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中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

2016 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS:

- In 2016, the Group's total revenue was RMB115,145 million, representing an increase of RMB5,088 million or 4.62% as compared with last year. Among which, air traffic revenue was RMB108,585 million, representing an increase of RMB4,217 million or 4.04% over last year, other operating revenue was RMB6,560 million, representing a year-on-year increase of RMB871 million or 15.31%.
- The Group recorded a profit from operations of RMB17,533 million, representing an increase of RMB1,981 million or 12.74% as compared with last year. However, due to the offset by unfavorable factors including the depreciation of RMB against US dollars and the decrease in gains on investment, profit attributable to equity shareholders of the Company and earnings per share amounted to RMB6,809 million and RMB0.55 respectively, representing a year-on-year decrease of 3.60% and 3.60%, respectively.
- The Board recommends the payment of a cash dividend of RMB1.0771 (including tax) for every ten shares for the year 2016, totalling approximately RMB1,564 million calculated based on the current total issued shares of 14,524,815,185 shares of the Company.

2016 ANNUAL RESULTS

The Board hereby announces the audited consolidated financial results of the Group for the year ended 31 December 2016 together with the corresponding comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

(Prepared under International Financial Reporting Standards)

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Air traffic revenue	4	108,584,830	104,368,230
Other operating revenue	5	6,559,862	5,688,804
		<u>115,144,692</u>	<u>110,057,034</u>
Operating expenses			
Jet fuel costs		(21,981,934)	(24,042,614)
Take-off, landing and depot charges		(12,774,220)	(11,643,166)
Depreciation and amortisation		(13,473,720)	(13,010,761)
Aircraft maintenance, repair and overhaul costs		(4,654,964)	(4,015,468)
Employee compensation costs		(20,075,602)	(18,230,841)
Air catering charges		(3,270,726)	(3,031,717)
Aircraft operating lease expenses		(6,252,783)	(5,145,664)
Other operating lease expenses		(1,002,788)	(1,017,535)
Other flight operation expenses		(8,830,233)	(8,393,972)
Selling and marketing expenses		(3,893,265)	(4,558,933)
General and administrative expenses		(1,401,882)	(1,414,741)
		<u>(97,612,117)</u>	<u>(94,505,412)</u>
Profit from operations	6	17,532,575	15,551,622
Finance income	7	127,077	152,257
Finance costs	7	(7,468,985)	(7,968,825)
Share of profits less losses of associates		(211,188)	1,319,300
Share of profits less losses of joint ventures		233,423	300,897
		<u>10,212,902</u>	<u>9,355,251</u>
Profit before taxation		10,212,902	9,355,251
Taxation	8	(2,454,221)	(1,845,764)
		<u>7,758,681</u>	<u>7,509,487</u>
Profit for the year		<u>7,758,681</u>	<u>7,509,487</u>
Attributable to:			
– Equity shareholders of the Company		6,809,159	7,063,347
– Non-controlling interests		949,522	446,140
		<u>7,758,681</u>	<u>7,509,487</u>
Profit for the year		<u>7,758,681</u>	<u>7,509,487</u>
Earnings per share			
– Basic and diluted	10	<u>RMB55.38 cents</u>	<u>RMB57.45 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2016**(Prepared under International Financial Reporting Standards)*

	2016	2015
	RMB'000	RMB'000
Profit for the year	7,758,681	7,509,487
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	2,295	(21,054)
– Share of other comprehensive income of associates and joint ventures	162,682	(55,062)
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures	2,171,389	(1,639,957)
– Available-for-sale securities: net change in fair value	29,593	22,014
– Exchange realignment	1,332,354	1,095,705
Other comprehensive income for the year	3,698,313	(598,354)
Total comprehensive income for the year	11,456,994	6,911,133
Attributable to:		
– Equity shareholders of the Company	10,453,622	6,415,240
– Non-controlling interests	1,003,372	495,893
Total comprehensive income for the year	11,456,994	6,911,133

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Prepared under International Financial Reporting Standards)

	31 December 2016	31 December 2015
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		
Property, plant and equipment	158,012,922	155,990,977
Lease prepayments	3,057,745	3,034,209
Investment properties	695,518	722,663
Intangible assets	113,367	35,902
Goodwill	1,099,975	1,099,975
Interests in associates	14,181,687	11,552,825
Interests in joint ventures	1,126,992	1,038,118
Advance payments for aircraft and flight equipment	20,662,867	14,476,913
Deposits for aircraft under operating leases	649,343	597,920
Held-to-maturity securities	10,000	10,000
Available-for-sale securities	1,150,661	1,106,588
Deferred tax assets	3,054,035	3,753,729
Other non-current assets	249,502	—
	<u>204,064,614</u>	<u>193,419,819</u>
Current assets		
Non-current assets held for sale	913,129	582,074
Inventories	1,680,633	1,730,742
Accounts receivable	3,286,091	3,661,354
Bills receivable	837	224
Prepayments, deposits and other receivables	3,729,699	3,635,925
Financial assets	222	995
Restricted bank deposits	474,338	654,946
Cash and cash equivalents	6,848,018	7,138,098
Other current assets	3,053,370	2,806,973
	<u>19,986,337</u>	<u>20,211,331</u>
Total assets	<u><u>224,050,951</u></u>	<u><u>213,631,150</u></u>

