2016 ANNUAL REPORT

AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER ™

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London

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 1,330 destinations in 192 countries as at 31 December 2016. Air China is dedicated to serving passengers with credibility, convenience, comfort and choice.

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 an excellent and unique 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., Ltd., Cathay Pacific Airways Limited, Shandong Airlines Co., Ltd. and Tibet Airlines Company Limited.

CONTENT

CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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

WEBSITE:

www.airchina.com.cn

DIRECTORS:

Cai Jianjiang
Song Zhiyong
Cao Jianxiong
Feng Gang
John Robert Slosar (史樂山)
Ian Sai Cheung Shiu
Pan Xiaojiang
Simon To Chi Keung
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:

Wang Zhengang
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)
DLA Piper Hong Kong (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

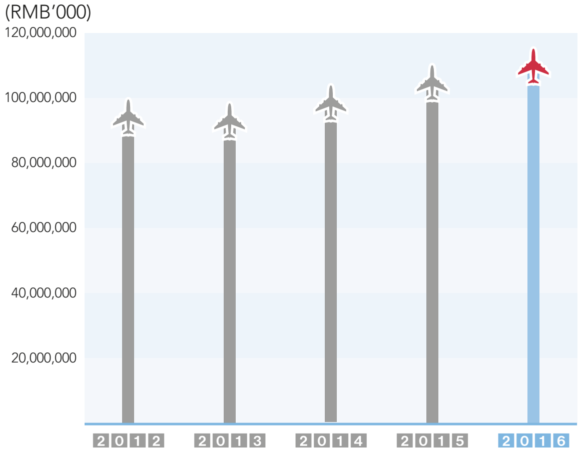
(RMB'000)

	2016	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)
Revenue	**115,144,692**	110,057,034	105,964,897	98,265,058	99,617,550
Profit from operations	**17,532,575**	15,551,622	7,257,047	4,091,469	8,439,565
Profit before taxation	**10,212,902**	9,355,251	5,134,866	4,592,283	7,009,337
Profit after taxation (including profit attributable to non-controlling interests)	**7,758,681**	7,509,487	4,334,102	3,667,422	5,370,111
Profit attributable to non-controlling interests	**949,522**	446,140	481,610	396,595	538,590
Profit attributable to equity shareholders of the Company	**6,809,159**	7,063,347	3,852,492	3,270,827	4,831,521
EBITDA[1]	**31,006,295**	28,562,383	18,650,476	15,119,959	18,850,684
EBITDAR[2]	**38,261,866**	34,725,582	24,131,141	20,044,184	23,015,786
Earnings per share attributable to equity shareholders of the Company (RMB)	**0.55**	0.57	0.31	0.27	0.40
Return on equity attributable to equity shareholders of the Company (%)	**9.90**	11.82	7.10	6.06	9.63

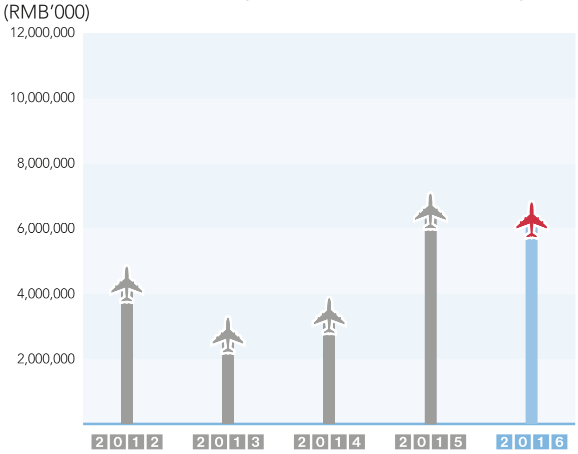
(1) EBITDA represents earnings before finance income, finance costs, income taxes, share of profits of joint ventures and associates, depreciation and amortisation as computed under the IFRSs.

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

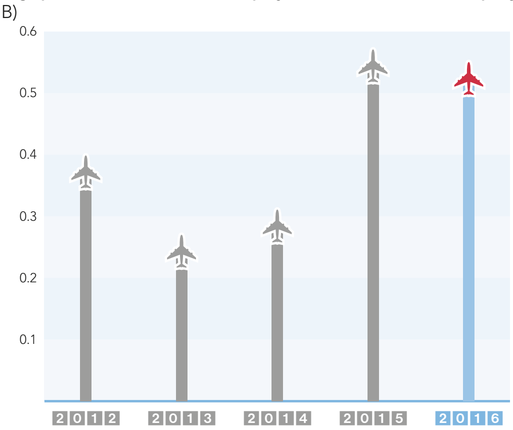
Revenue
(RMB'000)



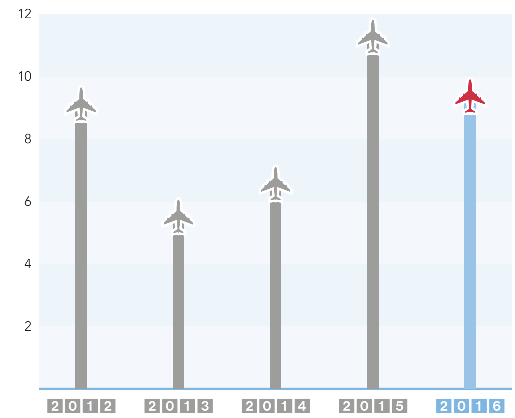
Profit attributable to equity shareholders of the Company
(RMB'000)



Earnings per share attributable to equity shareholders of the Company
(RMB)



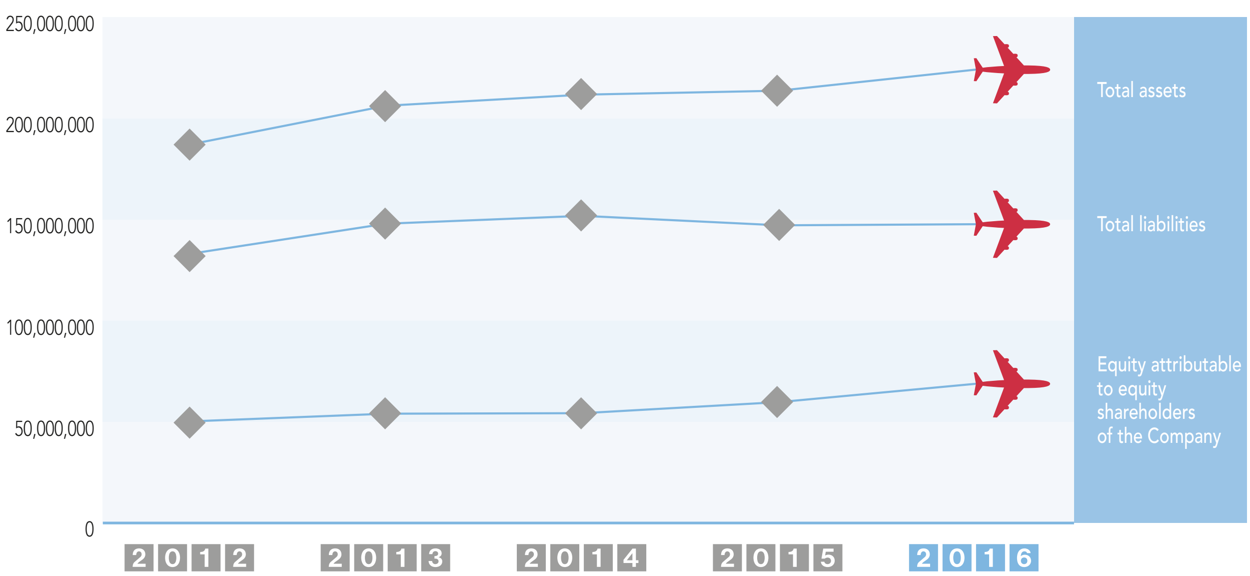
Return on equity attributable to equity shareholders of the Company
(%)



(RMB'000)

	31 December 2016	31 December 2015	31 December 2014 (Restated)	31 December 2013 (Restated)	31 December 2012 (Restated)
Total assets	**224,050,951**	213,631,150	211,669,694	206,194,704	187,021,035
Total liabilities	**147,654,552**	147,108,397	151,791,604	147,908,961	132,990,055
Non-controlling interests	**7,597,144**	6,774,742	5,604,325	4,268,650	3,833,973
Equity attributable to equity shareholders of the Company	**68,799,255**	59,748,011	54,273,765	54,017,093	50,197,007
Equity attributable to equity shareholders of the Company per share (RMB)	**5.26**	4.57	4.15	4.13	3.89

(RMB'000)



SUMMARY OF OPERATING DATA

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

	2016	2015	Increase/ (decrease)
Capacity			
ASK (million)	**233,218.05**	214,828.73	8.56%
International	**84,158.87**	72,524.99	16.04%
Domestic	**139,720.36**	132,533.45	5.42%
Hong Kong, Macau and Taiwan	**9,338.82**	9,770.29	(4.42%)
AFTK (million)	**12,736.96**	11,982.31	6.30%
International	**8,845.06**	8,353.23	5.89%
Domestic	**3,613.37**	3,311.23	9.12%
Hong Kong, Macau and Taiwan	**278.54**	317.86	(12.37%)
ATK (million)	**33,776.53**	31,363.89	7.69%
Traffic			
RPK (million)	**188,158.21**	171,713.88	9.58%
International	**65,445.49**	56,147.20	16.56%
Domestic	**115,744.65**	108,643.79	6.54%
Hong Kong, Macau and Taiwan	**6,968.07**	6,922.89	0.65%
RFTK (million)	**6,995.06**	6,558.43	6.66%
International	**5,238.68**	4,920.87	6.46%
Domestic	**1,649.43**	1,524.56	8.19%
Hong Kong, Macau and Taiwan	**106.95**	113.00	(5.35%)
Passengers carried (thousand)	**96,605.87**	89,815.89	7.56%
International	**13,250.22**	11,028.76	20.14%
Domestic	**78,901.28**	74,374.25	6.09%
Hong Kong, Macau and Taiwan	**4,454.37**	4,412.88	0.94%
Cargo and mail carried (tonnes)	**1,769,146.31**	1,664,406.35	6.29%
Kilometres flown (million)	**1,274.88**	1,181.41	7.91%
Block hours (thousand)	**2,028.68**	1,875.94	8.14%
Number of flights	**651,108**	615,912	5.71%
International	**86,545**	74,016	16.93%
Domestic	**529,431**	505,986	4.63%
Hong Kong, Macau and Taiwan	**35,132**	35,910	(2.17%)

	2016	2015	Increase/ (decrease)
RTK (million)	**23,697.62**	21,807.18	8.67%
Load factor			
Passenger load factor (RPK/ASK)	**80.68%**	79.93%	0.75 ppt
International	**77.76%**	77.42%	0.35 ppt
Domestic	**82.84%**	81.97%	0.87 ppt
Hong Kong, Macau and Taiwan	**74.61%**	70.86%	3.76 ppt
Cargo and mail load factor (RFTK/AFTK)	**54.92%**	54.73%	0.19 ppt
International	**59.23%**	58.91%	0.32 ppt
Domestic	**45.65%**	46.04%	(0.39 ppt)
Hong Kong, Macau and Taiwan	**38.40%**	35.55%	2.85 ppt
Overall load factor (RTK/ATK)	**70.16%**	69.53%	0.63 ppt
Daily utilisation of aircraft (block hours per day per aircraft)	**9.56**	9.52	0.04 hrs
Yield			
Yield per RPK (RMB)	**0.5327**	0.5583	(4.58%)
International	**0.4327**	0.4880	(11.34%)
Domestic	**0.5766**	0.5807	(0.71%)
Hong Kong, Macau and Taiwan	**0.7436**	0.7766	(4.25%)
Yield per RFTK (RMB)	**1.1873**	1.2880	(7.82%)
International	**1.1685**	1.2552	(6.91%)
Domestic	**1.1646**	1.2992	(10.36%)
Hong Kong, Macau and Taiwan	**2.4570**	2.5685	(4.34%)
Unit cost (RMB)			
Operating cost per ASK	**0.4185**	0.4399	(4.86%)
Operating cost per ATK	**2.8899**	3.0132	(4.09%)

CHAIRMAN'S STATEMENT

Cai Jianjiang
Chairman

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.

Cai Jianjiang
Chairman

Beijing, PRC
30 March 2017

In 2016, the Group's ASKs and RPKs reached 233,218 million and 188,158 million, representing a year-on-year increase of 8.56% and 9.58%, respectively. The passenger load factor was 80.68%, representing a year-on-year increase of 0.75 ppt. The Group's AFTKs and RFTKs reached 12,737 million and 6,995 million, representing a year-on-year increase of 6.30% and 6.66%, respectively. The Group's cargo and mail load factor was 54.92%, representing a year-on-year increase of 0.19 ppt.

