Less: Portion classified as current liabilities	(4,751,714)		(3,859,317)	
Non-current portion	31,240,298		25,972,715	

The Group's finance leases were secured by mortgages over certain of the Group's aircraft, which had an aggregate net carrying amount of approximately RMB58,673 million (2013: RMB48,401 million) (note 16).

As at 31 December 2014, the obligations under finance leases of the Group with an aggregate amount of US$135 million (equivalent to RMB825 million) were guaranteed by an associate of the Group.

34 OBLIGATIONS UNDER FINANCE LEASES (Continued)

As at 31 December 2014, there were 156 (2013: 124) aircraft under finance lease agreements of the Group. Under the terms of the leases, the Group has the option to purchase these aircraft, at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from -1.43% to 6.55% (2013:-1.39% to 6.55%) per annum.

The Company

	Minimum lease payments 2014 RMB'000	Present values of minimum lease payments 2014 RMB'000	Minimum lease payments 2013 RMB'000	Present values of minimum lease payments 2013 RMB'000
Amounts repayable:				
– Within 1 year	4,333,059	3,972,048	3,812,676	3,556,549
– After 1 year but within 2 years	4,320,099	3,994,868	3,922,868	3,693,243
– After 2 years but within 5 years	10,270,689	9,522,598	10,620,634	10,097,739
– After 5 years	10,878,349	10,377,685	10,015,327	9,653,530
Total minimum finance lease payments	29,802,196	27,867,199	28,371,505	27,001,061
Less: Amounts representing finance charges	(1,934,997)		(1,370,444)	
Present value of minimum lease payments	27,867,199		27,001,061	
Less: Portion classified as current liabilities	(3,972,048)		(3,556,549)	
Non-current portion	23,895,151		23,444,512	

Certain finance lease arrangements comprise finance leases between the Company and certain of its subsidiaries, and the corresponding borrowings between such subsidiaries and commercial banks. The Company has guaranteed the subsidiaries' obligations under those bank borrowing arrangements and, accordingly, the relevant assets and obligations are recorded in the Company's statement of financial position to reflect the substance of the transactions. The future payments under these finance leases have therefore been presented by the Company and the Group in the amounts that reflect the payments under the bank borrowing arrangements between the subsidiaries and commercial banks.

The Company's finance leases were secured by mortgages over certain of the Company's aircraft, which had an aggregate net carrying amount of approximately RMB48,275 million (2013: RMB45,142 million) (note 16).

35 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans:				
– Secured or guaranteed	31,278,087	26,512,690	15,595,768	12,064,165
– Unsecured	24,488,414	30,057,932	17,559,262	21,178,912
	55,766,501	56,570,622	33,155,030	33,243,077
Loans from CNAF:				
– Secured	–	90,000	–	–
– Unsecured	1,715,000	2,408,000	–	–
	1,715,000	2,498,000	–	–
Corporate bonds – unsecured	20,834,120	22,700,000	19,000,000	22,000,000
	78,315,621	81,768,622	52,155,030	55,243,077

35 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
– Within 1 year	23,937,425	33,334,216	15,542,372	22,306,051
– After 1 year but within 2 years	5,997,305	4,330,402	3,318,518	2,006,798
– After 2 years but within 5 years	14,427,453	9,380,455	7,730,175	3,935,899
– After 5 years	11,404,318	9,525,549	6,563,965	4,994,329
	55,766,501	56,570,622	33,155,030	33,243,077
Loans from CNAF repayable:				
– Within 1 year	1,715,000	2,468,000	–	–
– After 1 year but within 2 years	–	30,000	–	–
– After 2 years but within 5 years	–	–	–	–
	1,715,000	2,498,000	–	–
Corporate bonds:				
– Within 1 year	3,640,000	3,700,000	3,000,000	3,000,000
– After 1 year but within 2 years	–	3,000,000	–	3,000,000
– After 2 years but within 5 years	10,694,120	3,500,000	9,500,000	3,500,000
– After 5 years	6,500,000	12,500,000	6,500,000	12,500,000
	20,834,120	22,700,000	19,000,000	22,000,000
Total interest-bearing bank loans and other borrowings	78,315,621	81,768,622	52,155,030	55,243,077
Less: Portion classified as current liabilities	(29,292,425)	(39,502,216)	(18,542,372)	(25,306,051)
Non-current portion	49,023,196	42,266,406	33,612,658	29,937,026

35 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Further details of the bank loans, loans from CNAF and corporate bonds at the end of the reporting period are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and loans from CNAF				
RMB denominated loans:				
Fixed interest rate ranging from 0.00% to 7.20% (2013: 5.04% to 7.20%) per annum, with final maturities through to 2016	4,420,294	3,593,889	–	–
Floating interest rate ranging from 5.04% to 6.55% (2013: 5.04% to 8.46%) per annum, with final maturities through to 2023	3,871,594	5,754,136	–	–
Total RMB denominated loans	8,291,888	9,348,025	–	–
US$ denominated loans:				
Fixed interest rate ranging from 2.40% to 4.96% (2013: 2.4% to 4.61%) per annum, with final maturities through to 2019	2,221,482	1,451,672	1,413,102	403,859
Floating interest rate ranging from 0.77% to 6.09% (2013: 0.81% to 6.09%) per annum, with final maturities through to 2024	46,822,254	48,104,200	31,596,051	32,674,493
Total US$ denominated loans	49,043,736	49,555,872	33,009,153	33,078,352
Euros denominated loans:				
Fixed interest rate at 4.38% (2013: 4.38%) per annum, with final maturities through to 2014	145,877	164,725	145,877	164,725
Total bank loans and loans from CNAF	57,481,501	59,068,622	33,155,030	33,243,077
Corporate bonds				
RMB denominated loans:				
Fixed interest rate ranging from 3.48% to 5.60% (2013: 3.48% to 5.30%) per annum, with final maturities through to 2023	20,834,120	22,700,000	19,000,000	22,000,000
Total interest-bearing bank loans and other borrowings	78,315,621	81,768,622	52,155,030	55,243,077

35 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

The interest rates of RMB denominated loans are set and subject to change by the People's Bank of China.