		31 December	31 December
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Air traffic liabilities		(6,313,936)	(5,759,233)
Accounts payable	12	(10,832,292)	(9,270,752)
Bills payable		–	(11,646)
Other payables and accruals		(13,094,920)	(16,129,727)
Current taxation		(920,508)	(819,880)
Obligations under finance leases		(6,099,453)	(5,963,977)
Interest-bearing bank loans and other borrowings		(25,975,716)	(11,290,310)
Provision for major overhauls		(943,609)	(1,301,821)
		<u>(64,180,434)</u>	<u>(50,547,346)</u>
Net current liabilities		<u>(44,194,097)</u>	<u>(30,336,015)</u>
Total assets less current liabilities		<u>159,870,517</u>	<u>163,083,804</u>
Non-current liabilities			
Obligations under finance leases		(36,295,471)	(37,803,279)
Interest-bearing bank loans and other borrowings		(37,833,246)	(48,987,522)
Provision for major overhauls		(3,523,236)	(3,112,201)
Provision for early retirement benefit obligations		(7,919)	(13,465)
Long-term payables		(23,350)	(10,180)
Defined benefit obligations		(269,742)	(276,968)
Deferred income		(3,092,841)	(3,489,698)
Deferred tax liabilities		(2,428,313)	(2,867,738)
		<u>(83,474,118)</u>	<u>(96,561,051)</u>
NET ASSETS		<u>76,396,399</u>	<u>66,522,753</u>
CAPITAL AND RESERVES			
Issued capital		13,084,751	13,084,751
Treasury shares		(3,047,564)	(3,047,564)
Reserves		58,762,068	49,710,824
Total equity attributable to equity shareholders of the Company		68,799,255	59,748,011
Non-controlling interests		<u>7,597,144</u>	<u>6,774,742</u>
TOTAL EQUITY		<u>76,396,399</u>	<u>66,522,753</u>

NOTES:

1 BASIS OF PREPARATION

The Group's 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"). The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been approved and authorized for issue by the board of directors on 30 March 2017.

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB44,194 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB134,700 million as at 31 December 2016, the directors of the Company believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the financial statements for the year ended 31 December 2016. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale or as trading securities and derivatives, which are measured at fair value, and non-current assets held for sale, which are stated at the lower of their carrying amounts and fair value less costs of disposal. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT INFORMATION

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

- (a) the "airline operations" segment which mainly comprises the provision of air passenger and air cargo services; and
- (b) the "other operations" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

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

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.

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 2016 and 2015 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2016

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	112,634,866	1,329,124	–	113,963,990
Intersegment sales	<u>243,209</u>	<u>8,400,147</u>	<u>(8,643,356)</u>	<u>–</u>
Revenue for reportable segments under CASs	<u>112,878,075</u>	<u>9,729,271</u>	<u>(8,643,356)</u>	113,963,990
Other income not included in segment revenue				<u>1,180,702</u>
Revenue for the year under IFRSs				<u>115,144,692</u>
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	<u>10,011,057</u>	<u>328,378</u>	<u>(120,059)</u>	10,219,376
Effects of differences between IFRSs and CASs				<u>(6,474)</u>
Profit before taxation for the year under IFRSs				<u>10,212,902</u>

Year ended 31 December 2015

	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue				
Sales to external customers	107,554,126	1,374,988	–	108,929,114
Intersegment sales	<u>–</u>	<u>4,949,724</u>	<u>(4,949,724)</u>	<u>–</u>
Revenue for reportable segments under CASs	<u>107,554,126</u>	<u>6,324,712</u>	<u>(4,949,724)</u>	108,929,114
Business tax and surcharges not included in segment revenue				(274,190)
Other income not included in segment revenue				1,372,558
Effects of other differences between IFRSs and CASs				<u>29,552</u>
Revenue for the year under IFRSs				<u>110,057,034</u>
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	<u>8,567,974</u>	<u>530,895</u>	<u>(55,624)</u>	9,043,245
Effects of differences between IFRSs and CASs				<u>312,006</u>
Profit before taxation for the year under IFRSs				<u>9,355,251</u>

The following tables present the segment assets of the Group's operating segments under CASs as at 31 December 2016 and 2015 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2016 under CASs	<u>215,918,569</u>	<u>17,435,746</u>	<u>(9,226,123)</u>	224,128,192
Effects of differences between IFRSs and CASs				<u>(77,241)</u>
Total assets under IFRSs				<u>224,050,951</u>
Total assets for reportable segments as at 31 December 2015 under CASs	<u>206,654,516</u>	<u>15,615,623</u>	<u>(8,566,604)</u>	213,703,535
Effects of differences between IFRSs and CASs				<u>(72,385)</u>
Total assets under IFRSs				<u>213,631,150</u>

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2016 and 2015, respectively:

Year ended 31 December 2016

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	<u>74,968,688</u>	<u>5,460,001</u>	<u>10,015,695</u>	<u>10,294,873</u>	<u>6,800,675</u>	<u>7,604,760</u>	<u>115,144,692</u>

Year ended 31 December 2015

	Mainland China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	<u>70,578,761</u>	<u>5,666,889</u>	<u>10,882,067</u>	<u>10,196,925</u>	<u>6,029,137</u>	<u>6,703,255</u>	<u>110,057,034</u>

4 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Passenger	100,279,802	95,920,745
Cargo and mail	<u>8,305,028</u>	<u>8,447,485</u>
	<u>108,584,830</u>	<u>104,368,230</u>

5 OTHER OPERATING REVENUE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Aircraft engineering income	1,058,729	747,651
Ground service income	853,586	810,176
Government grants:		
– Recognition of deferred income	61,107	79,658
– Others	939,142	889,166
Service charges on return of unused flight tickets	1,359,162	1,147,055
Cargo handling service income	174,251	138,677
Training service income	39,606	43,168
Rental income	145,077	194,356
Sale of materials	20,487	27,050
Import and export service income	46,670	35,521
Others	<u>1,862,045</u>	<u>1,576,326</u>
	<u>6,559,862</u>	<u>5,688,804</u>

6 PROFIT FROM OPERATIONS

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Depreciation of property, plant and equipment	13,339,651	12,911,350
Depreciation of investment properties	27,145	27,559
Amortisation of intangible assets	38,747	–
Amortisation of lease prepayments	68,177	71,852
Impairment/(reversal of impairment):		
– Non-current assets held for sale	219,376	112,791
– Accounts receivable	(9,031)	49,167
– Prepayments, deposits and other receivables	(3,537)	268
– Other current assets	11,546	–
– Other non-current assets	2,516	–
Provision for inventories	71,570	12,831
Losses/(gains) on disposal of property, plant and equipment, net	37,628	(10,319)
Losses on disposal of non-current assets held for sale, net	4,659	101,554
Minimum lease payments under operating leases:		
– Aircraft and flight equipment	6,252,783	5,145,664
– Land and buildings	879,023	924,430
Auditors' remuneration:		
– Audit related services	20,080	22,051
– Other services	194	29
	<u>127,077</u>	<u>152,257</u>

7 FINANCE INCOME AND FINANCE COSTS

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

Finance income

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	<u>127,077</u>	<u>152,257</u>

Finance costs

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest on interest-bearing bank loans and other borrowings	2,408,659	2,502,785
Interest on finance leases	1,058,107	677,976
Exchange losses, net	<u>4,233,668</u>	<u>5,156,039</u>
	7,700,434	8,336,800
Less: Interest capitalised	<u>(231,449)</u>	<u>(367,975)</u>
	<u><u>7,468,985</u></u>	<u><u>7,968,825</u></u>

The borrowing costs have been capitalised at a rate of 1.03% – 4.62% per annum (2015: 0.77% – 6.55%).