DEVELOPMENT OF FLEET

In 2016, the Group introduced 54 aircraft, among which seven were bought with our own funds, one was bought with pledged bank loans, nine were acquired under finance leases and 37 were acquired under operating leases, and phased out 21 aircraft (including one A340, one B757-200, three B777-200, ten B737 series, three A320 series and three business jets). As at the end of 2016, the Group had a total of 623 aircraft, with an average age of 6.36 years (excluding aircraft under wet leases).

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

	31 December 2016				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age
Passenger aircraft	**601**	**247**	**167**	**187**	**6.31**
Airbus	**290**	**114**	**91**	**85**	**6.20**
A319	42	31	5	6	10.90
A320/A321	193	66	73	54	5.32
A330	55	17	13	25	5.67
Boeing	**311**	**133**	**76**	**102**	**6.41**
B737	263	107	61	95	6.44
B747	11	9	2	0	8.96
B777	30	11	13	6	6.60
B787	7	6	0	1	0.42
Cargo aircraft	**15**	**10**	**5**	**0**	**9.54**
B747F	3	3	0	0	14.53
B757F	4	4	0	0	20.35
B777F	8	3	5	0	2.26
Business jets	**7**	**1**	**0**	**6**	**4.28**
Total	**623**	**258**	**172**	**193**	**6.36**

	Introduction Plan			Phase-out Plan		
	2017	2018	2019	2017	2018	2019
Passenger aircraft	**56**	**46**	**55**	**18**	**17**	**20**
Airbus	**23**	**24**	**24**	**1**	**2**	**8**
A319	5	0	3	0	2	4
A320/A321	11	15	19	1	0	4
A330	6	4	0	0	0	0
A350	1	5	2	0	0	0
Boeing	**33**	**22**	**31**	**17**	**15**	**12**
B737	24	20	31	15	12	12
B747	0	0	0	0	0	0
B777	3	0	0	2	3	0
B787	6	2	0	0	0	0
Total	**56**	**46**	**55**	**18**	**17**	**20**

Among the aircraft set out above, the Company operated a fleet of 381 aircraft in total, with an average age of 6.46 years (excluding aircraft under wet leases). In 2016, the Company introduced 35 aircraft and phased out 14 aircraft among which three were leased to Air China Inner Mongolia under wet leases.

In 2016, the Company made new progress in respect of hub network, sales and marketing, products and services, external cooperation, safety investment, employee self-achievement, customer service, supplier management, environmental protection and social welfare, etc.

HUB NETWORK

Expanding network coverage with commercial value of our hubs constantly increasing. A total of 45 domestic and international routes were launched in 2016. As for the Beijing Hub, a new Beijing-Warsaw route was added to its international flight network which boosted the flight frequency on the Beijing-San Francisco route. New routes from Beijing to Xichang, Turpan, Shihezi, Shiyan and Linfen were also added to its domestic network which boosted the flight frequency on the routes from Beijing to Guiyang, Lanzhou, Yinchuan, Fuzhou and Zhanjiang, aiming to develop the "One Belt, One Road" related markets and further increase the influence of the route network of Beijing Hub. Meanwhile, we have increased our efforts in exploring the new markets, and strived to expand the flight network coverage of Chengdu regional hub, Shanghai International Gateway and other bases.

New international routes such as Chongqing-Dubai, Shenzhen-Frankfurt, Hangzhou-Surat Thani, Yinchuan-Chongqing-Nha Trang, Xining-Chengdu-Tokyo, Shanghai Pudong-San Jose, Chengdu-Sydney were launched while the flight frequency on domestic routes such as Chengdu-Ningbo, Chengdu-Lanzhou, Shanghai-Changchun and Shanghai-Hohhot were boosted. Fight distribution was optimised on domestic routes such as Chengdu to Shanghai, Guilin and Ningbo, with which our route network was expanded in depth to create a more prosperous connecting flight market. The flight connection was constantly optimised, with automatic all-through boarding service now provided in 151 terminals, and a significant growth of 49% in the volume of connecting passengers between international flights. In 2017, the Company plans to launch new European and American routes such as Beijing-Astana, Beijing-Zurich, Shanghai-Barcelona and Shenzhen-Los Angeles as well as some Southeast Asian routes departing from Hangzhou, Chongqing and Shanghai. Meanwhile, we also expect to launch a number of new domestic routes, such as Hangzhou-Liupanshui, Tianjin-Fuzhou, Dalian-Yuncheng-Guiyang and Chengdu-Shihezi-Yining.

As at 31 December 2016, the Company was operating 378 passenger routes, covering six continents of the world, with 102 international routes, 14 regional routes and 262 domestic routes. The above passenger routes reached 41 countries (regions) and 176 cities, including 109 domestic cities, 64 international cities and 3 regions. Through the Star Alliance, the Company's network now covers 1,330 destinations in 192 countries.

SALES AND MARKETING

Remarkable improvement achieved in "Increasing Direct Sales and Reducing Distribution Costs", with significantly enhanced yield management. The Company has significantly expanded its direct sales channels with optimised functions, which resulted in the increase of the revenue from direct sales by 33% year-on-year and accounted for 40.6% of the Company's total revenue. The Company insisted on price stability strategy while deepening the application of its Origin & Destination (O&D) yield management system and practically advancing fine flight management, so as to keep overall yield in the leading position of the industry.

Business model transformation advancing steadily. The Company has established on the path for business model transformation with the focus on frequent flier, products with ancillary revenue and e-commerce based on the three major leads, i.e. customers, products and channels. For Phase I of business model transformation, we have completed the building of the credit point accumulation platform, customer portal unification, electronic and mileage payment services, laying a solid foundation for subsequent strategic development. As at the end of 2016, the total number of "Phoenix Miles" members topped 42.97 million. With the member loyalty further improved by means of mileage capitalisation, the percentage of income

contributed by members further improved to 39.3%. The functions of ancilliary revenue services continued to improve with its scope of use and sales channel effectively expanded, with which the ancilliary revenue has increased by 26%. The functionality of our E-commerce platform continued to improve, with 7 iterative development of our overseas websites and 12 iterative upgrades of our mobile APP application completed, and more than 500 products such as mileage capitalisation and Apple pay launched to our customers. Our brand strategy was steadily advancing in 2016, as we were once again ranked among the "World's Top 500 Brands" and rose to the 295th place and we were also ranked the sixth in the initial list of "Brand Z – China's Overseas Going Brands Top 30", both being the company in China's aviation industry with the highest score.

PRODUCTS AND SERVICES

Improving our services to offer better passenger experience throughout the trip. Focusing on passengers' travel trends and preferences, we developed and promoted new ground services and vigorously promoted and offered convenient travel services through four major channels, namely mobile APPs, Wechat, websites and self-service check-in machines, with our self-service check-in machines installed in over 84 airports, and our remote self-service check-in applications (computers and mobile phones) available at 143 airports. We widened our APP-based customer services, integrated our member service into 95583 platform and promoted the electronic compensation scheme while launching the service compensation function on the APP. For high-value customers, we refined our services throughout the trip, and preliminarily realised the 7*24 uninterrupted service. We launched the operation of Global Luggage Inquiry & Call Centre, established the response mechanism to the wide-spread flight delay emergency in Beijing area and optimised and integrated our transit service resources, aiming to provide emergent transit and flight-missing passengers with all-the-way guiding services, which has significantly improved the transit achievement. We introduced new products such as electronic porthole, windowed bathroom and advanced entertainment systems on the Boeing 787-9 aircraft to improve the passenger experience.

EXTERNAL COOPERATION

In 2016, the Company entered into a joint route operation arrangement with Lufthansa, pursuant to which we will coordinate with each other on flight schedules, so as to provide passengers with more convenient and affordable options; we carried out our joint corporate customer scheme to provide corporate customers with more attractive products and further optimised the frequent flier scheme, so as to reward our frequent fliers. Through joint arrangement, both of us can improve services in the China European routes, and our overall competitive strength will be improved significantly in the European market.

Also, the Company started the code sharing arrangement with Singapore Airlines Limited and its subsidiary Silk Air, and currently has code sharing agreements with 35 Airlines, totalling 15,037 code share flights each week; the Company entered into a 10-year Strategic Cooperation Agreement with United Airlines, pursuant to which both parties will strengthen cooperation in terms of business and operation; the Company also planned on renovation of Beijing Hub and construction of the new airport in Beijing with Star Alliance members, on which we have arrived at a cooperation arrangement; we carried out fast customs clearance programs at the airports jointly with Star Alliance members.

SAFETY INVESTMENT

The Company adhered to the development philosophy of "Safety First, Prevention First and Comprehensive Management" and maintained a stable safety record during the reporting period through strictly implementing the safety responsibility, strengthening process management, exercising control over the key links and taking effective remedies for the weak links. In 2016, the Company strengthened risk identification, warning, prevention and control, and implemented special risk control programme for the newly introduced

aircraft models, new routes, coordinated crew dispatch, and plateau airport operation; strengthened flight training to continuously upgrade the skills of pilots; increased monitoring and troubleshooting efforts for common and recurrent failures to ensure excellent aircraft conditions; optimised the emergency management system and strengthened operational risk control to improve our emergency handling skills; carried out in-depth application of and investment in the enterprise aviation security regulatory platform, and increased security supervision over our controlled subsidiaries through security audit and provision of special guidance, so as to improve the aviation safety management of the Group.

EMPLOYEE SELF-ACHIEVEMENT

The Company continued to innovate its talent management mechanism, pay close attention to its employee development and promotion and share the achievement of development with them. The Company formulated its "Thirteen Five-Year Human Resource Planning", aiming to advance the construction of talent development mechanism and enhance the efficiency of human resources; the Company signed the Collective Labour Contract on Occupational Safety and Health (I) with its Labour Union, which clearly defined the rights and obligations of the Company and its employees in terms of safety regulations and labour protection, occupational hazard prevention and treatment as well as safety training; the Company adopted the "Assessment -oriented Method" to take care of its key talents at key positions, and provide personalised guidance for the participating employees on their personal and professional development; the Company also created diversified training programmes such as APP-based micro-classes, Wechat communities, E-learning and face-to-face teaching, which made leadership training more flexible and convenient; the Company established seven Employees Service Centres at the Air China headquarters, flying corps and cabin service department and so on, providing convenient services to its employees; the Company organised interactive exchange activities named "Life Is Wonderful With You Around" in Beijing, Shanghai and Chengdu, providing our employees a stage to display their distinctiveness through story sharing, interesting dialogue and free talk.

CUSTOMER SERVICE

The Company continued to improve its service capacity by fully exploiting the Internet technologies to innovate service practices, so as to improve passenger satisfaction. The Company actively improved the convenient travel service and promoted the self-service convenience product on the ground, with the coverage of airport self-service check-in machines (CUSS) and remote self-service check-in applications (Internet and mobile phone) further expanded; we upgraded our luggage service by launching the Global Luggage Inquiry & Call Centre to improve handling efficiency for delayed and lost luggage; we also strived to improve passenger experience on board by carrying out special inspection on food quality, upgrading the B787-9 aircraft by introducing the new entertainment system with passenger-operated interface; we have strengthened the on-board Internet construction, and successfully live broadcast the Spring Festival Gala on Chinese New Year's Eve on 3 of our aircraft, which secured our leading position in satellite broadcasting in the aviation industry; we innovated the passenger interface on the electronic applications by launching the on-line electronic passenger satisfaction survey to listen to our customers' opinions in a timely manner.

SUPPLIERS MANAGEMENT

The Company strengthened the supplier responsibility management, aiming to establish closer supplier relationships and achieve sustainable development in terms of economy, environment and society. In 2016, the Company implemented centralized supplier management by means of supplier acceptance control, database construction, performance appraisal and evaluation and blacklist management. In 2016, 1,097 suppliers were newly accepted which led to a total number of 2,137 suppliers in the database. The Company exercised dynamic management of suppliers, updated and issued a blacklist of 294 suppliers in 2016; the Company carried out supplier performance evaluation and formed grading list of 1,803 suppliers, with 1,559 Grade A suppliers, 212 Grade B suppliers, 20 Grade C suppliers and 12 unqualified suppliers. The Company insisted on open procurement and "Sunshine Procurement", and randomly invited potential suppliers to participate in competition for its procurement projects by publishing announcements on the "Procurement Platform" of the Company's official website and www.chinabidding.com.cn, and gradually raised the ratio of open procurement to enhance transparency.