The Group's bank loans and other loans of approximately RMB31,278 million as at 31 December 2014 (2013: RMB26,603 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 RMB40,001 million as at 31 December 2014 (2013: RMB36,906 million) (note 16); and land use rights with an aggregate carrying amount of approximately RMB37 million as at 31 December 2014 (2013: RMB38 million) (note 17); and

(b) As at 31 December 2014, there was no pledged time deposit to secure certain bank loan (2013: RMB663 million) (note 31(a)(ii)); and

(c) There was no guarantee by any commercial banks as at 31 December 2014 (2013: Nil); and

(d) As at 31 December 2014, bank loans of the Group with an aggregate amount of US$255 million (equivalent to RMB1,560 million) were guaranteed by an associate of the Group (31 December 2013: US$86 million (equivalent to RMB522 million)).

The Company's bank loans of approximately RMB15,596 million as at 31 December 2014 (2013: RMB12,064 million) were secured by:

(a) Mortgages over certain of the Company's aircraft and buildings with an aggregate net book value of approximately RMB19,322 million as at 31 December 2014 (2013: RMB14,750 million); and land use rights with an aggregate carrying amount of approximately RMB31 million as at 31 December 2014 (2013: RMB32 million); and

(b) There was no guarantee provided by certain commercial banks as at 31 December 2014 (2013: Nil); and

(c) As at 31 December 2014, the Company provided guarantee to a subsidiary's bank loans amounting to US$265 million (equivalent to RMB1,623 million) (31 December 2013: US$89 million (equivalent to RMB543 million)).

As at 31 December 2014, there was no PRC state-owned banks provided counter-guarantees (2013: Nil) to one of the above-mentioned commercial banks.

36 PROVISION FOR MAJOR OVERHAULS

Details of the movements in provision for major overhauls in respect of aircraft and engines under operating leases at the end of the reporting period are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	3,982,858	3,445,176	2,015,138	1,747,287
Provision for the year	1,306,053	1,453,951	874,536	648,347
Utilisation during the year	(1,068,946)	(916,269)	(724,389)	(380,496)
As at 31 December	4,219,965	3,982,858	2,165,285	2,015,138
Less: Portion classified as current liabilities	(856,789)	(699,378)	(407,775)	(358,399)
Non-current portion	3,363,176	3,283,480	1,757,510	1,656,739

The amount of provision is estimated based on the costs of overhauls and actual flying hours/cycles of aircraft and engines under operating leases. The estimation basis is reviewed on an ongoing basis and revised whenever appropriate.

37 LONG-TERM PAYABLES

An analysis of long-term payables at the end of the reporting period is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Non-voting redeemable preference shares of a subsidiary	77,710	114,892
Others	16,559	29,878
	94,269	144,770
Less: Portion classified as current liabilities	(55,414)	(51,698)
Non-current portion	38,855	93,072

38 DEFERRED INCOME

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Frequent-flyer programme (a)	2,635,316	3,010,284	2,224,541	1,973,153
Government grants (b)	631,798	705,566	574,371	677,691
Gain on sale and lease back arrangements	55,666	64,905	–	–
Operating lease rebates	13,326	16,746	–	–
	3,336,106	3,797,501	2,798,912	2,650,844

(a) The movements in deferred income related to the Group's frequent-flyer programme during the year are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	3,591,739	2,933,432	2,420,108	1,868,966
Arising during the year	2,041,335	1,727,556	1,745,577	1,476,108
Recognised as air traffic revenue during the year	(2,107,436)	(1,069,249)	(1,528,412)	(924,966)
As at 31 December	3,525,638	3,591,739	2,637,273	2,420,108
Less: Portion classified as current liabilities	(890,322)	(581,455)	(412,732)	(446,955)
Non-current portion	2,635,316	3,010,284	2,224,541	1,973,153

(b) The movements in deferred income related to government grants during the year are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	827,784	882,442	799,909	877,839
Additions	30,203	66,719	349	43,121
Recognised in profit or loss	(149,601)	(121,377)	(149,299)	(121,051)
As at 31 December	708,386	827,784	650,959	799,909
Less: Portion classified as current liabilities	(76,588)	(122,218)	(76,588)	(122,218)
Non-current portion	631,798	705,566	574,371	677,691

39 CAPITAL, RESERVES AND DIVIDENDS

(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:

	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2013	12,891,955	16,803,307	4,563,291	11,324,888	45,583,441
Issue of new shares	192,796	851,653	–	–	1,044,449
Total comprehensive income for the year	–	–	–	2,191,536	2,191,536
Dividends declared in respect of the previous year	–	–	–	(776,580)	(776,580)
Appropriation of statutory reserve funds	–	–	248,011	(248,011)	–
Transfer to reserve funds and others	–	–	421,943	(421,943)	–
As at 31 December 2013 and 1 January 2014	13,084,751	17,654,960	5,233,245	12,069,890	48,042,846
Total comprehensive income for the year	–	–	–	2,848,769	2,848,769
Dividends declared in respect of the previous year	–	–	–	(592,870)	(592,870)
Appropriation of statutory reserve funds	–	–	285,331	(285,331)	–
Transfer to reserve funds and others	–	–	248,011	(248,011)	–
As at 31 December 2014	13,084,751	17,654,960	5,766,587	13,792,447	50,298,745

39 CAPITAL, RESERVES AND DIVIDENDS (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 2014, in accordance with the PRC Company Law, an amount of approximately RMB20,823 million (2013: RMB20,823 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB5,767 million (2013: RMB5,233 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 RMB13,861 million available for distribution as at 31 December 2014 (2013: RMB12,134 million).