8 TAXATION

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current income tax:		
– Mainland China	2,200,163	1,555,160
– Hong Kong and Macau	4,969	8,224
(Over)/under-provision in respect of prior years	(1,316)	1,199
Deferred tax	<u>250,405</u>	<u>281,181</u>
	<u><u>2,454,221</u></u>	<u><u>1,845,764</u></u>

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% (2015: 15%) and a subsidiary which is exempted from the local income tax of the Inner Mongolia Autonomous Region from year 2013 to 2016, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2015: 25%) during the year. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (2015: 16.5% and 12%), respectively.

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

9 DIVIDENDS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period	<u>1,564,468</u>	<u>1,400,068</u>
Final dividend in respect of the previous financial year, declared and paid during the year	<u>1,400,068</u>	<u>683,417</u>

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 30 May 2016, a final dividend of RMB1.0700 (including tax) per ten shares totalling RMB1,400 million in respect of the year ended 31 December 2015 was paid out in 2016.

Pursuant to a resolution passed at the Directors' Meeting on 30 March 2017, a final dividend in respect of the year ended 31 December 2016 of RMB1,564 million (approximately RMB1.0771 (including tax) per ten shares calculated based on number of shares in issue at the date of the Directors' Meeting) 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 2016.

10 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2016 was based on the profit attributable to ordinary equity shareholders of the Company of RMB6,809 million (2015: RMB7,063 million) and the weighted average of 12,294,896,740 ordinary shares (2015: 12,294,896,740 ordinary shares) in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited through reciprocal shareholding.

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

11 ACCOUNTS RECEIVABLE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Accounts receivable	3,414,566	3,816,516
Impairment	<u>(128,475)</u>	<u>(155,162)</u>
	<u>3,286,091</u>	<u>3,661,354</u>

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.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 30 days	2,460,470	2,828,753
31 to 60 days	407,875	328,902
61 to 90 days	68,167	166,916
Over 90 days	349,579	336,783
	<u>3,286,091</u>	<u>3,661,354</u>

12 ACCOUNTS PAYABLE

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 30 days	4,288,890	4,566,656
31 to 60 days	1,692,454	1,373,626
61 to 90 days	1,397,287	1,086,846
Over 90 days	3,453,661	2,243,624
	<u>10,832,292</u>	<u>9,270,752</u>

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	2016 RMB'000	2015 RMB'000
Revenue from operations	113,963,990	108,929,114
Less: Cost of operations	87,202,708	83,694,898
Taxes and surcharges	293,972	274,190
Selling expenses	5,594,956	6,147,913
General and administrative expenses	4,031,545	4,023,522
Finance costs	7,493,772	7,948,531
Impairment losses	253,842	181,885
Add: (Loss)/gains from movements in fair value	(279)	5,634
Investment income	87,851	1,675,988
Including: Share of profits less losses of associates and joint ventures	22,235	1,620,197
Profit from operations	9,180,767	8,339,797
Add: Non-operating income	1,154,781	1,159,756
Including: Gain on disposal of non-current assets	39,416	69,960
Less: Non-operating expenses	116,172	456,308
Including: Loss on disposal of non-current assets	78,978	172,920
Profit before taxation	10,219,376	9,043,245
Less: Taxation	2,455,839	1,823,097
Net profit	7,763,537	7,220,148
Including: net profit of the combined party before common control combinations	-	57,677
Net profit attributable to equity shareholders of the Company	6,814,015	6,774,008
Non-controlling interests	949,522	446,140
Earnings per share (RMB)		
Basic and diluted	0.55	0.55

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
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:		
– Remeasurement of net defined benefit liability	1,721	(15,790)
– Share of other comprehensive income of the investees accounted by the equity method	162,682	(55,062)
Item that may be reclassified to profit or loss:		
– Share of other comprehensive income of the investees accounted by the equity method	2,171,926	(1,640,609)
– Exchange realignment	1,293,041	1,052,127
– Gains or losses arising from changes in fair value of available-for-sale financial assets	15,093	11,227
Other comprehensive income after taxation attributed to non-controlling interests	<u>53,850</u>	<u>49,753</u>
Total comprehensive income	<u>11,461,850</u>	<u>6,621,794</u>
Attributable to:		
Equity shareholders of the Company	10,458,478	6,125,901
Non-controlling interests	1,003,372	495,893

CONSOLIDATED BALANCE SHEET

At 31 December 2016

(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	31 December 2016 RMB'000	31 December 2015 RMB'000
ASSETS		
Current assets		
Cash and bank	7,322,356	7,793,044
Financial assets at fair value through profit or loss	222	995
Bills receivable	837	224
Accounts receivable	3,286,091	3,661,354
Other receivables	1,923,459	1,882,945
Prepayments	1,136,826	1,069,263
Inventories	1,680,633	1,730,742
Held-for-sale assets	918,587	582,074
Other current assets	<u>3,053,370</u>	<u>2,806,973</u>
Total current assets	<u>19,322,381</u>	<u>19,527,614</u>
Non-current assets		
Available-for-sale financial assets	1,152,704	1,108,631
Held-to-maturity investments	10,000	10,000
Long-term receivables	898,845	598,312
Long-term equity investments	15,168,760	12,451,024
Investment properties	337,551	353,511
Fixed assets	148,910,057	149,267,398
Construction in progress	29,320,914	20,747,815
Intangible assets	4,252,314	4,169,341
Goodwill	1,102,185	1,102,185
Long-term deferred expenses	669,414	683,325
Deferred tax assets	<u>2,983,067</u>	<u>3,684,379</u>
Total non-current assets	<u>204,805,811</u>	<u>194,175,921</u>
Total assets	<u><u>224,128,192</u></u>	<u><u>213,703,535</u></u>