ENVIRONMENTAL PROTECTION

The Company adhered to the philosophy of "Green Operation for Sustainable Development", aiming to establish itself as a benchmark for environment-friendly operation in the industry through comprehensive, all-rounded, multi-angle environmental management initiatives. The Company formulated the "Thirteenth Five-Year Plan for Energy Saving and Emission Reduction", and set the working guidelines and principles for the "Thirteenth Five-Year Plan" on its energy saving and emission reduction campaign by systematically analyzing the internal and external circumstances of the Company and the current situation of energy saving and emission reduction, energy saving industry development trends; the Company also clearly defined the target of fuel efficiency improvement by 4% during the period of "Thirteenth Five-Year". The Company continued its efforts in improving fuel efficiency by means of, among other things, upgrading its fleet, aircraft renovation and aircraft weight reduction. In 2016, the fuel consumption per tonne kilometre for passenger aircraft was 292 grams, and fuel consumption per tonne kilometre for pure cargo aircraft was 129 grams; the Company optimised resource distribution through a series of solution and measures such as introducing new energy cars and recycling waste; The Company issued the Notice on Prohibition of Shark Fin Transport, and became China's first airline which prohibited shark fin transport on its planes, demonstrating its determination in protection of the eco-system and biological diversity; the Company also held training in respect of environmental protection to increase the environmental awareness of its employees and management; we aimed to participate in the nation-wide environmental protection campaign through organizing various promotional activities to inspire the concern of our passengers and the public about environmental protection.

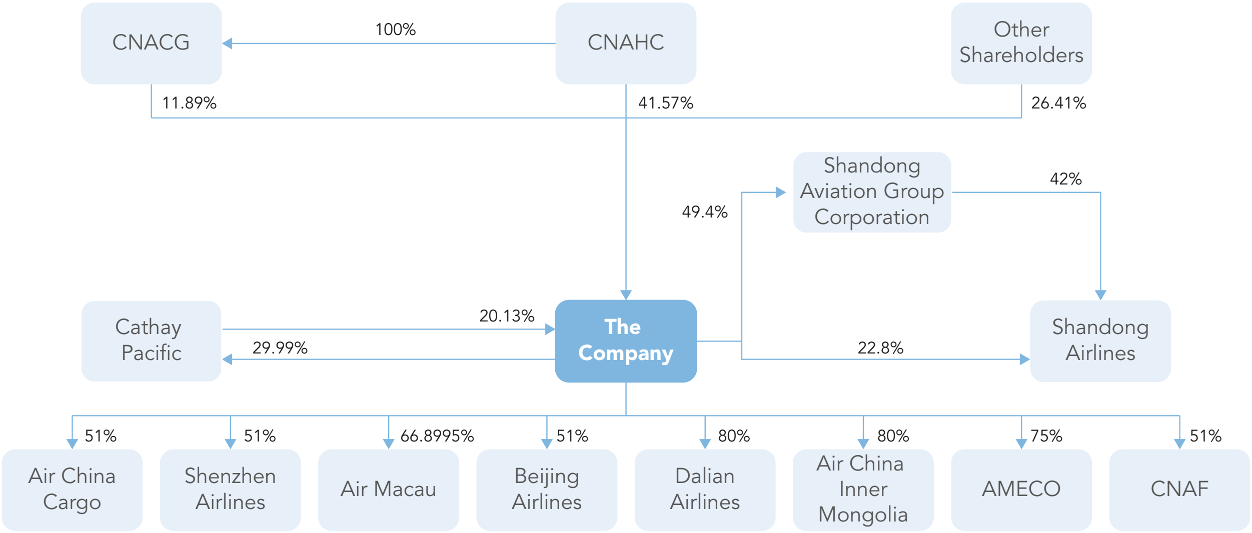
SOCIAL WELFARE

The Company attached equal importance to development and dedication, and carried out social responsibility practices leveraging on the advantage it has as an airline, and made contribution to the improvement of social life and the integration and sustainable development of culture. The Company did its best to perform its duties as a state-owned enterprise under the Central Government, and successfully accomplished its missions for "Air Transportation for Pakistan Earthquake Rescue Materials", "Chartered Flight for Olympic Delegation", "Chartered Flight for Paralympic Delegation", "G20 Summit Airline Service" and "Chartered Flight for Pilgrimage"; the Company constantly strengthened its precise poverty-alleviation efforts by conducting investigation at Sunite Right Banner of Inner Mongolia, Zhaoping County of Guangxi Province and Batang County of Sichuan Province and making efforts to promote the economic and social development of the poverty-stricken areas by taking into account the local conditions; the Company also cared about the growth and education of children as it held "Love in the Sunshine – 2016 Beijing Summer Camp for the Sino-African Children", which was intended to develop the children's vision and make them feel the charm of knowledge through entertaining scientific activities; the Company also took an active part in promoting the cultural exchange activities as it sponsored the Dunhuang Mogao Grottoes: Buddhist Art Exhibition on China's Silk Road, representing its contribution to the dissemination of Chinese culture, and its endeavour to take the path of cultural confidence; we were also committed to the social welfare undertakings as we organised our young volunteers to participate in the summer volunteer activities known as "Air China, Unaccompanied Minors Love To Fly", showing our volunteers' spirit of love caring and helping each other.

COMPLIANCE OPERATIONS

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

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



(1) Air China Cargo

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

As at 31 December 2016, Air China Cargo operated a fleet of 15 aircraft with an average age of 9.54 years.

In 2016, the AFTKs of Air China Cargo reached 11,746 million, representing a year-on-year increase of 5.11%. Its RFTKs reached 6,378 million, representing a year-on-year increase of 6.08%. The volume of cargo and mail was 1.3862 million tonnes, representing a year-on-year increase of 5.08%. The cargo and mail load factor was 54.29%, representing an increase of 0.49 ppt compared to 2015.

In 2016, Air China Cargo's revenue was RMB9,023 million, representing a decrease of 1.19%, of which cargo and mail transportation revenue amounted to RMB7,567 million, representing a year-on-year decrease of 2.24%. The profit attributable to the equity shareholders of the Company was RMB11 million, representing an increase of 23.72% over the previous year.

(2) Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB812.5 million. Air China holds 51% of its equity interest.

As at 31 December 2016, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 188 aircraft with an average age of 5.96 years. During the year, 14 aircraft were introduced, and four aircraft were phased out.

In 2016, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 57,831 million, representing a year-on-year increase of 9.67%. Its RPKs reached 47,804 million, representing a year-on-year increase of 10.82%. Shenzhen Airlines (including Kunming Airlines) carried 31.4571 million passengers, representing a year-on-year increase of 9.25%. The average passenger load factor was 82.66%, representing an increase of 0.86 ppt compared to the year of 2015.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 838 million, representing a year-on-year increase of 22.05%. Its RFTKs reached 561 million, representing a year-on-year increase of 12.05%. The volume of cargo and mail carried by Shenzhen Airlines was 0.3408 million tonnes, representing a year-on-year increase of 9.84%, while the cargo and mail load factor was 66.96%, representing a decrease of 5.97 ppts compared to the year of 2015.

In 2016, Shenzhen Airlines recorded a revenue of RMB26,321 million, representing a year-on-year increase of 8.57%, of which, air traffic revenue amounted to RMB25,113 million, representing a year-on-year increase of 8.83%. The profit attributable to equity shareholders for the year was RMB1,573 million, representing an increase of 114.51% compared to the year of 2015.

(3) Air Macau

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

As at 31 December 2016, Air Macau operated a fleet of 17 aircraft with an average age of 7.65 years. During the year, two new aircraft were introduced and three were phased out.

In 2016, the ASKs of Air Macau reached 6,441 million, representing a year-on-year increase of 12.31%. Its RPKs reached 4,718 million, representing a year-on-year increase of 22.63%. It carried a total of 2.8046 million passengers during the year, representing a year-on-year increase of 21.54%, with an average passenger load factor of 73.25%, representing an increase of 6.17 ppts compared to the year of 2015.

In terms of air cargo, the AFTKs of Air Macau reached 103.02 million, representing a year-on-year increase of 12.70%. Its RFTKs reached 29.40 million, representing a year-on-year increase of 15.57%. It carried 19,145 tonnes of cargo and mail, representing a year-on-year increase of 11.61%. The cargo and mail load factor was 28.54%, representing an increase of 0.71 ppt compared to the year of 2015.

In 2016, Air Macau recorded a revenue of RMB2,696 million, representing a year-on-year increase of 10.31%, of which, air traffic revenue amounted to RMB2,398 million, representing a year-on-year increase of 24.41%. Profit after taxation was RMB24 million, representing a year-on-year decrease of 22.65%.

(4) 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 2016, Beijing Airlines operated a fleet of 6 entrusted business jets and one privately-owned business jet with an average age of 4.28 years. Beijing Airlines acquired 2 aircraft and phased out three during the year.

In 2016, Beijing Airlines completed 428 flights, representing a year-on-year decrease of 9.81%. It completed 1,520 flying hours, representing a year-on-year increase of 7.66%. It carried a total of 3,158 passengers, representing a year-on-year decrease of 0.09%.

In 2016, Beijing Airlines recorded a revenue of RMB136 million, representing a year-on-year increase of 6.67%, of which, charter service revenue amounted to RMB43 million, representing a year-on-year decrease of 16.98%. Profit after taxation was RMB0.7 million, representing a year-on-year decrease of 75.65%.

(5) Dalian Airlines

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

As at 31 December 2016, Dalian Airlines operated a fleet of 9 aircraft with an average age of 4.47 years. One aircraft was introduced during the year.

In 2016, the ASKs of Dalian Airlines reached 2,414 million, representing a year-on-year increase of 9.76%. Its RPKs reached 2,048 million, representing a year-on-year increase of 11.52%. It carried a total of 2.0151 million passengers during the year, representing an increase of 15.27%, with an average passenger load factor of 84.83%, representing an increase of 1.33 ppts compared to the year of 2015.

In terms of air cargo, the AFTKs of Dalian Airlines reached 31.1851 million, representing a year-on-year increase of 27.92%. Its RFTKs reached 15.4823 million, representing a year-on-year decrease of 0.81%. It carried a total of 13,652.31 tonnes of cargo and mail during the year, representing a year-on-year increase of 0.52%. Its cargo and mail load factor was 49.65%, representing a decrease of 14.37 ppts compared to the year of 2015.

In 2016, Dalian Airlines recorded a revenue of RMB1,330 million, representing a year-on-year increase of 7.31%, of which, air traffic revenue amounted to RMB1,330 million, representing a year-on-year increase of 7.41%. Profit after taxation was RMB113 million, representing a year-on-year decrease of 2.33%.

(6) Air China Inner Mongolia

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

As at 31 December 2016, Air China Inner Mongolia operated a fleet of six aircraft (including three self-owned aircraft) with an average age of 6.44 years. Three aircraft were introduced under wet leases during the year.

In 2016, the ASKs of Air China Inner Mongolia reached 1,409 million, representing a year-on-year increase of 161.52%. Its RPKs reached 1,143 million, representing a year-on-year increase of 159.51%. It carried a total of 1.1552 million passengers during the year, representing a year-on-year increase of 125.47%, with an average passenger load factor of 81.07%, a decrease of 0.63 ppt compared to the year of 2015.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 17.9714 million, representing a year-on-year increase of 278.70%. Its RFTKs reached 11.1523 million, representing a year-on-year increase of 179.32%. The amount of cargo and mail carried by Air China Inner Mongolia was 9,317.91 tonnes, representing a year-on-year increase of 121.15%, with a cargo and mail load factor of 62.06%, representing a decrease of 22.07 ppts compared to the year of 2015.

In 2016, Air China Inner Mongolia recorded a revenue of RMB944 million, representing a year-on-year increase of 120.37%, of which, air traffic revenue amounted to RMB919 million, representing a year-on-year increase of 129.66%. Profit after taxation was RMB125 million, representing a year-on-year increase of 2,959.89%.

(7) AMECO

AMECO was established in 1989 with Air China holding 60% of its equity interest. In 2015, the two shareholders, Air China and Lufthansa, have jointly restructured the shareholding structure of AMECO. Upon restructuring, AMECO registered capital became US$300,052,800, with Air China holding 75% of its equity interest.

In 2016, AMECO recorded a revenue of RMB6,827 million and profit after taxation amounted to RMB92 million.

(8) CNAF

CNAF was established in 1994 with Air China holding 19.31% of its equity interest. In 2015, Air China and CNAHC restructured the shareholding structure in CNAF. After restructuring, CNAF registered capital became RMB1,127,961,864 with Air China holding 51% of its equity interest.