(b) Share Capital

The number of shares of the Company and their nominal values as at 31 December 2014 and 31 December 2013 are as follows:

	Number of shares 2014	Nominal value 2014 RMB'000	Number of shares 2013	Nominal value 2013 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
Tradable	4,562,683,364	4,562,683	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
Tradable	8,329,271,309	8,329,272	8,329,271,309	8,329,272
Trade-restricted *	192,796,331	192,796	192,796,331	192,796
	13,084,751,004	13,084,751	13,084,751,004	13,084,751

* The trade-restricted shares of 192,796,331 shares as at 31 December 2014 and 31 December 2013 were issued on 30 January 2013.

The H shares and A shares rank pari passu, in all material respects, with the state legal person shares and non-H foreign shares of the Company.

39 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Treasury shares

As at 31 December 2014, the Group owned 29.99% equity interest in Cathay Pacific (2013: 29.99%), which in turn owned 20.13% equity interest in the Company (2013: 20.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

(d) Dividends

	Company	
	2014	2013
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period	683,417	592,870
Final dividend in respect of the previous financial year, declared and paid during the year	592,870	776,580

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

Pursuant to the shareholders' approval at the Annual General Meeting on 22 May 2014, a final dividend of RMB0.4531 (including tax) per ten shares totalling RMB593 million in respect of the year ended 31 December 2013 has been paid out in 2014.

Pursuant to a resolution passed at the Directors' meeting on 26 March 2015, a final dividend in respect of the year ended 31 December 2014 of RMB0.5223 (including tax) per ten shares totalling RMB683 million was proposed for shareholders' approval at the Annual General Meeting. As the final dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 31 December 2014.

39 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) 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 2014 and 31 December 2013.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Total liabilities	150,200,797	147,537,099
Total assets	209,310,697	205,083,287
Gearing ratio	71.76%	71.94%

40 SHARE APPRECIATION RIGHTS

On 23 May 2013, the Company's Annual General Meeting approved the "H Share Appreciation Rights ("SARs") Scheme of Air China Limited" and "Initial Grant under the H Share Appreciation Rights Scheme of Air China Limited" ("the Scheme").

Pursuant to the resolution of the board meeting dated 6 June 2013, 26,200,000 units of SARs were granted to 160 employees of the Group at the exercise price of HK$6.46 per unit at 6 June 2013. No shares will be issued under the Scheme and each SAR is notionally linked to one existing H Share of the Company. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price.

The SARs will have an exercise period of five years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants.

The fair value of the liability for SARs is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. The fair value of the liability for SARs as at 31 December 2014 was RMB19,262,321 (2013: RMB7,427,480) and a corresponding staff costs of RMB11,834,841 was recognised during 2014 (2013: RMB7,427,480) (note 7).

41 CONTINGENT LIABILITIES

As at 31 December 2014, the Group had the following contingent liabilities:

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

(b) On 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo, claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to increase, maintain and stabilise air cargo prices. The Court is currently considering whether the case should proceed as a class action. Because the litigation continues, the Directors of the Company are of the view that the ultimate outcome of this claim cannot be reliably estimated and consider that no provision for this claim is needed accordingly.

(c) In May 2011, Shenzhen Airlines received a summon issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favor of the third party for the loans borrowed by Huirun. The directors of the Company consider that the provision of RMB130,000,000 which was provided in prior years in respect of this legal claim is adequate.

(d) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 31 December 2014, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB412,301,273 (31 December 2013: RMB475,979,454) and for pilot trainees' tuition loans amounting to RMB225,987,570 (31 December 2013: RMB273,167,836).

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's principal financial instruments, other than derivatives, comprise bank loans, loans from CNAF and corporate bonds, obligations under finance leases, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, mainly including principally interest rate swaps contracts. The purpose is to manage interest rate risk arising from the Group's operations.

The Group operates globally and generates revenue in various currencies. The Group's airline operations are exposed to credit risk, liquidity risk, interest rate risk, foreign currency risk, and jet fuel price risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance.

Financial risk management policies are periodically reviewed and approved by the Board of Directors and they are summarised below.

(a) Credit risk

The following table sets forth the maximum credit exposure of the Group, within which loans and receivables granted and deposits are placed at carrying amount, net of any impairment losses, and derivatives are at current fair value. For financial guarantees and loan commitments, the maximum exposure represents the maximum amount the Group could be required to pay without consideration of the probability of the actual outcome.

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents	9,659,987	14,761,830
Pledged deposits	74,570	745,847
Due from the ultimate holding company	150,079	239,417
Financial assets	12,534	11,350
Accounts receivable	2,834,130	2,861,167
Bills receivable	155	131
Other receivables	2,847,849	2,874,967
Deposits for aircraft under operating leases	523,338	426,375
Guarantees	638,289	749,147
Commitments	105,968,893	95,141,050
	122,709,824	117,811,281

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 28 to the financial statements.

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

The Group's cash and cash equivalents are deposited with banks in Mainland China, overseas banks and an associate. The Group has policies in place to limit the exposure to any single financial institution.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB901 million or 33% of accounts receivable as at 31 December 2014 (2013: RMB1,069 million or 37% of accounts receivable).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

(b) Liquidity risk

The Group's net current liabilities amounted to approximately RMB39,790 million as at 31 December 2014 (2013: RMB44,257 million). The Group recorded a net cash inflow from operating activities of approximately RMB14,064 million for the year ended 31 December 2014 (2013: RMB14,608 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB10,313 million (2013: RMB20,638 million). The Group also recorded a net cash outflow from financing activities of approximately RMB8,859 million for the year ended 31 December 2014 (2013: net cash inflow of RMB9,271 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB5,108 million for the year ended 31 December 2014 and an increase of approximately RMB3,241 million for the year ended 31 December 2013, respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as 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 RMB110,396 million as at 31 December 2014 (2013: RMB145,268 million), of which an amount of approximately RMB32,355 million was utilised (2013: RMB43,684 million).