	31 December 2016 RMB'000	31 December 2015 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans	14,488,948	3,055,641
Short-term bonds payable	5,147,083	2,598,843
Bills payable	–	11,646
Accounts payable	11,775,901	11,747,465
Domestic air traffic liabilities	2,933,845	2,619,395
International air traffic liabilities	3,380,091	3,139,838
Receipts in advance	181,050	148,505
Employee compensations payable	2,191,248	1,933,927
Taxes payable	1,361,742	1,304,379
Interest payable	761,913	679,394
Other payables	8,480,453	10,574,693
Non-current liabilities repayable within one year	13,144,160	12,399,620
	<u>63,846,434</u>	<u>50,213,346</u>
Total current liabilities		
Non-current liabilities		
Long-term loans	12,835,222	30,794,484
Corporate bonds	24,998,024	18,193,038
Long-term payables	3,546,586	3,122,381
Obligations under finance leases	36,295,471	37,803,279
Defined benefit obligations	269,742	276,968
Accrued liabilities	341,919	347,465
Deferred income	3,092,841	3,489,698
Deferred tax liabilities	2,428,313	2,867,738
	<u>83,808,118</u>	<u>96,895,051</u>
Total non-current liabilities		
Total liabilities	<u>147,654,552</u>	<u>147,108,397</u>

	31 December 2016 RMB'000	31 December 2015 RMB'000
Shareholders' equity		
Issued capital	13,084,751	13,084,751
Capital reserve	16,509,531	16,509,531
Other comprehensive income	(2,062,598)	(5,707,061)
Reserve funds	7,829,643	6,633,105
Retained earnings	33,448,460	29,245,119
General reserve	66,709	54,951
	<hr/>	<hr/>
Equity attributable to shareholders of the Company	68,876,496	59,820,396
Non-controlling interests	7,597,144	6,774,742
	<hr/>	<hr/>
Total shareholders' equity	<u>76,473,640</u>	<u>66,595,138</u>
	<hr/>	<hr/>
Total liabilities and shareholders' equity	<u>224,128,192</u>	<u>213,703,535</u>

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

The effects of differences between the consolidated financial statements of the Group prepared under IFRSs and CASs are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Net profit attributable to shareholders of the Company under CASs	6,814,015	6,774,008
Deferred taxation	1,618	(22,667)
Differences in value of fixed assets and other non-current assets	(6,474)	282,454
Government grants	<u>—</u>	<u>29,552</u>
Net profit attributable to shareholders of the Company under IFRSs	<u>6,809,159</u>	<u>7,063,347</u>
	31 December 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Equity attributable to shareholders of the Company under CASs	68,876,496	59,820,396
Deferred taxation	70,968	69,350
Differences in value of fixed assets and other non-current assets	(288,128)	(281,654)
Unrealised profit of the disposal of Hong Kong Dragon Airlines	<u>139,919</u>	<u>139,919</u>
Equity attributable to shareholders of the Company under IFRSs	<u>68,799,255</u>	<u>59,748,011</u>

2016 REVIEW

In 2016, while the global economy gradually regained its momentum, China managed to secure a steady economic growth. The demand in the global air passenger market remained strong as China's civil aviation industry continued its double-digit rapid growth, while the global air cargo market remained sluggish and trapped in a challenging operating environment. With the erupting geopolitical events, intensifying industrial competition and constantly appreciating US dollars, the challenges are getting even more severe. Firm and determined, the Group adhered to its guidelines of sound operation and sustainable development as it coped with the changes in the market with proper tactics, expanded its global presence and improved its operational efficiency with strict cost control, resulting in enhanced profitability of its principal businesses and a secured leading position in the industry.

During the reporting period, our capacity measured in ATK reached 33,777 million and RTK reached 23,698 million, representing an increase of 7.69% and 8.67% respectively, over the previous year. We carried 96.6059 million passengers, increased by 7.56% year-on-year. Our cargo and mail volume reached 1.7691 million tonnes, representing a year-on-year increase of 6.29%. Our revenue reached RMB115,145 million, representing a year-on-year increase of 4.62%, while our operating expenses reached RMB97,612 million, increased by 3.29% over the previous year, among which, fuel cost dropped by RMB2,061 million compared with that of last year. Although fluctuations of exchange rate caused an exchange loss of RMB4,234 million, owing to the satisfying profitability in the main business, we still recorded RMB6,809 million of profit attributable to equity shareholders, representing a year-on-year decrease of 3.60%.

In 2016, we introduced 54 aircraft, including 7 new B787-9 passenger aircraft, and phased out 21 aircraft, building up a fleet of 623 aircraft with an average age of 6.36 years. The Company sensibly allocated its capacity relying on its pre-judgment on market demand and concentrated its advantageous resources to support those profitable and crucial routes and those which are making greater contribution to its network, aiming to optimise the overall deployment structure. In response to the changes in the market demand triggered by the adverse factors such as the terrorist crisis in Europe, we sensibly reduced our international flights to the affected countries and relocated our wide-body aircraft to major domestic markets. While maintaining the investment and optimisation efforts at our international operations, we gradually increased our strength in the domestic market, and at the same time, steadily reduced the number of unprofitable routes through fine-tuning of our yield management system, which effectively supported overall yield improvement across all our routes.

Constantly advancing our hub network strategy. The Company launched 45 new routes, both domestic and international, during the year. As the largest carrier between China and Europe, and between China and U.S., our global network coverage has been continuously optimized, with increasingly improved the quality of flight connections and a significant growth of 49% in the volume of connecting passengers between international flights. Concerning our Beijing Hub, we launched the Beijing-Warsaw route while increasing the flight frequency for the Beijing-San Francisco route. Aiming to strengthen our penetration in the “One Belt, One Road” markets, we also launched new routes and increased flight frequency to Turpan and Yinchuan and so on, further enhancing the network influence of our Beijing Hub. As for our Shanghai Hub, we launched a new route to San Jose while optimising the scheduling for the domestic routes to Chengdu, Changchun and Hohhot, aiming to consolidate the status of Shanghai International Gateway. For our Chengdu Hub, we launched a new route to Sydney while increasing the frequency of domestic routes to Ningbo, Lanzhou and Guilin, aiming to reinforce our network structure. For our Shenzhen Hub, we launched an international route to Frankfurt as well as a Shenzhen – Beijing – Los Angeles route, which signified the first step of our international long-distance network coverage from South China.