In 2016, CNAF recorded a revenue of RMB180 million, representing a year-on-year increase of 1.25%, and profit after taxation of RMB59 million, representing a year-on-year decrease of 28.81%.

(9) Cathay Pacific

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

As at 31 December 2016, Cathay Pacific operated a fleet of 202 aircraft with an average age of 9.0 years. Eleven aircraft were introduced and ten were phased out during the year.

In 2016, the ASKs of Cathay Pacific reached 146.09 billion, representing a year-on-year increase of 2.4%. Its RPKs reached 123.48 billion, representing a year-on-year increase of 0.9%. A total of 34.323 million passengers were carried, representing a year-on-year increase of 0.8%, with an average passenger load factor of 84.5%, a decrease of 1.2 ppts compared to the year of 2015.

In terms of air cargo, the AFTKs of Cathay Pacific reached 16.57 billion, representing a year-on-year increase of 0.6%. Its RFTKs reached 10.68 billion, representing a year-on-year increase of 0.8%. It carried a total of 1.8540 million tonnes of cargo and mail during the year, representing a year-on-year increase of 3.1%. The cargo and mail load factor was 64.4%, representing an increase of 0.2 ppt compared to the year of 2015.

In 2016, Cathay Pacific recorded a revenue of RMB80,336 million, representing a year-on-year decrease of 3.49%, of which, air traffic revenue amounted to RMB75,346 million, representing a year-on-year decrease of 3.67%. The profit attributable to equity shareholders was RMB-498 million, representing a year-on-year decrease of 110.21%.

(10) 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 2016, Shandong Airlines operated a fleet of 98 aircraft (excluding two aircraft under wet leases to Air China) with an average age of 4.8 years. Ten aircraft were introduced during the year.

In 2016, the ASKs of Shandong Airlines reached 33,987 million, representing a year-on-year increase of 20.01%. Its RPKs reached 26,434 million, representing a year-on-year increase of 23.32%. It carried a total of 18.6265 million passengers during the year, representing a year-on-year of 17.09%, with an average passenger load factor of 77.77%, representing an increase of 7.89 ppts compared to the year of 2015.

In terms of air cargo, the AFTKs of Shandong Airlines reached 595 million, representing a year-on-year increase of 4.42%. Its RFTKs reached 243 million, representing a year-on-year increase of 20.10%. It carried a total of 0.1502 million tonnes of cargo and mail during the year, representing a year-on-year increase 11.86%. The cargo and mail load factor was 40.86%, representing an increase of 5.40 ppts compared to the year of 2015.

In 2016, Shandong Airlines recorded a revenue of RMB13,742 million, representing a year-on-year increase of 13.49%, of which, air traffic revenue amounted to RMB13,302 million, representing a year-on-year increase of 12.21%. The profit attributable to equity shareholders was RMB533 million, representing a year-on-year increase of 0.11%.

SUBSEQUENT EVENTS

Non-Public Issue of A Shares

After being considered by the 39th meeting of the 4th session of the Board and considered and approved by the first extraordinary general meeting of the Company for 2017 and the first A Share class meeting and H Share class meeting of the Company for 2017, the term of the proposal for the Company's non-public issue of A Shares (the Company proposed to issue the non-public offering of A Shares to not more than 10 specified investors including CNAHC with total number of A Shares to be issued not exceeding 1,540,436,456 A Shares at the issue price of not less than RMB7.79 per share.) was extended to 30 April 2017, and the term of the mandate given to the Board and its authorized persons for handling issues in relation to the non-public issue of A Shares was extended to twelve months commencing from the date on which the proposal was considered and approved by the first extraordinary general meeting of the Company for 2017. For details, please refer to the announcement published by the Company on 23 January 2017 on the website of Hong Kong Stock Exchange.

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to CNAHC, China Structural Reform Fund Co., Ltd., Zhongyuan Equity Investment Management Co., Ltd., China National Aviation Fuel Group Corporation, Caitong Fund Management Co., Ltd., CIB Asset Management Co., Ltd., Horizon Asset Management Co., Ltd. and E Fund Management Co., Ltd., at an issue price of RMB7.79 per share. The 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 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.

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 continues 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 landscape is taking new forms. Airlines in Europe and America are growing more competitive through integration. Bilateral and multilateral 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 connection 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.

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

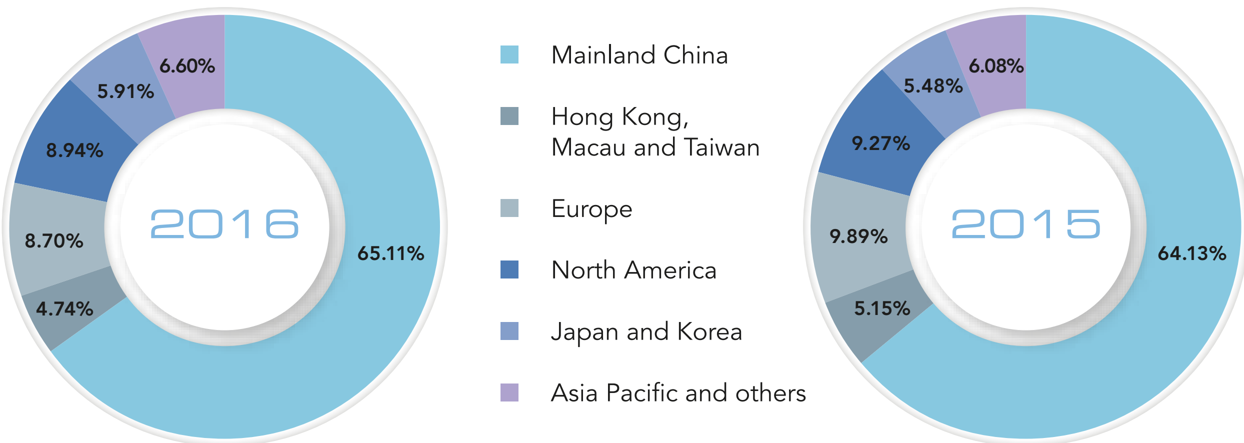
In 2016, the Group proactively responded to changes in the competitive landscape and market demand by adopting various measures such as optimising operational arrangement, enhancing marketing capabilities and strengthening cost management. The Group recorded a profit from operations of RMB17,533 million, 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

(in RMB'000)	2016 Amount	2016 Percentage	2015 Amount	2015 Percentage	Change
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	**115,144,692**	**100.00%**	110,057,034	100.00%	4.62%



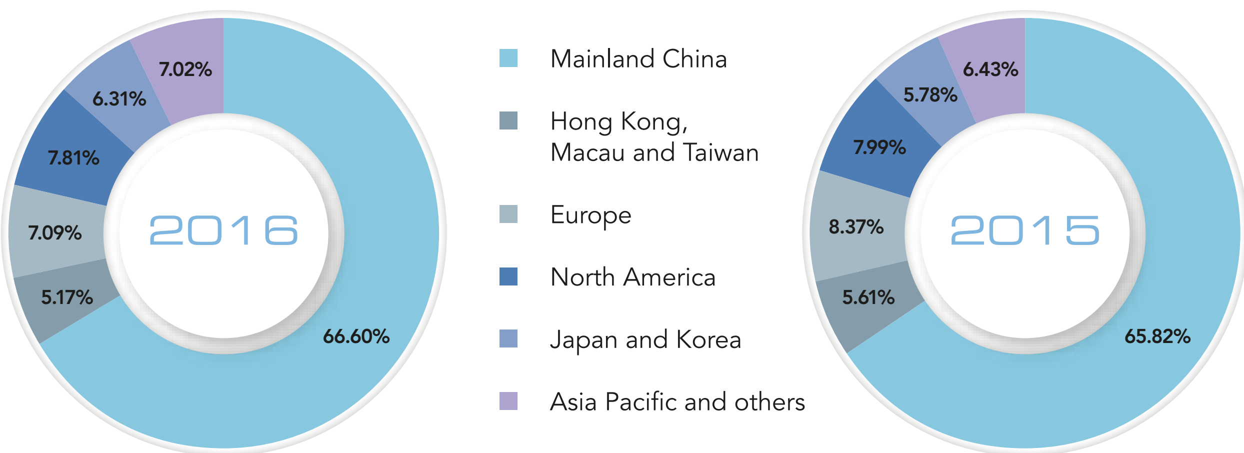
AIR PASSENGER REVENUE

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	0.75 ppt
Yield per RPK (RMB)	**0.5327**	0.5583	(4.58%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2016		2015		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
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	**100,279,802**	**100.00%**	95,920,745	100.00%	4.54%



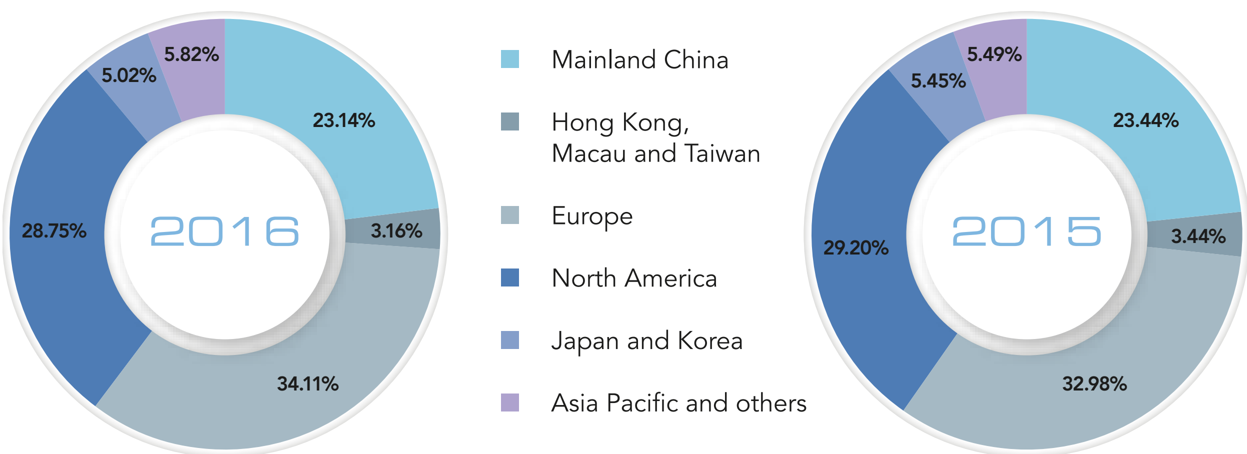
AIR CARGO AND MAIL REVENUE

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	0.19 ppt
Yield per RFTK (RMB)	**1.1873**	1.2880	(7.82%)

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2016		2015		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
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	**8,305,028**	**100.00%**	8,447,485	100.00%	(1.69%)



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:

	2016		2015		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
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	**97,612,117**	**100.00%**	94,505,412	100.00%	3.29%

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:

	2016		2015		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
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	1,598,669	1.51%	3,117,052	3.00%	(48.71%)
Total	106,203,886	100.00%	104,056,734	100.00%	2.06%

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.

Details of the Group's contingent liabilities are set out in Note 41 to the financial statements of the Group for 2016.

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.

RISK FACTORS

Risks of Market Fluctuation

The demand in the air transport market is closely linked to the economic growth and the level of disposable national income. Under the "New Normal", the Chinese economy has managed to maintain its speedy growth, accompanied by the continuously deepening of economic restructuring. The pressure of prospective economic deterioration has eased while, with the interlaced impact of the structural and cyclical factors, coupled with international political turmoil and such other external uncertainties, the pressure of economic slowdown and risk of market volatility still exist.

Risks of Competition

Risks of industry competition

Bilateral and multilateral non-equity joint venture arrangements among large network carriers are being constantly strengthened as competition is taking new forms. While China's top three airlines are accelerating their penetration in the global market, an increasing number of medium-size domestic airlines are actively applying for the licenses to fly medium- and long-distance international routes, as a result, the international air traffic rights will become more valuable and scarce in the future. While the Company is enjoying the advantages in locations and timeslots in respect of the long-distance routes to Europe and America, it has still much to improve compared with the leading airlines in Europe and America in terms of network, products and services. Regional airlines that spring up during an industry deregulation promoted the trend of low-cost aviation operations, which will further intensify the competition in the domestic market and result in reduced yield.

Risks of alternative competition

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

Operating Risks

De-hubbing risks

The international reach from the airports of China's second-tier cities has been developing rapidly, with an obvious de-hubbing trend. In 2009, there were only seven cities in China which operated international long-distance routes, now the number has increased to nearly 20. Long-distance route operations by the airports in the second-tier cities have been growing rapidly, which now covers Europe, America, Australia and Africa. With the gradual expansion of the routes, airlines with wide-body aircraft have been actively involved in the development of long-distance market in the second-tier cities. Such development will have certain impact on the Company's hubbed operations.