The Directors of the Company had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2014. 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.

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

The Group

	2014					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	9,788,921	–	–	–	9,788,921	9,788,921
Bills payable	150,000	–	–	–	150,000	150,000
Due to the ultimate holding company	21,377	–	–	–	21,377	21,377
Financial liabilities included in other payables and accruals	7,938,936	–	–	–	7,938,936	7,938,936
Financial liabilities	7,712	–	–	–	7,712	7,712
Obligations under finance leases	5,311,426	5,304,020	13,108,105	15,200,907	38,924,458	35,992,012
Interest-bearing bank loans and other borrowings	32,617,673	9,877,238	33,065,851	24,506,869	100,067,631	78,315,621
Provision for major overhauls	856,789	112,830	2,295,097	955,249	4,219,965	4,219,965
Long-term payables	55,414	–	38,855	–	94,269	94,269
Guarantees	638,289	–	–	–	638,289	638,289
	57,386,537	15,294,088	48,507,908	40,663,025	161,851,558	137,167,102

	2013					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	10,349,535	–	–	–	10,349,535	10,349,535
Due to the ultimate holding company	36,729	–	–	–	36,729	36,729
Financial liabilities included in other payables and accruals	7,575,593	–	–	–	7,575,593	7,575,593
Financial liabilities	24,070	–	–	–	24,070	24,070
Obligations under finance leases	4,228,660	4,328,448	11,764,859	11,421,534	31,743,501	29,832,032
Interest-bearing bank loans and other borrowings	40,792,980	8,787,704	15,709,981	26,421,181	91,711,846	81,768,622
Provision for major overhauls	699,378	398,089	2,054,207	831,184	3,982,858	3,982,858

Long-term payables	51,698	–	93,072	–	144,770	144,770
Guarantees	749,147	–	–	–	749,147	749,147
	64,507,790	13,514,241	29,622,119	38,673,899	146,318,049	134,463,356

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

The Company

2014

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	7,189,711	–	–	–	7,189,711	7,189,711
Due to the ultimate holding company	21,377	–	–	–	21,377	21,377
Financial liabilities included in other payables and accruals	4,637,826	–	–	–	4,637,826	4,637,826
Obligations under finance leases	4,333,059	4,320,099	10,270,689	10,878,349	29,802,196	27,867,199
Interest-bearing bank loans and other borrowings	19,952,233	4,510,579	19,193,436	16,154,692	59,810,940	52,155,030
Provision for major overhauls	407,775	112,830	689,431	955,249	2,165,285	2,165,285
Guarantees	1,623,452	–	–	–	1,623,452	1,623,452
	38,165,433	8,943,508	30,153,556	27,988,290	105,250,787	95,659,880

2013

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	7,631,767	–	–	–	7,631,767	7,631,767
Due to the ultimate holding company	36,729	–	–	–	36,729	36,729
Financial liabilities included in other payables and accruals	2,418,657	–	–	–	2,418,657	2,418,657
Financial liabilities	3,819	–	–	–	3,819	3,819
Obligations under finance leases	3,812,676	3,922,868	10,620,634	10,015,327	28,371,505	27,001,061
Interest-bearing bank loans and other borrowings	26,961,674	6,225,357	9,381,819	20,964,822	63,533,672	55,243,077
Provision for major overhauls	358,399	381,350	444,205	831,184	2,015,138	2,015,138
Guarantees	542,939	–	–	–	542,939	542,939

	41,766,660	10,529,575	20,446,658	31,811,333	104,554,226	94,893,187

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps contract, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

(i) Interest rate profile

The following table sets out the carrying amounts, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	Group			
	2014		2013	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate:				
Obligations under finance leases	1.61%-6.55%	11,767,285	1.61%-4.79%	8,836,576
Interest-bearing bank loans and other borrowings	0.00%-7.20%	27,621,773	2.57%-7.20%	27,616,521
Time deposits	1.35%-3.08%	(4,842,264)	1.35%-3.30%	(8,945,829)
		34,546,794		27,507,268
Floating interest rate:				
Obligations under finance leases	(1.60%)-3.22%	24,224,727	(1.57%)-6.55%	20,995,456
Interest-bearing bank loans and other borrowings	0.77%-6.55%	50,693,848	0.81%-8.46%	54,152,101
Time deposits	0.35%	(4,831,745)	0.35%	(6,107,460)
		70,086,830		69,040,097
Total net borrowings		104,633,624		96,547,365
Net fixed rate borrowings as a percentage of total net borrowings		33%		28%

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

	Company			
	2014		2013	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate:				
Obligations under finance leases	1.61%-4.79%	11,577,951	1.61%-4.79%	8,836,576
Interest-bearing bank loans and other borrowings	2.40%-5.30%	20,558,979	3.48%-5.30%	22,324,707
Time deposits	1.35%-3.08%	(2,045,000)	1.35%-3.30%	(1,139,788)
		30,091,930		30,021,495
Floating interest rate:				
Obligations under finance leases	(1.60%)-2.54%	16,289,248	(1.57%)-2.56%	18,164,485
Interest-bearing bank loans and other borrowings	0.86%-4.20%	31,596,051	0.86%-4.20%	32,918,370
Time deposits	0.35%	(1,163,720)	0.35%	(5,384,308)
		46,721,579		45,698,547
Total net borrowings		76,813,509		75,720,042
Net fixed rate borrowings as a percentage of total net borrowings		39%		40%

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as a fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit for the year and equity (through the impact on floating rate borrowings) for the year (increase/(decrease)).