Transforming and innovating our business models to improve our marketing ability from all aspects. The Company has decided on the path for business model transformation with the focus on frequent fliers, products with ancillary revenue and e-commerce based on the three major leads, i.e. customers, products and channels, in order to enhance its marketing capacity, and to create an air travel lifestyle ecosystem. We rolled out 12 iterative upgrades for our mobile app in respect of technology, service functions, customer experience and marketing capabilities, aiming to promote precise marketing and reinforce our e-commerce platform, which awarded us with a year-on-year increase of 54% in the revenue from our e-commerce platform.

Continuously enhancing our comprehensive service management expertise with the focus on passenger experience improvement. We enriched and innovated the food and beverages served on board to satisfy the changing demands of our customers. In order to improve the baggage transport and passenger transit service, we launched the global baggage query call centre. We established the emergency response mechanism for massive flight delay in Beijing to enhance the synergy with the airports in our main bases. We continued to promote the fast travel services, especially the self-service and online service functions, so as to use new technology to simplify the passenger boarding procedures and effectively enhance the passenger’s travel experience.

Focusing on quality and efficiency improvement and strengthening cost control. As our business and operational scale continued to expand, we tried to achieve a year-on-year decrease in our transportation costs through a strict control of large-cost process management and structural cost adjustment. Our efforts in reducing the receivables and inventory met with encouraging results, while our efforts in increasing direct sales and reducing distribution costs were also carried on with remarkable momentum, as a result of which the percentage of our direct sales increased to 40.6% with a further reduction of distribution costs. To cope with the risk of exchange rate fluctuations, the Company adjusted the way it acquired aircraft to keep its interest-bearing US dollar debts under control while adjusting the structure of the debt currency within the permission of national policies, resulting in a significant decrease in its interest-bearing US dollar debts and the proportion thereof, thereby effectively reducing the impact of exchange rate fluctuations.

In 2016, facing a challenging operating environment, Air China Cargo steadily improved the quality of its business operation and achieved sustained profitability. Air China Cargo maintained a sharp sense of the market movements as it constantly adjusted the allocation of transport capacity to ensure that the high-yield areas were prioritised and the overall yield level were enhanced. It also strengthened the coordination of passenger and cargo transport resources, resulting in satisfactory belly space yield. Air China Cargo sustained profit growth in the cargo stations. While consolidating its traditional businesses, Air China Cargo accelerated its cooperation with couriers and e-commerce companies, which laid the foundation for the diversified development.

In 2017, the global economy will maintain its growth at a slow pace, while China will arrive at an important stage of economic “New Normal” in which the consumers’ demands will continue to grow and the consumption structure will be upgraded at a faster speed with consumption itself playing a more important role in driving the economic growth. In this stage, the demand for air travel will continue to grow while fluctuations of oil prices and exchange rate as well as geopolitical situation and intensified competition in the industry may impose great challenges on our operation. The Group will continue its efforts to become a “large network airline with international competitive edge” while carrying on its reform, achieving a sound development, innovating marketing capability and consolidating competitive advantages, in order to reward its shareholders and society with better results.

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

The following discussion and analysis are based on the Group’s consolidated financial statements and the notes thereto prepared in accordance with the IFRSs and are designed to assist readers in further understanding the information in this announcement and better understanding the financial position and results of operation of the Group as a whole.

PROFIT ANALYSIS

In 2016, the Group proactively responded to changes in the competitive landscape and market demand by adopting various measures such as optimising operational arrangement, enhancing marketing capabilities and strengthening cost management. The Group recorded a profit from operations of RMB17,533 million, representing an increase of RMB1,981 million or 12.74% as compared with last year. However, due to the offset by unfavorable factors including the depreciation of RMB against US dollars and the decrease in gains on investment, profit attributable to equity shareholders of the Company and earnings per share amounted to RMB6,809 million and RMB0.55 respectively, representing a year-on-year decrease of 3.60% and 3.60%, respectively.

REVENUE

In 2016, the Group's total revenue was RMB115,145 million, representing an increase of RMB5,088 million or 4.62% as compared with last year. Among which, air traffic revenue was RMB108,585 million, representing an increase of RMB4,217 million or 4.04% over last year; other operating revenue was RMB6,560 million, representing a year-on-year increase of RMB871 million or 15.31%.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

<i>(in RMB'000)</i>	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	74,968,688	65.11%	70,578,761	64.13%	6.22%
Hong Kong, Macau and Taiwan	5,460,001	4.74%	5,666,889	5.15%	(3.65%)
Europe	10,015,695	8.70%	10,882,067	9.89%	(7.96%)
North America	10,294,873	8.94%	10,196,925	9.27%	0.96%
Japan and Korea	6,800,675	5.91%	6,029,137	5.48%	12.80%
Asia Pacific and others	7,604,760	6.60%	6,703,255	6.08%	13.45%
Total	<u>115,144,692</u>	<u>100.00%</u>	<u>110,057,034</u>	<u>100.00%</u>	<u>4.62%</u>

AIR PASSENGER REVENUE

In 2016, the Group recorded air passenger revenue of RMB100,280 million, representing an increase of RMB4,359 million over that of 2015. Among the air passenger revenue, the increase of capacity contributed an increase of RMB8,211 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB4,782 million. The increase of passenger load factor also brought an increase of RMB930 million to the revenue. The Group's capacity, passenger load factor and yield per RPK in 2016 are as follows:

	2016	2015	Change
Available seat kilometres (million)	233,218.05	214,828.73	8.56%
Passenger load factor (%)	80.68	79.93	increased by 0.75 ppts
Yield per RPK (RMB)	0.5327	0.5583	(4.58%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