Risks of Oil Price Fluctuation

Currently, the oil prices stay at a relatively low level. In the future, with uncertainties in global economic recovery, crude oil supply, the US dollar interest rate increase cycle and geopolitics, there is still some risk of oil price fluctuation. Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group is subject to the fluctuation of jet fuel price. In 2016, with the other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel cost will rise or fall by about RMB1.099 billion.

Risks of Exchange Rate Fluctuation

At present, the liquidity in the domestic monetary market maintains its tight balance, with the main tone of stable monetary policy remaining unchanged. As the cross-border capital flows converge to a state of equilibrium, the pressure on foreign exchange reserves begins to ease and the expectation of RMB depreciation decreases. Under the influence of the expected interest rate increase by the Federal Reserve and uncertainty in the European and American fiscal policy and tax policy, RMB is still under the external pressure of depreciation. However, with the stabilization of the Chinese economy and deepening of the economic reform, as well as the strengthening implementation of the policies of the Central Bank to deleverage and suppress economic bubbles, RMB may be able to maintain basic stability against a basket of currencies. It is expected that the RMB exchange rate will remain at a reasonable level of equilibrium and will be flexible bi-directionally in accordance with changes in international currency markets and market supply and demand. Some of the Group's financial leasing liabilities, bank loans and other loans are mainly denominated in US dollars and Euros, and some of the Group's expenses are also denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the depreciation or appreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's total profit and equity as at 31 December 2016 by RMB376 million; the appreciation or appreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's total profit and equity as at 31 December 2016 by RMB2.063 million; the depreciation or appreciation of RMB against HK dollar by 1% due to the changes in the exchange rate will result in the decrease or increase in the Group's total profit and equity as at 31 December 2016 by RMB1.686 million.

Details of the financial risk management objectives and policies of the Group are set out in note 42 to the financial statements of the Group for 2016.

The Company has been committed to 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 2016. The Company's corporate governance practices during the year of 2016 are summarised and discussed below.

GOVERNANCE STRUCTURE

As at 31 December 2016, the governance structure of the Company is set out as follows:

Board of Directors of Air China Limited
(comprising 1 executive Director, 5 non-executive Directors and 4 independent non-executive Directors)

Special 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 1 non-executive Director)
- **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 2016, the Board comprised 10 Directors, out of which four were independent non-executive Directors. The Directors are elected at the shareholders' general meeting for a three-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the four independent non-executive Directors, namely, Mr. Pan Xiaojiang, Mr. Simon To Chi Keung, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, has confirmed their independence with the Hong Kong Stock Exchange.

- The Company had already received from all independent non-executive Directors the annual statements concerning their independence in which each of the independent non-executive Directors re-confirmed their independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

The Directors shall have adequate skills and experience for 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 special committees under the Board are set out in this 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 three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term. Mr. Cai Jianjiang was elected as the Chairman on 21 February 2014.

- 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 shareholders' general meeting after their appointment.

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

The Board shall assume responsibility for the leadership and supervision 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 include the following, to determine 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 determine the establishment of the Company's internal management bodies; to appoint or dismiss the President of the Company, Secretary to the Board, and based on the nomination by the President, to appoint or dismiss the Vice President, the Chief Financial Officer, the Chief Pilot and other senior management personnel of the Company; and to exercise other functions and powers as stipulated in the Articles of Association and authorised 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 special committees to provide support to the Board in its decision-making process.

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 include the following, to formulate the strategic development plans and determine the establishment of the Company's internal bodies; to formulate and implement annual business plans, investment proposals, annual financial budgets and final accounts; to establish general management systems regarding employment, remuneration and other fundamental internal rules and regulations; to make decisions on major issues such as operation safety and business management; to make decision on transactions relating to the Company's main business involving a value within a monetary threshold or within a specific proportion of the Company's latest audited net asset value; to implement board resolutions and exercise such other authorities as authorised 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 meeting, interim meeting and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and 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 three days in advance.

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

- 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 keep himself or herself abreast of the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation.

- Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any Director at any time.

- All Directors have actively participated in the business operations of the Company. Attendance in person of all Directors at Board meetings in 2016 is set out as follows:

No. of meetings	**14**
Non-executive Directors	
Cai Jianjiang *(Chairman)*	14/14
Wang Yinxiang *(resigned on 6 June 2016)*	7/8
Cao Jianxiong	14/14
Feng Gang	12/14
John Robert Slosar	11/14
Ian Sai Cheung Shiu	14/14
Executive Directors	
Song Zhiyong *(President)*	12/14
Fan Cheng *(resigned on 14 April 2016)*	6/7
Independent non-executive Directors	
Pan Xiaojiang	14/14
Simon To Chi Keung	14/14
Stanley Hui Hon-chung	14/14
Li Dajin	13/14

Notes: For the year ended 31 December 2016, 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 in person of all Directors at general shareholders' meetings in 2016 is set out as follows:

No. of meetings	**4**
Non-executive Directors	
Cai Jianjiang *(Chairman)*	3/4
Wang Yinxiang *(resigned on 6 June 2016)*	2/2
Cao Jianxiong	4/4
Feng Gang	3/4
John Robert Slosar	2/4
Ian Sai Cheung Shiu	4/4
Executive Directors	
Song Zhiyong *(President)*	4/4
Fan Cheng *(resigned on 14 April 2016)*	0/1
Independent non-executive Directors	
Pan Xiaojiang	4/4
Simon To Chi Keung	4/4
Stanley Hui Hon-chung	4/4
Li Dajin	4/4

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 special 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 constantly improve their skills and are aware of the latest changes or developments in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

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

Training for Directors in 2016	Category (notes)
Non-executive Directors	
Cai Jianjiang *(Chairman)*	a, b
Wang Yinxiang *(resigned on 6 June 2016)*	a
Cao Jianxiong	a, b
Feng Gang	a, b
John Robert Slosar	a, b
Ian Sai Cheung Shiu	a, b
Executive Directors	
Song Zhiyong *(President)*	a, b
Fan Cheng *(resigned on 14 April 2016)*	a
Independent non-executive Directors	
Pan Xiaojiang	a, b
Simon To Chi Keung	a, b
Stanley Hui Hon-chung	a, b
Li Dajin	a, b

Notes:

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

b: Special trainings provided by the regulatory authorities.

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 2016.

- The Model Code contained in Appendix 10 to the Listing Rules provides that the listed issuer may adopt a code of conduct which is higher in level than the Model Code. On 5 September 2005, the Company formulated and adopted the Model Code for Securities Transactions, which was subsequently amended on 19 March 2007 and 4 December 2009, respectively, on terms no less exacting than the required standards of the Model Code. The Model Code for Securities Transactions of the Company also applies to the Supervisors and the relevant employees.

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 the Nomination and Remuneration Committee to advise the Board on the compensation of the Directors as well as to nominate candidates to fill vacancies on the Board. In addition, the Nomination and Remuneration Committee reviews the performance of and determines the compensation structure of the senior management of the Company.

- Ms. Wang Yinxiang resigned from the position of non-executive Director on 6 June 2016, and was no longer a member of the Nomination and Remuneration Committee.

- As at 31 December 2016, the Nomination and Remuneration Committee comprised of one non-executive Director, Mr. Cai Jianjiang, and three independent non-executive Directors, Mr. Pan Xiaojiang, Mr. Simon To Chi Keung and Mr. Li Dajin, with Mr. Li Dajin (being the independent non-executive Director) serving as the Chairman.

- Attendance in person at the meetings of the nomination and remuneration committee in 2016 is set out as follows:

No. of meetings	**3**
Li Dajin *(Chairman)*	1/1
Cai Jianjiang	3/3
Wang Yinxiang *(resigned on 6 June 2016)*	2/2
Pan Xiaojiang	3/3
Simon To Chi Keung	3/3

Notes: Mr. Li Dajin was appointed as the Chairman of the Nomination and Remuneration Committee on 21 January 2016. The Nomination and Remuneration Committee held one meeting during the period from 22 January 2016 to 31 December 2016.

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

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

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

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

- A shareholder holding 3% or more of the total shares of the Company is entitled to nominate a Director to the Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the Board Diversity Policy and submit a report to the Board.

- During the reporting period, the Nomination and Remuneration Committee was mainly performing the following duties:

  – to consider and nominate Mr. Li Dajin as a member of the Audit and Risk Control Committee and the Nomination and Remuneration Committee, and replacement of certain experts in the special committees.

  – to nominate Mr. Li Dajin as Chairman of the Nomination and Remuneration Committee, responsible for overseeing the operation of the Nomination and Remuneration Committee.

  – to disapprove the validity of the 30% and 40% of the second batch of the stock appreciation rights of the Company exercisable in 2015 and 2016.

  – to review the performance report by the Nomination and Remuneration Committee and report to the Board.

- 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.

- The remuneration of the Directors and Supervisors shall be determined by the shareholders' meeting, and that of the senior management shall be determined by the Board of Directors after being considered by the Nomination and Remuneration Committee. The remuneration of the independent non-executive Directors shall be determined according to the average level of the listed companies in the industry with the actual situation of the Company taken into account. The remuneration of the executive Directors and senior management is determined in accordance with the relevant laws and regulations of PRC and the provisions of the "Interim Measures for Remuneration Administration of Enterprise Leaders" of the Company.

  Details of the remuneration for the Directors and senior management are disclosed in notes 11 and 44(c) to the financial statements of this annual report. During the reporting period, Mr. Pan Xiaojiang waived his emolument of RMB150,000 (before income tax) as an independent non-executive Director (2015: he waived his emolument of RMB150,000 (before income tax) as an independent non-executive Director) for personal reasons.

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 the 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 reports in accordance with the requirements of the Listing Rules and other relevant laws and regulations in a timely manner, i.e. within three months and two months, respectively, after the end of the relevant periods, and published its quarterly reports within 30 days after the end of the first and third quarter, and the information disclosed is adequate for the shareholders to evaluate the performance, financial position and prospects of the Company.

- 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 is responsible for assessing and determining the nature and extent of the risks that the Company is willing to take in order to achieve its strategic objectives and ensuring that the Company has established and maintained appropriate and effective risk management and internal control system. The Board shall supervise the design, implementation and monitoring of the risk management and internal control system by the management, while the management should confirm with the Board if the relevant system is effective.

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

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

- During 2016, the Board reviewed the Group's risk management and internal control system through the Audit and Risk Control Committee and considered that the system was adequate and effective. The review of the Audit and Risk Control Committee covered such key aspects of as financial monitoring, operational monitoring and compliance monitoring. The Audit and Risk Control Committee also reviewed the Group's resources, qualifications and experience of the responsible staff, training courses and budget in respect of the accounting, internal audit and financial reporting functions and expressed satisfaction with the adequacy of such measures. The Board also confirmed that the Company has established effective systems and procedures to ensure the control and management of the strategic risks, financial risks, operational risks, legal risks, contingent risks etc..

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

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

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

- According to the risk assessment in 2016, the Group is mainly facing the macroeconomic risk, policy risk, market and operational risk, which will affect the profitability and development of the Company.

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

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

The Board shall establish formal and transparent arrangements in relation to the application of financial reporting, risk management and internal control principles and the maintenance of an appropriate relationship with the issuer's auditors. The Audit Committee established as per the Listing Rules must have clear Terms of Reference.

- Through the Audit and Risk Control Committee, the Board reviews and supervises the Company's financial reporting process and risk management and internal control system, and reviews and monitors the effectiveness of the internal control functions, 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 2016, the Audit and Risk Control Committee comprised of two independent non-executive Directors, Mr. Pan Xiaojiang and Mr. Li Dajin and one non-executive Director, Mr. Cao Jianxiong, with Mr. Pan Xiaojiang serving as the Chairman.

- Attendance in person at the meetings of the Audit and Risk Control Committee in 2016 is set out as follows:

No. of meetings	**8**
Pan Xiaojiang *(Chairman)*	8/8
Li Dajin	8/8
Cao Jianxiong	8/8

- During the reporting period, the Audit and Risk Control Committee was mainly performing the following duties:

  – reviewing the annual report and financial statements as well as profit distribution plan for the year 2015, self-assessment report on internal control, the audit report on internal control, the first and third quarterly reports as well as interim report for the year 2016;

  – reviewing the financial plan and investment plan for the year 2016;

  – reviewing the motion on signing the Antitrust Civil Litigation Settlement Agreement and signing the Cost-sharing Agreement in respect of the US Air Cargo Price Antitrust Case.