	Profit for the year RMB'000	Equity RMB'000
31 December 2014		
If interest rate of borrowings increases by 50 basis points	(262,826)	(262,826)
31 December 2013		
If interest rate of borrowings increases by 50 basis points	(258,900)	(258,900)

(d) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars and EURO, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses to meet its foreign currency liabilities repayable within one year.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

The Group

	Exposure to foreign currencies (expressed in RMB)					
	2014			2013		
	US$	EURO	HK$	US$	EURO	HK$
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	241,878	181,686	7,198	199,747	202,306	5,753
Other receivables	1,649,823	59,824	2,412	1,929,675	43,913	–
Cash and cash equivalents	1,403,447	90,064	1,009,588	2,456,185	136,369	1,829,219
Accounts payable	(770,792)	(346,723)	(168,778)	(1,589,986)	(236,302)	(85,501)
Obligations under finance leases	(34,290,555)	–	–	(28,641,486)	–	–
Interest-bearing bank loans and other borrowings	(49,043,736)	(145,877)	–	(49,555,872)	(164,725)	–
Net exposure arising from recognised assets and liabilities	(80,809,935)	(161,026)	850,420	(75,201,737)	(18,439)	1,749,471

The Company

	Exposure to foreign currencies (expressed in RMB)					
	2014			2013		
	US$	EURO	HK$	US$	EURO	HK$
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	160,875	125,440	3,458	149,508	192,414	2,116
Other receivables	1,366,783	59,824	9,462	1,554,624	43,913	–
Cash and cash equivalents	178,841	33,489	12,599	271,675	58,468	16,330
Accounts payable	(621,082)	(346,721)	(163,198)	(512,354)	(189,701)	(29,702)
Obligations under finance leases	(27,053,371)	–	–	(23,679,144)	–	–
Interest-bearing bank loans and other borrowings	(33,009,153)	(145,877)	–	(33,078,352)	(164,725)	–
Net exposure arising from recognised assets and liabilities	(58,977,107)	(273,845)	(137,679)	(55,294,043)	(59,631)	(11,256)

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, EURO and HK$ exchange rate, with all other variables held constant, of the Group's profit for the year and equity (due to changes in the fair value of monetary assets and liabilities) for the year (increase/(decrease)):

	Profit for the year RMB'000	Equity RMB'000
31 December 2014		
If RMB appreciates against following currencies by 1%		
United States Dollars	466,053	466,053
Euros	1,208	1,208
Hong Kong Dollars	(6,378)	(6,378)
	460,883	460,883

	Profit for the year RMB'000	Equity RMB'000
31 December 2013		
If RMB appreciates against following currencies by 1%		
United States Dollars	368,461	368,461
Euros	138	138
Hong Kong Dollars	(13,121)	(13,121)
	355,478	355,478

(e) Jet fuel price risk

The Group's strategy for managing the risk on jet fuel price aims to provide the Group with protection against sudden and significant increases in prices.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in fuel price, with all other variables held constant and excluding the impact of fuel derivative contracts, of the Group's profit for the year and equity for the year (increase/(decrease)):

	Profit for the year RMB'000	Equity RMB'000
31 December 2014 If jet fuel price increases by 5%	(1,727,122)	(1,727,122)
31 December 2013 If jet fuel price increases by 5%	(1,686,114)	(1,686,114)

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	as at 31 December 2014			
	Fair value	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
– Interest rate swaps	1,761	–	1,761	–
– Listed equity securities	10,773	10,773	–	–
Available-for-sale investments				
– Listed	51,454	51,454	–	–
Financial liabilities				
– Interest rate swaps	7,712	–	7,712	–

	as at 31 December 2013			
	Fair value	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
– Interest rate swaps	2,825	–	2,825	–
– Listed equity securities	8,525	8,525	–	–
Financial liabilities				
– Interest rate swaps	24,070	–	24,070	–

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement (Continued)

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

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendleman-Bartter model, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include volatility of short term interest rate and the LIBOR curve, which can be obtained from observable markets.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

43 COMMITMENTS

(a) Capital commitments

The Group and the Company 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:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for				
– Aircraft and flight equipment	102,643,481	92,775,903	70,066,725	66,968,722
– Buildings	910,042	1,279,595	339,322	550,376
– Others	221,815	24,726	212,169	24,726
	103,775,338	94,080,224	70,618,216	67,543,824
Authorised, but not contracted for				
– Buildings	688,957	729,588	536,646	551,722
– Others	51,292	274,899	26,305	274,899
	740,249	1,004,487	562,951	826,621
Total capital commitments	104,515,587	95,084,711	71,181,167	68,370,445

43 COMMITMENTS (Continued)

(b) Investment commitment

The Group and the Company had the following amount of investment commitment as at the end of the reporting period:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for – Associates and joint ventures	1,391,055	56,339	1,356,055	21,339
Authorised, but not contracted for – Associates and joint ventures	62,251	–	62,251	–
	1,453,306	56,339	1,418,306	21,339

(c) Operating lease commitments

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

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

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	5,234,739	6,799,506	3,860,489	5,407,999
After 1 year but within 5 years	15,120,778	11,146,245	11,006,809	6,126,290
Over 5 years	14,976,871	8,285,770	11,846,447	6,013,629
	35,332,388	26,231,521	26,713,745	17,547,918

44 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:

	Group 2014 RMB'000	Group 2013 RMB'000
(i) Service provided to the CNAHC Group		
Sales commission income	14,364	15,325
Sale of cargo space	71,585	85,622
Government charter flights	420,731	379,688
Ground services income	2,883	2,154
Air catering income	13,579	15,466
Income from advertising media business	28,591	31,132
Interest income	45,631	62,734
Aircraft and flight equipment leasing income	246	246
Others	1,811	1,652
	599,421	594,019
(ii) Service provided by the CNAHC Group		
Sales commission expenses	3,642	3,276
Air catering charges	779,819	709,158
Airport ground services, take-off, landing and depot expenses	764,308	603,350
Repair and maintenance costs	11,951	216
Management fees	108,977	86,913
Lease charges for land and buildings	126,308	122,275
Other procurement and maintenance	55,059	38,171
Aviation communication expenses	23,797	20,899
Interest expenses	81,637	126,923
Media advertisement expenses	110,853	64,863
Construction management expenses	–	13,694
Others	694	1,016
	2,067,045	1,790,754