<i>(in RMB'000)</i>	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	66,782,965	66.60%	63,145,755	65.82%	5.76%
Hong Kong, Macau and Taiwan	5,181,639	5.17%	5,376,649	5.61%	(3.63%)
Europe	7,110,930	7.09%	8,025,820	8.37%	(11.40%)
North America	7,827,893	7.81%	7,662,868	7.99%	2.15%
Japan and Korea	6,323,747	6.31%	5,541,750	5.78%	14.11%
Asia Pacific and others	7,052,628	7.02%	6,167,903	6.43%	14.34%
Total	<u>100,279,802</u>	<u>100.00%</u>	<u>95,920,745</u>	<u>100.00%</u>	<u>4.54%</u>

AIR CARGO AND MAIL REVENUE

In 2016, the Group's air cargo and mail revenue was RMB8,305 million, representing a decrease of RMB142 million as compared with last year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB532 million to the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB31 million, and the decrease of yield of cargo and mail resulted in a decrease of RMB705 million to revenue. The capacity, cargo and mail load factor and yield per RFTK in 2016 are as follows:

	2016	2015	Change
Available freight tonne kilometres (million)	12,736.96	11,982.31	6.30%
Cargo and mail load factor (%)	54.92	54.73	increased by 0.19 ppts
Yield per RFTK (RMB)	1.1873	1.2880	(7.82%)

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

<i>(in RMB'000)</i>	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	1,920,904	23.14%	1,980,773	23.44%	(3.02%)
Hong Kong, Macau and Taiwan	262,788	3.16%	290,240	3.44%	(9.46%)
Europe	2,832,908	34.11%	2,785,922	32.98%	1.69%
North America	2,387,878	28.75%	2,466,913	29.20%	(3.20%)
Japan and Korea	416,940	5.02%	460,065	5.45%	(9.37%)
Asia Pacific and others	483,610	5.82%	463,572	5.49%	4.32%
Total	<u>8,305,028</u>	<u>100.00%</u>	<u>8,447,485</u>	<u>100.00%</u>	<u>(1.69%)</u>

OPERATING EXPENSES

In 2016, the Group's operating expenses were RMB97,612 million, representing an increase of 3.29% from RMB94,505 million in 2015. The breakdown of the operating expenses is set out below:

<i>(in RMB'000)</i>	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	21,981,934	22.52%	24,042,614	25.44%	(8.57%)
Take-off, landing and depot charges	12,774,220	13.09%	11,643,166	12.32%	9.71%
Depreciation and amortisation	13,473,720	13.80%	13,010,761	13.77%	3.56%
Aircraft maintenance, repair and overhaul costs	4,654,964	4.77%	4,015,468	4.25%	15.93%
Employee compensation costs	20,075,602	20.57%	18,230,841	19.29%	10.12%
Air catering charges	3,270,726	3.35%	3,031,717	3.21%	7.88%
Selling and marketing expenses	3,893,265	3.99%	4,558,933	4.82%	(14.60%)
General and administrative expenses	1,401,882	1.44%	1,414,741	1.50%	(0.91%)
Others	16,085,804	16.47%	14,557,171	15.40%	10.50%
Total	<u>97,612,117</u>	<u>100.00%</u>	<u>94,505,412</u>	<u>100.00%</u>	<u>3.29%</u>

In particular:

- Jet fuel costs decreased by RMB2,061 million or 8.57% as compared to 2015, mainly due to the decrease in the prices of jet fuel.
- Take-off, landing and depot charges increased by RMB1,131 million as compared to 2015, 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 financing leased aircraft during the Reporting Period.
- Aircraft maintenance, repair and overhaul costs increased by RMB639 million as compared to 2015, mainly due to the expansion of fleet size.
- Employee compensation costs increased by RMB1,845 million, mainly due to the consolidation of AMECO into the Group on 31 May 2015, as well as the increase in number of employees and the adjustment of employee compensation level.
- Air catering charges increased by RMB239 million, mainly due to the increase in the number of passengers.

- Selling and marketing expenses decreased by RMB666 million as compared to 2015, mainly due to the active effort to increase the proportion of direct sales and reduce the agency fee expenses.
- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from our core air traffic business. Other operating expenses increased by 10.50% as compared to the previous year, mainly due to the increase in the operating lease expenses of aircraft engines and buildings and the increase in the contributions to the civil aviation development fund as compared to 2015.

FINANCE INCOME AND FINANCE COSTS

In 2016, the Group recorded an interest income of RMB127 million, representing a decrease of RMB25 million or 16.54% as compared to 2015; and incurred an interest expense (excluding the capitalised portion) of RMB3,235 million, representing an increase of RMB423 million. In 2016, the Group recorded a net exchange loss of RMB4,234 million, representing a decrease of 17.89% or RMB922 million as compared to 2015. The decrease was primarily due to the decrease in our interest-bearing debts in US dollars during the Reporting Period.

SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURES

In 2016, the Group's share in the profits of its associates and joint ventures was RMB22 million, representing a decrease of RMB1,598 million from that of 2015, mainly due to the decrease in the profits of Cathay Pacific (an associate of the Group) this year, therefore the Group's recognition of gains on investment in Cathay Pacific amounted to RMB-658 million, representing a year-on-year decrease of RMB1,667 million.

MATERIAL ACQUISITIONS AND DISPOSAL

In 2016, the Company did not make any material acquisitions and disposal of subsidiaries, associates or joint ventures.

ASSETS STRUCTURE ANALYSIS

As at 31 December 2016, the total assets of the Group amounted to RMB224,051 million, representing a year-on-year increase of 4.88%, among which current assets accounted for RMB19,986 million or 8.92% of the total assets, while non-current assets accounted for RMB204,065 million or 91.08% of the total assets.

Among the current assets, cash and cash equivalents were RMB6,848 million, accounting for 34.26% of the current assets and representing a decrease of 4.06% from the beginning of 2016. The decrease was mainly due to the improvement of the Group in utilisation efficiency of financial funds.

Among the non-current assets, the net book value of property, plant and equipment amounted to RMB158,013 million, accounting for 77.43% of the non-current assets and representing a year-on-year increase of 1.30%, which was primarily due to the increase in the number of self-owned and financing leased aircraft.