  – approving the Terms of Reference for the Audit and Risk Control Committee of the Board of Directors (revised in 2016).

  – approving the "Remedial Measures to the Dilutive Impact of the Non-public A Share Issue on Immediate Returns for Shareholders of Air China Limited" (Second Revision).

  – reviewing the independence of the KPMG and KPMG Huazhen LLP; to appoint KPMG and KPMG Huazhen LLP as the international and domestic auditors of the Company for the year 2016; and to appoint KPMG Huazhen LLP as the internal control auditor of the Company for the year 2016;

  – approving the renewal of the Continuing Connected Transaction Framework Agreement with Cathay Pacific and the signing of the Pricing Policy Memorandum for Continuing Connected Transactions and determining the annual caps for 2017-2019.

  – approving the re-signing of the Framework Agreement on Continuing Connected Transactions between the Company and CNACG and approving the adjustment to the annual caps for 2017-2019 under the Framework Agreement.

  – approving the re-signing of the Framework Agreement on Continuing Connected Transactions between the Company and Air China Cargo and approving the adjustment to the annual caps for 2017-2019 under the Framework Agreement; Agreeing to submit the aforesaid Framework Agreement and the relevant annual caps to the shareholders' meeting of the Company for approval by the non-connected shareholders.

  – approving the extension of the term of resolution on the Company's Non-public Issue of A Shares.

In addition to the above, the Audit and Risk Control Committee also heard the following reports:

The summary report on internal audit work for the year 2015 and internal audit plan for the year 2016; summary report on audit work for the year 2015 from KPMG and KPMG Huazhen LLP; anti-trust civil proceedings; self-assessment report on internal control of the Company for the year 2016 and the audit plan on internal control of KPMG Huazhen LLP and interim Cross-check Report of the Audit and Risk Control Committee 2016.

- The annual report of the Company for the year ended 31 December 2016 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 Auditor's Report" set out in this annual report.

- *Annual reports and accounts*

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

- *Accounting 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 LLP respectively. Breakdown of the remuneration to the Company's external auditors for providing audit services for the year ended 31 December 2016 is as follows:

RMB10,860,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2016 and for the audit of the Group's financial statements for the year ended 31 December 2016; an aggregate amount of RMB7,999,717 (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 2016; and fees for other audit services amounted to RMB1,220,000 (including value-added tax). An aggregate amount of approximately RMB193,993 (including value-added tax) was charged for the rendering of tax advisory related services to the Group.

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 financial control, internal control and risk control system, and evaluate the effectiveness of the system; to monitor the implementation and self-assessment of the Company's internal control system, review the risk control and internal control system with the management, ensuring that they have performed their duties properly and established an effective internal control system; to study the results of the investigation on the internal control and the feedback of the management on the results; to assess the effectiveness of the control rules and the operational standards relating to risk investments, including but not limited to financial derivative instruments, and consider the strategies and proposals of the Company's risk investment; to be responsible for the control and daily management of the related/connected transactions of the Company, and to review the Company's relevant significant related/connected transactions; to receive reports from the Company relating to fraudulent acts and discovery and complaints; and to fulfil 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 Directors and senior management 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 regarding the Directors' remuneration to the Board; to evaluate the performance of the senior management 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 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; to formulate the proposal of the Company's share incentive plan, verify the compliance of relevant regulations on granting and fulfilment of exercise conditions, and make recommendations to the Board for consideration; and to fulfil 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 fulfil other duties authorised by the Board. As at 31 December 2016, the Strategy and Investment Committee comprised three non-executive Directors, Mr. Cai Jianjiang, Mr. Cao Jianxiong, Mr. Feng Gang and one executive Director, Mr. Song Zhiyong, with Mr. Song Zhiyong serving as the Chairman.

Attendance in person at the meetings of the Strategy and Investment Committee in 2016 is set out as follows:

No. of meetings	**4**
Song Zhiyong *(Chairman)*	4/4
Cai Jianjiang	4/4
Cao Jianxiong	4/4
Feng Gang	4/4

- During the reporting period, the Strategy and Investment Committee was mainly performing the following duties:
  - to approve the disposal and introduction of aircraft by the Company
  - to consider the investment plan of the Company for 2016
  - to approve the joint operation of air passenger routes with Lufthansa
- 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 fulfil the needs of safety operation of the Company; and to fulfil other duties authorised by the Board. As at 31 December 2016, the Aviation Safety Committee comprised two non-executive Directors, Mr. Cai Jianjiang and Mr. Feng Gang and one executive Director, Mr. Song Zhiyong, with Mr. Feng Gang serving as the Chairman.

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

- Other than the annual general meeting, the Company would also hold the extraordinary general meeting (the "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 five days of the Board resolution resolving to hold an EGM issue a notice of EGM convening an EGM within two months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within ten days of the receipt of such written request(s), such shareholder(s) shall request the Supervisory Committee to convene an EGM by written request(s). If the Supervisory Committee fails to issue a notice for convening a meeting within five days of the receipt of such written request(s), shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

- For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in article 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 two 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, Supervisor and Senior Management" of this annual report. In 2016, each joint company secretary attended 15 hours of professional training to update her skill and knowledge.

G. Amendments to the Articles of Association

- In 2016, the Company did not make any amendments to its Articles of Association.

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing security management, continue to advance the implementation of its strategies, extend global network coverage to increase the commercial value of hub network; optimise the allocation of its core resources to improve the efficiency of resource utilisation; reasonably deploy transport capacity to grasp opportunities in the market, take multiple measures to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience with an aim to 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 2016 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements on pages 92 to 188 of this annual report.

REVIEW OF BUSINESS

Details about the fair review of the Company's business, employee self-achievement, customer service, supplier management, environmental protection, social welfare, compliance operations, subsequent events and future prospects are set out in the section entitled "Business Overview" of this annual report.

Details about the analysis on the key performance indications of the Company's operation and descriptions on the major risks that the Company may be confronted are set out in the section entitled "Management's Discussion and Analysis of Financial Position and Operating Results" of this annual report.

The above sections form part of this Report of the Directors.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and financial position prepared in accordance with IFRSs for the five years ended 31 December 2016 are summarised and set out on pages 4 and 5 of this annual report.

SHARE CAPITAL STRUCTURE

As at 31 December 2016, the Company had a total of 13,084,751,004 ordinary shares. 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 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 AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, 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) in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO are as follows:

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

Name	Type of interests	Type and number of shares of the company held	Percentage of the total issued share of the company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short positions
CNAHC	Beneficial owner	5,438,757,879 A Shares	41.57%	63.82%	–	–
CNAHC (1)	Interest of controlled corporation by the substantial shareholder	1,332,482,920 A Shares	10.18%	15.64%	–	–
CNAHC (1)	Interest of controlled corporation by the substantial shareholder	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)	Interest of controlled corporation by the substantial shareholder	2,633,725,455 H Shares	20.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited (2)	Interest of controlled corporation by the substantial shareholder	2,633,725,455 H Shares	20.13%	–	57.72%	–
John Swire & Sons Limited (2)	Interest of controlled corporation by the substantial shareholder	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 2016:

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

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 55.00% equity interest and 63.75% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2016, 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 directly held by Cathay Pacific.

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

As at 31 December 2016, the Company was not aware of any substantial shareholders holding short positions in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2016, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person had an interest or short position in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

PUBLIC FLOAT

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

DIVIDEND

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 ended 31 December 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 (the "AGM") to be held on 25 May 2017. Dividends payable to the Company's shareholders shall be denominated and declared in Renminbi. Dividends payable to the holders of A Shares and domestic investors in the H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect shall be paid in Renminbi 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 Renminbi 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 AGM.

The Company proposed to pay the aforesaid final dividends on 7 July 2017. For the shares of the Company listed on Hong Kong Stock Exchange (H Shares), the dividends shall 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 is 7 July 2017.

As at 31 December 2016, no arrangement was reached pursuant to which the shareholders of the Company waived or agreed to waive their dividends.

CLOSURE OF REGISTER OF MEMBERS

The registers of members of the Company will be closed from Tuesday, 25 April 2017 to Thursday, 25 May 2017, both days inclusive, during which no transfer of shares will be effected. In order to be entitled to attend and vote at the AGM, the holders of the H Shares must return all the transfer documents to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 April 2017. Shareholders whose names appear on the register of shareholders of the Company on Tuesday, 25 April 2017 will 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, during which no transfer of shares will be effected. In order to qualify for the final dividend, the holders of the H Shares must return all the transfer documents to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 1 June 2017. Shareholders whose names appear on the register of shareholders of the Company on Wednesday, 7 June 2017 will be qualified for the final dividend.

TAXATION ON DIVIDEND

In accordance with the "Enterprise Income Tax Law of the People's Republic of China" and the "Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China", both implemented on 1 January 2008 and the "Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC 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. As such, any H Shares 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 2016 to individual shareholders whose names appear on the register of members of H Shares.

Pursuant to the Circular on Tax Policies Concerning the Pilot Programme of the Shanghai and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2014] No. 81) promulgated on 17 November 2014 and the Circular on the Tax Policies Concerning the Pilot Programme of the Shenzhen and Hong Kong Stock Market Trading Interconnection Mechanism (Cai Shui [2016] No. 127) promulgated on 15 November 2016 by the Ministry of Finance, the State Administration of Taxation and CSRC:

The Company is obliged to withhold PRC personal income tax on behalf of resident shareholders at a tax rate of 20% when the Company distributes the 2016 final dividends to individual investors who invest in the H Shares via Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Where individual investors have already paid foreign withholding taxes for such income, investors may apply to the competent tax authorities of China Securities Depository and Clearing Corporation Limited for foreign tax credit with valid tax withholding certificates. The Company is obliged to pay PRC personal income tax on behalf of Mainland securities investment funds investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2016 final dividends; and The Company will not withhold income tax on behalf of Mainland enterprise investors investing in H Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect when the Company distributes the 2016 final dividends. The Mainland enterprise investors shall report the income and make tax payment by themselves.

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

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules) of the Company.

PRE-EMPTIVE RIGHTS

The Articles of Association 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.

ISSUANCE OF CORPORATE BONDS

In order to repay the bank loans and supplement the working capital of the Company, the Company issued corporate bonds of RMB4 billion on the Shanghai Stock Exchange on 18 August 2016, with a coupon rate of 2.84% and a maturity date of 18 August 2019; and issued corporate bonds of RMB4 billion on the Shanghai Stock Exchange on 20 October 2016 with a coupon rate of 3.08% and a maturity date of 20 October 2021. Besides, the Group issued a total of RMB14.65 billion of extra-short and short bonds at Inter-bank Bond Market with coupon rates ranging from 2.59% to 3.68%.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of appointment and if applicable, resignation as Director
Cai Jianjiang	53	Chairman and non-executive Director	Appointed as non-executive Director on 28 January 2014 and as Chairman on 21 February 2014
Song Zhiyong	51	Vice Chairman, executive Director and president	Appointed as President on 28 January 2014, as Director on 22 May 2014 and as Vice Chairman on 6 June 2016
Wang Yinxiang	61	Former Vice Chairman and non-executive Director	Appointed on 9 October 2008 and resigned on 6 June 2016
Cao Jianxiong	57	non-executive Director	Appointed on 10 June 2009
Feng Gang	53	non-executive Director	Appointed on 26 August 2014
John Robert Slosar	60	non-executive Director	Appointed on 22 May 2014
Ian Sai Cheung Shiu	62	non-executive Director	Appointed on 28 October 2010
Fan Cheng	61	Former executive Director and Vice President	Appointed as Director on 18 October 2004 and as Vice President on 27 October 2006, and resigned on 14 April 2016
Pan Xiaojiang	64	Independent non-executive Director	Appointed on 29 October 2013
Simon To Chi Keung	65	Independent non-executive Director	Appointed on 29 October 2013
Stanley Hui Hon-chung	66	Independent non-executive Director	Appointed on 22 May 2015
Li Dajin	58	Independent non-executive Director	Appointed on 22 December 2015

SUPERVISORS

Name	Age	Position in the Company	Date of appointment and if applicable, resignation as Supervisor
Wang Zhengang	58	Chairman of the Supervisory Committee	Appointed on 30 August 2016
Li Qinglin	62	Former Chairman of the Supervisory Committee	Appointed on 28 October 2010 and resigned on 30 August 2016
He Chaofan	54	Supervisor	Appointed on 22 December 2008
Zhou Feng	55	Supervisor	Appointed on 25 November 2011
Xiao Yanjun	52	Supervisor	Appointed on 16 June 2011
Shen Zhen	50	Supervisor	Appointed on 29 October 2013

Notes:

1. The Board received the resignation from Mr. Fan Cheng on 14 April 2016, who resigned as executive Director and Vice President due to his retirement.