44 RELATED PARTY TRANSACTIONS (Continued)

(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 (Continued):

	Group	
	2014	2013
	RMB'000	RMB'000
(iii) Service provided to joint ventures and associates		
Sales commission income	14,471	13,751
Sale of cargo space	12,220	37,112
Ground services income	104,663	88,786
Aircraft maintenance income	57,070	47,321
Air catering income	7,004	8,722
Frequent-flyer programme income	99,991	101,241
Lease income for land and buildings	18,597	18,055
Airline joint venture income	21,767	14,695
Aircraft and flight equipment leasing income	5,773	25,582
Others	5,301	8,066
	346,857	363,331
(iv) Service provided by joint ventures and associates		
Sales commission expenses	34,830	40,761
Air catering charges	21,381	37,965
Airport ground services, take-off, landing and depot expenses	355,875	184,413
Repair and maintenance costs	2,433,997	2,372,370
Aircraft and flight equipment leasing fees	535,473	616,249
Lease charges for land and buildings	877	2,318
Other procurement and maintenance	12,069	13,419
Aviation communication expenses	255,806	264,206
Purchase of aircraft and engines	–	78,178
Frequent-flyer programme expenses	4,348	4,173
Others	7,452	13,884
	3,662,108	3,627,936

The directors of the Company are of the opinion that the above transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

Part of the related transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the HKEx Main board Listing Rules.

44 RELATED PARTY TRANSACTIONS (Continued)

(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 (Continued):

	Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
(v) Deposits, loans		
Deposits placed with an associate	1,987,652	2,126,326
Loans from associates	2,695,000	2,498,000
(vi) Outstanding balances with related parties		
Due from the ultimate holding company	150,079	239,417
Due from associates	180,914	135,257
Due from joint ventures	106,120	18,977
Due from other related companies	61,377	61,385
Due to the ultimate holding company	21,377	36,729
Due to associates	270,905	300,983
Due to joint ventures	465,466	360,828
Due to other related companies	777,068	480,791

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

44 RELATED PARTY TRANSACTIONS (Continued)

(b) Guarantee with related parties

The Group

Name of guarantor	Name of guarantee	Amount of guaranty USD'000	Inception date of guaranty	Maturity date of guaranty	Guaranty Completed (Y/N)
Cathay Pacific	Air China Cargo	83,409	16/12/2013	15/12/2023	N
Cathay Pacific	Air China Cargo	85,750	12/03/2014	11/03/2024	N
Cathay Pacific	Air China Cargo	85,750	31/03/2014	30/03/2024	N
Cathay Pacific	Air China Cargo	66,636	30/06/2014	30/06/2026	N
Cathay Pacific	Air China Cargo	68,126	29/08/2014	29/08/2026	N

The Company

Name of guarantor	Name of guarantee	Amount of guaranty USD'000	Inception date of guaranty	Maturity date of guaranty	Guaranty Completed (Y/N)
The Company	Air China Cargo	86,813	16/12/2013	15/12/2023	N
The Company	Air China Cargo	89,250	12/03/2014	11/03/2024	N
The Company	Air China Cargo	89,250	31/03/2014	30/03/2024	N
The Company	Air China Cargo	69,355	30/06/2014	30/06/2026	N
The Company	Air China Cargo	70,907	29/08/2014	29/08/2026	N

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

	Group	
	2014	2013
	RMB'000	RMB'000
Compensation of key management		
Short term employee benefits	12,435	11,009
Post-employment benefits	1,145	1,022
Cash-settled share option expense	2,444	1,450
	16,024	13,481

Further details of the remuneration of the Directors and supervisors are included in note 11 to the financial statements.

(d) On 25 August 2004, CNACG entered into two licence agreements with CNAC pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect for the use of these trademarks during each of the two years ended 31 December 2014 and 2013.

(e) The Company entered into several agreements with CNAHC regarding the use of trademarks granted by the Company to CNAHC; the provision of financial services by CNAF; the provision of construction project management services by China National Aviation Construction and Development Company (“Aviation Construction & Development”); the subcontracting of charter flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; the media and advertising service arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance by China Aircraft Services Limited.

(f) Commitments

(i) Investment commitments

Pursuant to equity transfer agreements and the capital injection agreement entered between the Company and other shareholders of an associate of the Group, the Company commits to acquire interests from minority shareholders and inject additional capital to the associate. As at 31 December 2014, the transaction is not been completed and the outstanding commitment balance is approximately RMB533,570,000.

Pursuant to an equity investment agreement signed in 2009, a subsidiary of the Group commits to contribute paid-in capital of RMB45,000,000 to an associate. As at 31 December 2014, RMB10,000,000 had been paid and the outstanding commitment balance is RMB35,000,000.

Pursuant to an equity investment agreement, the Company commits to contribute capital injection of US$9,660,000 to a joint venture of the Group. As at 31 December 2014, the outstanding commitment balance is US$9,660,000.

Pursuant to an equity investment agreement signed in 2014 between the Company and the other shareholder of a joint venture of the Group, the Company commits to contribute paid-in capital of RMB804,210,000 to the joint venture. As at 31 December 2014, the outstanding commitment balance is RMB804,210,000.

Pursuant to an equity investment agreement signed in 2012, the Company commits to contribute paid-in capital of US$5,000,000 to a joint venture of the Group. As at 31 December 2014, US$1,500,000 had been paid and the outstanding commitment balance is US$3,500,000.

44 RELATED PARTY TRANSACTIONS (Continued)

(f) Commitments (Continued)

(II) Operating lease commitments

The Group lease certain aircraft, flight equipments, office premises and warehouses from related parties under operating lease arrangements. Leases for these assets are negotiated for terms within 3 years.