ASSET MORTGAGE

As at 31 December 2016, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated net book value of approximately RMB84,030 million (RMB106,171 million as at 31 December 2015) and land use rights with net book value of approximately RMB35 million (RMB36 million as at 31 December 2015). In addition, as at 31 December 2016, the Group had restricted bank deposits of approximately RMB474 million (approximately RMB655 million as at 31 December 2015), which were mainly reserves deposited in the People's Bank of China and the pledges for aircraft operating leases.

CAPITAL EXPENDITURE

In 2016, the Company's capital expenditure amounted to a total of RMB16,689 million, of which the total investment in aircraft and engines was RMB15,479 million. Other capital expenditure investment amounted to RMB1,210 million, mainly including investments in aircraft retrofitting, flight simulators, infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2016, the Group's equity investment in its associates amounted to RMB14,182 million, representing an increase of 22.76% from the beginning of 2016. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Company Limited and Shandong Airlines amounted to RMB11,758 million, RMB1,206 million and RMB814 million, respectively, with such companies recording profits of RMB-237 million, RMB629 million and RMB533 million, respectively.

As at 31 December 2016, the Group's equity investment in its joint ventures was RMB1,127 million, representing an increase of 8.56% from the beginning of 2016, mainly due to the increase in the investment income from the joint ventures during the year.

DEBT STRUCTURE ANALYSIS

As at 31 December 2016, the Group's total liabilities were RMB147,655 million, representing a year-on-year increase of 0.37%. Among which, current liabilities amounted to RMB64,180 million, accounting for 43.47% of the total liabilities; and non-current liabilities amounted to RMB83,474 million, accounting for 56.53% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings and obligations under finance leases) amounted to RMB32,075 million, representing an increase of 85.77% from the beginning of 2016, mainly due to the increase in short-term borrowings of the Group; other advances and payables amounted to RMB32,105 million, representing a decrease of 3.53% from the previous year.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and obligations under finance leases) amounted to RMB74,129 million, representing a decrease of 14.59% from the beginning of 2016.

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

<i>(in RMB'000)</i>	2016		2015		Change
	Amount	Percentage	Amount	Percentage	
US dollars	52,170,383	49.12%	76,468,517	73.48%	(31.78%)
RMB	52,434,834	49.37%	24,471,165	23.52%	114.27%
Others	<u>1,598,669</u>	<u>1.51%</u>	<u>3,117,052</u>	<u>3.00%</u>	<u>(48.71%)</u>
Total	<u>106,203,886</u>	<u>100.00%</u>	<u>104,056,734</u>	<u>100.00%</u>	<u>2.06%</u>

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 10.81% from RMB95,808 million as at 31 December 2015 to RMB85,449 million as at 31 December 2016. The Group's commitments under operating leases, which mainly consisted of the payments in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB52,171 million as at 31 December 2016, representing an increase of 29.98% as compared to the previous year. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB59 million as at 31 December 2016, representing an increase of RMB1 million from RMB58 million as at 31 December 2015.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (total liabilities divided by total assets) was 65.90%, representing a decrease of 2.96 percentage points from 68.86% as at 31 December 2015, such decrease was mainly due to the increase in total equity resulted from continued profit-making for the period as compared to that at the beginning of the year. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2016, the Group's net current liabilities (current liabilities minus current assets) were RMB44,194 million, representing an increase of RMB13,858 million as compared to the previous year. The increase in net current liabilities was mainly due to the increase in short-term interest-bearing bank loans and other borrowings. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.31, representing a decrease from 0.40 as at 31 December 2015.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2016, the Group's net cash inflow from operating activities was RMB27,366 million, representing a decrease of 4.22% from RMB28,572 million in 2015. Net cash outflow from investment activities was RMB19,013 million, representing an increase of 180.09% from RMB6,788 million in 2015, mainly due to the increase in cash advances for aircraft during the reporting period, over the same period of last year. Net cash outflow from financing activities amounted to RMB8,781 million, representing a decrease of approximately RMB14,599 million from RMB23,381 million in 2015, mainly due to the significant increase in cash inflow from financing activities as a result of the increase in the advances for the aircraft during the period. The Company has obtained certain bank facilities of up to RMB155,535 million granted by a number of banks in the PRC, among which approximately RMB20,835 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

OUTLOOK FOR FUTURE

We envisage rapid growth and profound structural changes in China's air passenger market

Notwithstanding the decelerating pace of its economic growth, China's aviation market continued to enjoy a strong demand with huge market potential. While the market will undergo dramatic structural changes, the passenger throughput in the second and third-tier cities will maintain its rapid growth, and the number of travellers from the central and western inland cities will also grow substantially. Travellers for business and leisure are expected to constitute a new fast growing market segment with huge potential. Due to such factors as the growing trend of overseas studying, immigration and loosening of visa control, the number of international travellers is expected to be growing faster than that of domestic travellers.

Implementation of the three major regional strategies will substantially change the existing aviation market

The three major regional strategies namely the Beijing-Tianjin-Hebei integration initiative, “One Belt, One Road” initiative and Yangtze River Economic Belt initiative will not only strengthen the coordination and the synergy among these three regions, but also transform the aviation market. The synergistic development of Beijing-Tianjin-Hebei region will significantly enhance the international competitiveness of the Beijing Aviation Hub and further strengthen its hub function. The “One Belt, One Road” strategy will promote economic and trade exchange as well as cooperation between China and Southeast Asia, and between China and Europe. It will not only consolidate the position of Shanghai and Guangzhou as international hubs, but also nurture development opportunities for the airports in the second-tier cities of China. The Yangtze River Economic Belt initiative will accelerate the formation of the aviation network with Shanghai international aviation hub and the regional aviation hub as the core.

Competition and cooperation in the global aviation industry are constantly evolving as competition in China’s aviation market intensifying

In respect of the global market, competition is taking new forms. Airlines in Europe and America are growing more competitive through integration. Bilateral and multilateral non-equity joint venture arrangements among large network carriers are being constantly strengthened, while the minority equity investment strategy has led to a global partnership that goes beyond the existing airline alliance framework and code-sharing model.