2. The Board received the resignation from Ms. Wang Yinxiang as a non-executive Director and Vice Chairman on 6 June 2016 due to changes in her positions. On the same date, the 34th meeting of the 4th session of the Board was held, during which Mr. Song Zhiyong, an executive Director, was elected as Vice Chairman of the Company.

3. The Supervisory Committee received the resignation from Mr. Li Qinglin on 30 August 2016, who resigned as Chairman of the Supervisory Committee due to his retirement. On the same date, the second EGM of the Company for 2016 was held, during which Mr. Wang Zhengang was elected as Supervisor of the 4th session of the Supervisory Committee. Mr. Wang was elected as Chairman of the Supervisory Committee at the 19th meeting of the 4th session of the Supervisory Committee.

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

During the year ended 31 December 2016, the Company did not grant any rights to its Directors, Supervisors or their respective spouses or children under the age of 18 to subscribe for the shares or debentures of the Company or any of its other associated corporations, and none of the above persons have exercised such rights to subscribe for the above-mentioned shares or debentures.

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

As at 31 December 2016, the 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:

1. Total long positions in the shares, underlying shares and debentures of the Company and its associated corporations

Name of Director, Supervisor or chief executive	Name of associated corporation/ company and relevant shareholder	Number of Shares Personal Interest	Interest of children under the age of 18 or spouse	Corporate Interest	Total	Shareholding percentage as at 31 December 2016
Ian Sai Cheung Shiu	Cathay Pacific Airways Limited	1,000	–	–	1,000	0.00%
Zhou Feng	Air China Limited	10,000 (A Shares)	–	–	10,000 (A Shares)	0.00%
Shen Zhen	Air China Limited	33,200 (A Shares)	–	–	33,200 (A Shares)	0.00%

2. Total short positions in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2016, none of the Directors, Supervisors and chief executives of the Company held any short positions in the shares, debentures, share capital derivative instruments.

Save as disclosed above, as at 31 December 2016, 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 shall serve a term of three years.

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

Save as disclosed in the section "Connected Transactions" in this Report of the Directors, the Company or any of its subsidiaries has not entered into any significant transactions, arrangements or contracts relating to the Group's business, in which the Directors and Supervisors or their associates directly or indirectly have material interests, and which remain valid at the end of the current year or at any time during the year.

During the year of 2016, Mr. Cai Jianjiang (Chairman and non-executive Director), Mr. Song Zhiyong and Mr. Fan Cheng (executive Directors) and Mr. John Robert Slosar and Mr. Ian Sai Cheung Shiu (non-executive Directors) also served as directors of Cathay Pacific. Cathay Pacific and Cathay Dragon compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

PERMITTED INDEMNITY PROVISION

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

EMPLOYEES

As at 31 December 2016, the Company had 23,258 employees and its subsidiaries had 56,764 employees. The categories of employees of the Company are as follows:

Professional Categories	**As at 31 December 2016**	As at 31 December 2015	Increase/ (decrease)
Management	**5,719**	6,467	(748)
Marketing and Sales	**1,947**	1,902	45
Operation	**1,427**	1,429	(2)
Ground Handling	**2,093**	2,080	13
Cabin Service	**2,684**	2,485	199
Logistics and Support	**2,914**	3,395	(481)
Flight Crew	**4,952**	4,713	239
Engineering and Maintenance [Notes]	**45**	2,872	(2,827)
Information Technology	**389**	375	14
Others	**1,088**	1,386	(298)
Total	**23,258**	27,104	(3,846)

Notes: Upon completion of the shareholding restructuring in AMECO by the Company and Lufthansa, the engineering and maintenance staff of the Company were transferred to and entered into employment contracts with AMECO.

A total of 372 employees of the Company retired in 2016.

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 develop a sustainable incentive mechanism for talent and stimulate the enthusiasm and creativity of its employees, the Company carried out the appraisal and promotion in 2016, which covered Air China and its invested enterprises.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 2 to the financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

STOCK APPRECIATION RIGHTS

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 to grant a total of 26.20 million shares under the second grant of stock appreciation rights (SARs) to 160 incentive recipients and to confirm the grant date with respect to the second grant of SARs (i.e. 6 June 2013) and the exercise price (i.e. grant price) with respect to the second grant of SARs of HK$6.46. The grant of SARs shall be valid for five years from the date of grant. Upon the satisfaction of certain performance conditions, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants, since the first trading day after the second, third and fourth anniversary from the grant date.

As the Company did not satisfy the "effective performance conditions" as set forth in the "Proposal for the Second Grant of the Stock Appreciation Rights of Air China Limited" in 2015, the proportion of 40% of the exercisable SARs for 2016 would not take effect. As at 31 December 2016, the carrying amount of the liabilities related to the SARs was RMB2.0280 million.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Company as at 31 December 2016 are set out respectively in notes 20, 21 and 22 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 2016 are set out in note 15 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2016 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 2016, the Company made donations for charitable and other purposes amounting to RMB514,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the purchases from the largest supplier accounted for 16.95% of the total purchases of the Group, while the purchases from the five largest suppliers accounted for 45.08%. None of the Directors or Supervisors, 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 five largest suppliers of the Company.

For the year ended 31 December 2016, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected changes to the titles of assets (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. All of the aforementioned title transfer procedures have been completed.

MAJOR 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 2016. 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 certain connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

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

I. Connected Transactions Between the Group and CNAHC Group

Continuing Connected Transactions

As CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between the Group and CNAHC Group described in paragraphs (a) to (f) 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 framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 (the "Properties Leasing Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Properties Leasing Framework Agreement, the Company agreed to lease from CNAHC a number of properties for various uses including as business premises, offices and storage facilities. The Company also agreed to lease to CNAHC a number of properties. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policy: The rent payable by the Company under the Properties Leasing Framework Agreement will be determined based on the quotation for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including quotation, property service quality, location and district of properties and specific needs of the parties, and specific property leasing agreements will be entered into.

b. Sales Agency Services of Air 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 29 October 2015 (the "Sales Agency Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents (the "Sales Agency Companies") will: (i) procure purchasers for the Company's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Company and resell such air tickets and cargo spaces to end customers. The details at set out the announcement of the Company dated 29 October 2015.

Pricing Policies:

- As for the air passenger agency services, the Company will 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.

- As for the air cargo agency services, the Company and the Sales Agency Companies will discuss and determine the applicable transportation prices, which shall be no less favourable than the prices offered by independent third parties in the PRC air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type, as well as the specific product types and required transportation time. The Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to their 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.

c. *Comprehensive Services*

The Company (for itself and on behalf of its subsidiaries) entered into a comprehensive services framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 (the "Comprehensive Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Comprehensive Services Framework Agreement, (i) certain wholly-owned or controlled companies of CNAHC which are engaged in ancillary services in relation to air transportation business (the "Specialised Companies") will be appointed as suppliers of ancillary services in relation to air transportation business to the Company; and (ii) the Company is commissioned by CNAHC to provide welfare-logistics services for CNAHC's retired employees. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policies:

- The prices of airline catering services to be provided by the Specialised Companies to the Company will be determined by the parties based on the quotation for the same type of catering services available from independent third parties with reference to other factors including cost of raw materials and labour costs.

- The prices of property management services to be provided by the Specialised Companies to the Company will be determined by the parties based on the quotation for the same type of property management services available from independent third parties with reference to other factors including quotation, quality, scope and type of property management services, and specific needs of the parties.

- The prices of hotel accommodation and staff recuperation services to be provided by the Specialised Companies to the Company shall be no less favourable than the quotation for the same type of guest room products or services available from independent third parties of the same level in the area of the hotel, with reference to other factors including quotation, quality of products and services, seasonal demand in the hotel industry, location of hotel and specific needs of the parties.

- For in-flight supply offering, publications and other services to be provided by the Specialised Companies to the Company, the Specialised Companies as supplier of the Company shall provide such services in accordance with the bidding management requirements of the Company. The prices of such services shall be no less favourable than the quotation of similar products or services available from independent third parties.

- The management charges payable by CNAHC to the Company for the welfare-logistics services shall be settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

d. *Government Charter Flight Services*

The Company entered into a government charter flight service framework agreement with CNAHC on 29 October 2015 (the "Government Charter Flight Service Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

Pursuant to the Government Charter Flight Service Framework Agreement, CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment.

Pricing Policy:

The Company's hourly rate of the charter flight service fee will be 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.

e. *Financial Services*

CNAF, a non-wholly owned subsidiary of the Company and CNAHC (for itself and on behalf of CNAHC Group) entered into a financial services agreement on 29 April 2015 (the "CNAHC Financial Services Agreement") with a term from the date of completion of registration of State Administration for Industry and Commerce of CNAF to 31 December 2017.

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide CNAHC Group with a range of financial services including deposit services, loan and other credit services and other financial services. The details are set out in the announcement of the Company dated 29 April 2015.

Pricing Policies:

- The interest rate applicable to CNAHC Group's deposits with CNAF shall be determined based on arm's length negotiation by the parties subject to compliance with the requirements on the range of interest rates prescribed by the Peoples' Bank of China (the "PBOC") from time to time and published on the PBOC's website for the same type of deposits.

- The interest rate applicable to loans (including other credit services) granted to CNAHC Group by CNAF shall be determined based on arm's length negotiation by the parties by making reference to the benchmark interest rate and the range prescribed by the PBOC from time to time and published on the PBOC's website for the same type of loans.

- The fees charged by CNAF to CNAHC Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be determined based on arm's length negotiation by the parties subject to the relevant standards (if any) prescribed by the PBOC or the China Banking Regulatory Commission (the "CBRC") from time to time in respect of the same type of financial services.

- If CNAF charges fees for the unpaid services or new financial services during the term of the CNAHC Financial Services Agreement, such fees charged by CNAF to CNAHC Group shall be determined based on arm's length negotiation by the parties according to the relevant fee standards prescribed by the PBOC or the CBRC from time to time for services of the same type.

f. *Media and Advertising Services*

The Company entered into a media services framework agreement with CNAMC on 29 October 2015 (the "Media Services Framework Agreement") with a term of three years from 1 January 2016 to 31 December 2018.

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 Media Services Framework Agreement, CNAMC will have the following rights: (i) an exclusive right to distribute the in-flight reading materials of the Company; (ii) an exclusive operation right of certain media of the Company, including the boarding passes, in-flight entertainment programmes and flight schedules; (iii) a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising contents) from independent third parties or produce such programmes on its own; (iv) 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; and (v) the right to act as operator of the Company's media business to provide the Company with certain services. The details are set out in the announcement of the Company dated 29 October 2015.

Pricing Policies:

- CNAMC agreed to pay the Company RMB13,891,500 as media usage fee for each of the three years ending 31 December 2016, 2017 and 2018 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.

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

- The Company agreed to pay the purchase price to CNAMC for the in-flight entertainment programmes purchased by CNAMC for the Company. In the event that the relevant entertainment programmes are produced by CNAMC at the request of the Company, the Company will pay the corresponding production costs to CNAMC.

- The Company further agreed to pay advertising fees and service fees at market price to CNAMC in respect of advertising design, image promotion and other services conducted by CNAMC for the Company, which will be determined taking into consideration certain factors including quotation, service quality and specific needs of the parties.

Non-Public Issue of A Shares

As stated in "Subsequent Events", upon the approval of the board of directors and shareholders' meetings, the Company proposed non-public issue of A Shares to not more than 10 (inclusive) specified investors (including CNAHC).

On 11 December 2015, CNAHC entered into a new subscription agreement (the "New Share Subscription Agreement") with the Company which superseded the original share subscription agreement entered into between CNAHC and the Company on 27 July 2015. Pursuant to the New Share Subscription Agreement, CNAHC agreed to commit no more than RMB4 billion to subscribe for, and the Company agreed to issue, not more than 506,970,849 new A Shares at the issue price of RMB7.89 per share, which may be adjusted if there is any ex-rights or ex-dividend arrangement from the pricing benchmark date to the date of issuance.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, its subscription of A Shares to be issued by the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements.