	Group	
	2014	2013
	RMB'000	RMB'000
Operating lease commitments to associates	459,346	511,560
Operating lease commitments to other related parties	26,329	21,185
	485,675	532,745

(III) Capital commitments

Capital commitments are mainly represent the construction contracts between the Group and Aviation Construction & Development.

	Group	
	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
– Capital commitments to other related parties	43,576	203,519
Authorised, but not contracted for:		
– Capital commitments to other related parties	493,118	508,194

44 RELATED PARTY TRANSACTIONS (Continued)

(g) Transactions with other state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organizations. Other than those transactions with the CNAHC Group, associates, jointly ventures and other related parties of the Group as disclosed in note 44(a) above, the Group conducts transactions collectively, but not individually, significant transactions with other state-controlled entities which include but are not limited to the following:

- Purchase of jet fuel
- Leasing arrangements
- Purchase of equipment
- Purchase of ancillary materials and spare parts
- Ancillary and social services; and
- Financial services arrangement

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether or not the counterparties are state-controlled entities.

44 RELATED PARTY TRANSACTIONS (Continued)

(g) Transactions with other state-controlled entities (Continued)

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(I) The Group's main transactions with other state-controlled entities

	Group	
	2014	2013
	RMB'000	RMB'000
Jet fuel costs	29,732,099	28,357,794

(II) The Group's balances with other state-controlled entities

	Group	
	2014	2013
	RMB'000	RMB'000
Accounts payable – jet fuel costs	1,819,154	2,704,000

45 OTHER EVENTS

(a) Investment commitment to CNAF

On 24 December 2014, the Company entered into the equity transfer agreements with each of AIE, Air China Shantou Industrial Development Co. ("Shantou Industrial"), Beijing Phoenix Aviation Industrial Co. ("Phoenix Industrial"), pursuant to which, AIE, Shantou Industrial and Phoenix Industrial agreed to transfer the share interest to the Company at a consideration of RMB28,065,845.88, RMB4,726,113.94 and RMB2,326,702.25, respectively. Upon completion of the acquisitions, the Company will be interested in 24.14% in the registered capital of CNAF.

On 24 December 2014, the Company and CNAHC entered into the capital injection agreement, pursuant to which the Company and CNAHC decided to increase the registered capital of CNAF and inject additional capital into CNAF. According to the capital injection agreement, upon completion of the capital injection, each of the Company and CNAHC will have an interest of 51% and 49% in the total enlarged registered capital of CNAF, respectively, and CNAF will become a non-wholly owned subsidiary of the Company. The capital injection agreement will become effective upon obtaining approval of the capital injection from the Beijing Bureau of China Banking Regulatory Commission after the Company and AMS Global enter into an equity transfer agreement for the Company to acquire the AMS Interests.

The capital injection has not been completed at the end of the reporting period.

(b) Investment commitment to Ameco

On 18 December 2014, the Company entered into the capital injection agreement with Deutsche Lufthansa AG, Germany ("Lufthansa AG"), pursuant to which, the Company will inject certain assets as capital contribution to Ameco. Upon completion of the capital injection, the Company and Lufthansa AG will hold 75% and 25% interests in Ameco, respectively, and Ameco will become a non-wholly owned subsidiary of the Company. The capital injection has not been completed at the end of the reporting period.

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 19, Defined benefit plans: Employee contributions	1 July 2014
Annual improvement to IFRSs 2010-2012 Cycle	1 July 2014
Annual improvement to IFRSs 2011-2013 Cycle	1 July 2014
Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15, Revenue from contracts with customers	1 January 2017
IFRS 9, Financial instruments	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, “Accounts and Audit”, of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the company’s first financial year commencing after 3 March 2014 (i.e. the company’s financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	2014 RMB'000	2013 RMB'000
Revenue from operations	104,825,683	97,628,253
Less: Cost of operations	87,841,251	82,645,652
Business taxes and surcharges	188,016	308,512
Selling expenses	7,434,299	7,199,337
General and administrative expenses	3,218,014	3,073,329
Finance costs	3,240,915	776,761
Impairment losses (reversed)/recognised	(129,751)	490,761
Add: Gains from movements in fair value	7,200	310
Investment income	877,156	825,087
Including: Share of profits less losses of associates and joint ventures	873,849	822,787
Profit from operations	3,917,295	3,959,298
Add: Non-operating income	1,265,359	880,463
Including: Gain on disposal of non-current assets	107,362	108,071
Less: Non-operating expenses	164,568	256,373
Including: Loss on disposal of non-current assets	129,823	206,209
Profit before taxation	5,018,086	4,583,388
Less: Taxation	768,160	913,456
Net profit	4,249,926	3,669,932
Net profit attributable to equity shareholders of the Company	3,782,388	3,318,613
Non-controlling interests	467,538	351,319
Earnings per share (RMB)		
Basic and diluted	0.31	0.27

	2014 RMB'000	2013 RMB'000
Other comprehensive income for the year		
Other comprehensive income attributed to equity shareholders of the Company after taxation:		
Item that will not be reclassified to profit or loss:		
– Share of other comprehensive income of the investees accounted by the equity method	(75,943)	241,958
Item that may be reclassified to profit or loss:		
– Share of other comprehensive income of the investees accounted by the equity method	(3,024,890)	884,117
– Exchange realignment	82,495	(682,299)
– Gains or losses arising from changes in fair value of available-for-sale financial assets	16,009	–
Other comprehensive income after taxation attributed to non-controlling interests	14,562	(15,896)
Total comprehensive income	1,262,159	4,097,812
Attributable to		
Equity shareholders of the Company	780,059	3,762,389
Non-controlling interests	482,100	335,423