Taking the international sector of China’s aviation market into account, the Company, China Eastern Airlines and China Southern Airlines are actively bringing in a large number of wide-body aircraft, aiming to accelerate the expansion of international routes and continuously improve their shares in international routes. With the increasing number of medium-size domestic airlines applying for the licenses to fly medium- and long-distance international routes, the international air traffic rights in the future will become more valuable and scarce. In the meantime, due to the intensifying competition from other international hubs, passengers leaving for North America are being diverted to other international hubs such as Seoul, Tokyo and Hong Kong, while passengers leaving for Europe are being diverted to certain hubs in the Middle East, since these hubs offer transit flights.

Taking the domestic sector of China’s aviation market into account, private-owned airlines such as the Spring Airlines and Juneyao Airlines are emerging to intensify the competition. Regional airlines that spring up during an industry deregulation promoted the trend of low-cost aviation operations, which will further intensify the competition in the domestic market and result in reduced yield. In addition, the expansion of high-speed rail network has a significant impact on the short- to medium-distance aviation services. Passengers taking short- to medium-distance flights are diverted not only to newly launched high-speed railway routes, but also to the existing railway routes with greater network coverage, higher travelling speed, increased frequencies and extended operating hours.

SHARE CAPITAL STRUCTURE

As at 31 December 2016, the Company had a total of 13,084,751,004 ordinary shares in issue. The following table sets out the share capital structure of the Company as at 31 December 2016:

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, without taking into account any issuance of new securities. For this purpose, the term "securities" has the meaning ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the principles and code provisions as set out in the Corporate Governance Code set out in Appendix 14 to the Listing Rules throughout the year 2016.

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

The Company has adopted and formulated a code of conduct on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each of the directors and supervisors of the Company has complied with the required standards of the Model Code and the Company's code of conduct throughout the year 2016.

DIVIDENDS

Based on the 2016 profit distribution plan of the Company, the Board recommends the appropriation of 10% of the discretionary surplus reserve and the payment of a cash dividend of RMB1.0771 (including tax) for every ten shares for the year 2016, totalling approximately RMB1,564 million based on the current total issued shares of 14,524,815,185 shares of the Company.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting proposed to be convened on 25 May 2017 ("AGM"). Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares and the holders of H Shares who are mainland investors investing in H Shares via Shanghai-Hong Kong Stock Connect and Shenzhen – Hong Kong Connect shall be paid in RMB while dividends payable to the other holders of H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle price of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the annual general meeting.

The Company proposes to pay the aforesaid final dividends on 7 July 2017. For the shares of the Company listed on the Hong Kong Stock Exchange (H shares), the dividends will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 7 June 2017. For the shares of the Company listed on the Shanghai Stock Exchange (A shares), the dividends will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 6 July 2017, and the ex-dividend date of A shares will be 7 July 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 April 2017 to Thursday, 25 May 2017 (both days inclusive). In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 24 April 2017. Shareholders whose names appear on the register of members of the Company on Tuesday, 25 April 2017 shall be entitled to attend the AGM.

The register of members of the Company will be closed from Friday, 2 June 2017 to Wednesday, 7 June 2017 (both days inclusive). In order to qualify to receive the final dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 1 June 2017. Shareholders whose names appear on the register of members of the Company on Wednesday, 7 June 2017 shall be entitled to receive the final dividend.

ANNUAL REPORT

The annual report for the year ended 31 December 2016 containing all information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

The Company would like to remind the readers of this announcement that the airline operations are substantially influenced by global political and economic developments. Accidental and unexpected incidents may have material impacts on our operations or the industry as a whole. This 2016 annual results announcement of the Company contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT AND RISK CONTROL COMMITTEE

The 2016 annual results of the Company have been reviewed by the Audit and Risk Control Committee of the Board.

SUBSEQUENT EVENTS

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to CNAHC, China State-owned Enterprise Structural Reform Fund Co., Ltd., Zhongyuan Equity Investment Management Co., Ltd., China National Aviation Fuel Group Corporation, Caitong Fund Management Co., Ltd., CIB Asset Management Co., Ltd., Horizon Asset Management Co., Ltd. and E Fund Management Co., Ltd., at an issue price of RMB7.79 per share. The 513,478,818 A Shares subscribed by CNAHC are subject to a lock-up period of 36 months from the completion date of issuance, and the A Shares subscribed by the other investors are subject to a lock-up period of 12 months from the completion date of issuance. Upon completion of the non-public issue of A Shares, CNAHC directly and indirectly holds a total of 7,508,571,617 shares of the Company, with a shareholding of 51.70%, and remains the controlling shareholder of the Company. For further details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 13 March 2017.

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
“revenue freight tonne kilometres” or “RFTK(s)”	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
“revenue tonne kilometres” or “RTK(s)”	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

Yield Measurements

“passenger yield”/“yield per RPK” revenues from passenger operations divided by RPKs

“cargo yield”/“yield per RFTK” revenues from cargo operations divided by RFTKs

Load Factors

“passenger load factor” revenue passenger kilometres expressed as a percentage of available seat kilometres

“cargo and mail load factor” revenue freight tonne kilometres expressed as a percentage of available freight tonne kilometres

“overall load factor” RTKs expressed as a percentage of available tonne kilometres

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“A Shares” ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange

“Air China Cargo” Air China Cargo Co., Ltd., a company incorporated in the People’s Republic of China and a subsidiary of the Company in which the Company holds a 51% equity interests

“AMECO” Aircraft Maintenance and Engineering Corporation

“Board” the board of Directors of the Company

“Cathay Pacific” Cathay Pacific Airways Limited

“CNAHC” China National Aviation Holding Company

“Company” or “Air China” Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange

“Director(s)” the director(s) of the Company

“Group”	the Company and its subsidiaries
“H Shares”	overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“HKSAR”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	The Model Code for Securities Transaction by Directors of Listed Issuers
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Airlines”	Shandong Airlines Co., Ltd.
“Shareholders”	the shareholders of the Company
“US dollars”	United States dollars, the lawful currency of the United States

By order of the Board
Air China Limited
Rao Xinyu Tam Shuit Mui
Joint Company Secretaries

Beijing, the PRC, 30 March 2017

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Cao Jianxiong, Mr. Feng Gang, Mr. John Robert Slosar, Mr. Ian Sai Cheung Shiu, Mr. Pan Xiaojiang, Mr. Simon To Chi Keung*, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

* *Independent non-executive Director of the Company*