CONSOLIDATED BALANCE SHEET

At 31 December 2014

(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	2014 RMB'000	2013 RMB'000 (Restated)
ASSETS		
Current assets		
Cash and bank balances	9,734,557	15,507,677
Financial assets at fair value through profit or loss	12,534	11,350
Bills receivable	155	131
Accounts receivable	2,984,209	3,100,584
Other receivables	2,846,003	2,849,938
Prepayments	843,801	679,962
Inventories	1,100,179	1,044,617
Held-for-sale assets	457,623	994,413
Other current assets	2,510,998	1,236,939
Total current assets	20,490,059	25,425,611
Non-current assets		
Available-for-sale financial assets	90,222	47,968
Long-term receivables	525,184	451,404
Long-term equity investments	13,368,005	15,939,840
Investment properties	347,992	246,291
Fixed assets	139,607,933	123,988,709
Construction in progress	26,448,536	31,772,505
Intangible assets	3,619,450	2,864,299
Goodwill	1,102,185	1,102,185
Long-term deferred expenses	558,726	363,536
Deferred tax assets	3,484,577	3,159,535
Total non-current assets	189,152,810	179,936,272
Total assets	209,642,869	205,361,883

	2014 RMB'000	2013 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans	20,671,494	22,821,013
Short-term bonds payable	640,000	700,000
Financial liabilities at fair value through profit or loss	7,712	24,070
Bills payable	150,000	–
Accounts payable	11,757,797	11,828,973
Domestic air traffic liabilities	2,103,215	1,785,306
International air traffic liabilities	2,727,591	2,676,142
Receipts in advance	141,037	133,112
Employee compensations payable	1,663,520	2,239,516
Taxes payable	973,620	711,649
Interest payable	659,180	712,165
Other payables	5,251,688	5,505,080
Non-current liabilities repayable within one year	13,725,417	20,507,235
Total current liabilities	60,472,271	69,644,261
Non-current liabilities		
Long-term loans	31,829,076	23,266,406
Corporate bonds	17,194,120	19,000,000
Long-term payables	3,402,031	3,376,552
Obligations under finance leases	31,240,298	25,972,715
Accrued liabilities	360,481	376,601
Deferred income	3,336,106	3,767,948
Deferred tax liabilities	2,336,862	2,014,407
Total non-current liabilities	89,698,974	77,774,629
Total liabilities	150,171,245	147,418,890
Shareholders' equity		
Issued capital	13,084,751	13,084,751
Capital reserve	16,647,545	16,647,545
Other comprehensive income	(5,059,044)	(2,056,715)
Reserve funds	5,766,587	5,233,245
Retained earnings	23,900,173	21,245,364
Equity attributable to shareholders of the Company	54,340,012	54,154,190
Non-controlling interests	5,131,612	3,788,803
Total shareholders' equity	59,471,624	57,942,993
Total liabilities and shareholders' equity	209,642,869	205,361,883

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

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

	Note	2014 RMB'000	2013 RMB'000
Net profit attributable to shareholders of the Company under CASs		3,782,388	3,318,613
Deferred taxation	(i)	(11,694)	10,324
Differences in value of fixed assets and other non-current assets	(ii)	(41,882)	(153,952)
Government grants	(iii)	88,657	88,657
Net profit attributable to shareholders of the Company under IFRSs		3,817,469	3,263,642

	Note	31 December 2014 RMB'000	31 December 2013 RMB'000
Equity attributable to shareholders of the Company under CASs		54,340,012	54,154,190
Deferred taxation	(i)	92,017	103,711
Differences in value of fixed assets and other non-current assets	(ii)	(564,108)	(522,226)
Government grants	(iii)	(29,552)	(118,209)
Unrecognition profit of the disposal of Hong Kong Dragon Airlines	(iv)	139,919	139,919
Equity attributable to shareholders of the Company under IFRSs		53,978,288	53,757,385

Notes:

(i) The differences in deferred taxation were mainly caused by the other differences under CASs and IFRSs as explained below.

(ii) The differences in the value of fixed assets and other non-current assets mainly consist of the following three types: (1) fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government-prescribed rates) under CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under CASs and IFRSs. Such differences are expected to be eliminated gradually through depreciation or disposal of the related fixed assets in future; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (3) the differences were caused by the adoption of component accounting in different years under CASs and IFRSs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) Under both CASs and IFRSs, government grants or government subsidies should be debited as government grants/subsidies receivable or the relevant assets and credited as deferred income, which will then be charged to the profit or loss on a straight-line basis over the useful lives of the relevant assets. As the accounting for government grants or government subsidies have had no significant impact on the Group's financial statements, no adjustment has been made to unify the accounting treatments of government grants or government subsidies received before the Group adopted CASs. Therefore, in the Group's financial statements prepared in accordance with CASs, these government grants received were debited as the relevant assets and credited as capital reserve; and government subsidies were debited as cash and bank balances and credited as subsidy income in the profit or loss. Such differences are expected to be eliminated gradually through amortisation of deferred income to the profit or loss in future.

(iv) The difference was caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

GLOSSARY OF TECHNICAL TERMS

CAPACITY MEASUREMENTS

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

TRAFFIC MEASUREMENTS

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

YIELD MEASUREMENTS

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

LOAD FACTORS

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

UTILISATION

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

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.
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd.
"Air Macau"	Air Macau Company Limited
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Beijing Airlines"	Beijing Airlines Company Limited
"Board"	the board of directors of the Company
"CASs"	China Accounting Standards for Business Enterprises
"Cathay Pacific China Cargo Holdings"	Cathay Pacific China Cargo Holdings Limited
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAF"	China National Aviation Finance Co., Ltd.
"CNAHC"	China National Aviation Holding Company
"CNAHC Group"	CNAHC and its controlling subsidiaries
"CNAMC"	China National Aviation Media and Advertisement Co., Ltd
"Company", "the Company" or "Air China"	Air China Limited
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Fine Star"	Fine Star Enterprises Corporation
"Group"	the Company and its subsidiaries
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Kunming Airlines"	Kunming Airlines Company Limited
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisors(s)"	The supervisor(s) of the Company