According to the announcement of the Company dated 22 July 2016, due to the distribution of final dividends for the year 2015, the Issue Price was adjusted to not less than RMB7.79 per A Share, and the number of A Shares to be subscribed for by CNAHC was adjusted to not more than 513,478,818 A Shares. The above-mentioned non-public issue of A Shares and the New Share Subscription Agreement were approved by the independent shareholders of the Company at both the EGM and the class meetings on 26 January 2016. On 31 October 2016, the Company received a formal approval form the CSRC approving the non-public issue of A Shares. On 10 March 2017, the non-public issue of A Shares was completed. CNAHC subscribed for 513,478,818 A Shares at the issue price of RMB7.79 per A Share, which are subject to a lock-up period of 36 months from the completion date of the non-public issue of A Shares. After the non-public issue of A Shares, CNAHC holds directly and indirectly 7,508,571,617 shares of the Company, representing 51.70% of the total issued share capital of the Company, and CNAHC remains the controlling shareholder of the Company.

II. Continuing Connected Transactions between the Group and CNAF

Pursuant to the announcement of the Company dated 24 December 2014, the Company entered into an equity transfer agreement and capital injection agreement with the relevant parties in relation to its acquisition of equity interest in CNAF and the capital injection into CNAF by the Company and CNAHC (the "Acquisition and Capital Injection"). Upon completion of the Acquisition and Capital Injection, CNAF became a non-wholly owned subsidiary of the Company. Since CNAHC continues to be interested in more than 10% of the equity interest in CNAF, CNAF became a connected subsidiary of the Company as defined under the Listing Rules, and the transactions between the Group and CNAF 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.

On 29 April 2015, the Company (for itself and on behalf of its subsidiaries) and CNAF entered into a financial services agreement (the "Air China Financial Services Agreement") with a term from the date of completion of registration of State Administration for Industry and Commerce of CNAF to 31 December 2017. Pursuant to the Air China Financial Services Agreement, CNAF agreed to provide the Group with a range of financial services including deposit services, loan and other credit services and other financial services. The details are set out in the announcement of the Company dated 29 April 2015.

Pricing Policies:

- The interest rate applicable to the Group for deposits with CNAF shall not be lower than the minimum interest rate prescribed by the PBOC from time to time and published on the PBOC's website for the same type of deposits, and such interest rate shall not be lower than the interest rate for the same type of deposits placed by the members of CNAHC Group with CNAF, and shall not be lower than the interest rate for the same type of deposit services provided by state-owned commercial banks to the Group.

- The interest rate applicable to loans (including other credit services) granted to the Group by CNAF shall be set with reference to the benchmark interest rate prescribed by the PBOC from time to time and published on the PBOC's website for the same type of loans, and such interest rate shall not be higher than the interest rate for the same type of loans granted by CNAF to the members of CNAHC Group and higher than those for the same type of loans granted by state-owned commercial banks to the Group.

- The fees charged by CNAF to the Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be determined in accordance with the relevant standards (if any) prescribed by the PBOC or CBRC in respect of the same type of financial services. In addition, such fees shall not be higher than those generally charged to the Group by state-owned commercial banks and those charged by CNAF to the members of CNAHC Group for the same type of financial services.

- If CNAF charges fees for the unpaid services or new financial services during the term of the Air China Financial Services Agreement, such fees charged by CNAF to the Group shall comply with the standards stipulated by the PBOC or the CBRC for services of the same type and shall not be higher than those charged by state-owned commercial banks to the Group and those charged by CNAF to the members of CNAHC Group for the same type of financial services.

III. Continuing Connected Transactions between the Group and CNACG Group

The Company entered into a framework agreement with CNACG on 26 August 2008 which was renewed in 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 the relevant agreements between the Group and CNACG Group 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 which have been contemplated by the related CNAHC framework agreements. The details are set out in the announcement of the Company dated 26 September 2013.

As the Company expected that the transactions contemplated under the CNACG Framework Agreement would continue to be conducted after 31 December 2016, the Company and CNACG entered into a framework agreement on 30 August 2016 to renew and amend the CNACG Framework Agreement (the "New CNACG Framework Agreement"). The New CNACG Framework Agreement has a term of three years from 1 January 2017 to 31 December 2019. Details are set out in the announcement of the Company dated 30 August 2016 and the circular of the Company dated 14 September 2016.

IV. Continuing Connected Transactions between the Group and Cathay Pacific Group

The Company entered into a framework agreement with Cathay Pacific on 26 June 2008 which was renewed on 1 October 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 the Cathay Pacific Group (Cathay Pacific and its subsidiaries, including Cathay Dragon) 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 a framework for the transactions between the Group and Cathay Pacific Group arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flier 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. The details are set out in the joint announcement of the Company and Cathay Pacific dated 26 September 2013.

The Cathay Pacific Framework Agreement was renewed on 1 October 2016 for a term of three years from 1 January 2017 to 31 December 2019. Details are set out in the announcement of the Company dated 30 August 2016 and the circular of the Company dated 14 September 2016.

V. Continuing Connected Transactions between the Group and Air China Cargo

The Company entered into a framework agreement with Air China Cargo on 27 October 2011 (the "ACC Framework Agreement"), which was renewed in 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 equity interest through Cathay Pacific China Cargo Holdings, a wholly-owned subsidiary of Cathay Pacific. As such, transactions between the Air China Cargo and the Group 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 ACC Framework Agreement, the Group (other than Air China Cargo) will provide the following services to Air China Cargo: (i) the provision of bellyhold space of the passenger aircraft operated by the Company; (ii) ground support and aircraft maintenance engineering including, among others, the repair and maintenance of aircraft and engines; and (iii) other services to Air China Cargo including, among others, labour management and import and export agency services. Air China Cargo will provide the following services to the Group (other than Air China Cargo): (i) ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and (ii) other services provided to the Group (other than Air China Cargo). The details are set out in the announcement of the Company dated 26 September 2013.

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

As the Company expected that the transactions contemplated under the ACC Framework Agreement would continue to be conducted after 31 December 2016, The Company and Air China Cargo entered into a framework agreement on 30 August 2016 to renew and amend the ACC Framework Agreement ("New ACC Framework Agreement"). The New ACC Framework Agreement has a term of three years from 1 January 2017 to 31 December 2019. Details are set out in the announcement of the Company dated 30 August 2016 and the circular of the Company dated 14 September 2016.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set out above for the year ended 31 December 2016 has followed the pricing policies of such continuing connected transactions.

VI. Transaction Caps and Actual Transaction Amounts in 2016

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2016 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2016 Cap (in millions)	Actual Amount (in millions)
Transactions with CNAHC Group			
Subcontracting of charter flight services	RMB	900	518
Aggregate sales of airline tickets and cargo space to CNAHC Group	RMB	138	59
Comprehensive services	RMB	1,375	1,251
Properties leasing	RMB	155	104
Media and advertising services	RMB	270	208
Financial services			
Maximum daily outstanding loans and other credit services granted by CNAF to CNAHC Group	RMB	9,000	2,146
Transactions with CNACG Group			
Ground handling, engineering, management and other services	RMB	350	284
Transactions with Cathay Pacific Group			
Aggregate amount payable/paid by the Group to Cathay Pacific Group	HKD	900	286
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	345
Transactions with Air China Cargo			
Aggregate amount payable/paid by the Group to Air China Cargo	RMB	1,480	951
Aggregate amount payable/paid by Air China Cargo to the Group	RMB	8,250	4,370
Transactions with CNAF			
Maximum daily outstanding deposits placed by the Group with CNAF	RMB	14,000	4,772

VII. Confirmation from Independent Non-executive Directors

The independent non-executive Directors have confirmed that all continuing connected transactions in the year ended 31 December 2016 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.

VIII. 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 2016 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:

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

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

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

- with respect to the aggregate amount of the continuing connected transactions, nothing has come to its attention that causes it to believe that the continuing connected transactions disclosed in chart above have exceeded the annual cap made by the Company.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2016 are set out in note 44 to the 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 under 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.

AUDITOR

KPMG and KPMG Huazhen LLP have been appointed as the international auditor and the domestic auditor of the Company since the 2012 annual general meeting of the Company. KPMG has audited the accompanying financial statements, which have been prepared in accordance with IFRSs.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. DIRECTORS

Cai Jianjiang, aged 53, 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 the Communist Party Group of CNAHC from January 2014 to December 2016. Mr. Cai has been serving as a Director of the Company since September 2004 and Chairman of the Company since February 2014. He has been serving as Chairman and Secretary of the Communist Party Group of CNAHC since December 2016.

Song Zhiyong, aged 51, is the Vice Chairman, executive Director and Vice President 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 CNAHC from December 2010 to April 2014. He has been a Member of the Communist Party Group of CNAHC since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company since January 2014 as well as an executive Director of the Company since May 2014 and the Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He has been serving as Vice Chairman of the Company since June 2016 and Director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC since December 2016.

Wang Yinxiang, aged 61, 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. Ms. Wang was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009. Since March 2008 till February, 2016, Ms. Wang served as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee directly under department of CNAHC. Ms. Wang served as the Vice Chairman of the Company from October 2008 to June 2016.

Cao Jianxiong, aged 57, 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 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. 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. He has been serving as Deputy Secretary of the Communist Party Group and Deputy General Manager of CNAHC since November 2016.

Feng Gang, aged 53, 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 CNAHC since April 2014. He has served as non-executive Director since August 2014.

John Robert Slosar, aged 60, 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 from March 2011 to March 2014, 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 since March 2014. Mr. Slosar has been serving as a non-executive director of the Company since May 2014.

Ian Sai Cheung Shiu, aged 62, 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 was a director of Cathay Pacific and Cathay Dragon from October 2008 to December 2016, a director of John Swire & Sons (H.K.) Limited from July 2010 to December 2016 and a director of Swire Pacific Limited from August 2010 to December 2016. Mr. Shiu has been serving as a non-executive Director of the Company since October 2010.

Fan Cheng, aged 61, is the former executive Director and Vice President 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. From October 2006 to April 2016, he served 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 Acting President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. From January 2011 to May 2016, he served as Director and Chairman of Beijing Airlines. From February 2011 to March 2016, he served as Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Party Committee. From April 2011 to June 2016, he served as Chairman of Air China Cargo. Mr. Fan served as an executive Director of the Company from October 2004 to April 2016 and a member of the Communist Party Group of CNAHC from April 2014 to February 2016.

Pan Xiaojiang, aged 64, 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 professional supervisor and deputy office director of the board of supervisors of Bank of China Limited in July 2000; professional supervisor and office director of the board of supervisors of Bank of China Limited in November 2001; professional supervisor and office director of the board of supervisors of Agricultural Bank of China Limited in July 2003; shareholder representative supervisor 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. From May 2013 to May 2015, 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 65, 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 an MBA degree 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. 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 Baiyunshan Chinese Medicine Company Limited, vice chairman of Shanghai Hutchison Pharmaceuticals Limited 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.

Stanley Hui Hon-chung, aged 66, is an independent non-executive Director of the Company. Mr. Hui holds the bachelor degree of Science from the Chinese University of Hong Kong. He joined Cathay Pacific in 1975 as a management trainee and had held a range of management positions in Hong Kong and overseas. From 1990 to 1992, Mr. Hui served in Cathy Dragon as General Manager-Planning and International Affairs and was appointed the Chief Representative of John Swire & Sons (China) Limited in Beijing in 1992. He later returned to Hong Kong in 1994 to assume the position of Chief Operating Officer of AHK Air Hong Kong Limited until 1997. Mr. Hui joined Cathy Dragon as its Chief Executive Officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the Chief Executive Officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 12th session of National Committee of Chinese People's Political Consultative Conference ("CPPCC") and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui has been serving as an independent non-executive Director of the Company since May 2015. Mr. Hui was appointed executive director and Vice CEO of NWS Holdings Limited in September 2015 and independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. in December 2016.

Li Dajin, aged 58, is an independent non-executive Director of the Company. He graduated from Peking University majoring in law. He was admitted to practice law in the PRC in 1982 and is the managing partner of East & Concord Partners. Mr. Li was the one the lawyers who were initially qualified to engage in securities law business. He previously served as vice president of the 6th session of All China Lawyers Association, president of the 7th session of Beijing Lawyers Association, and committee member of the 13th session of Beijing Municipal People's Congress. Mr. Li currently also serves as deputy to the 12th session of National People's Congress, legislative consultant to the Standing Committee of Beijing Municipal People's Congress, invited supervisor to the PRC Supreme People's Court, invited supervisor to the Ministry of Public Security of the PRC, visiting professor to Lawyer College of Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. Mr. Li has been serving as an independent non-executive Director of the Company since December 2015.

2. SUPERVISORS

Wang Zhengang, aged 58, is Chairman of the Supervisory Committee of the Company. He is a senior accountant who graduated from the Anti Chemical Command and Engineering Institute of the Chinese People's Liberation Army with a bachelor's degree in economics and management. He has been serving as a director, the president and a member of the Communist Party Committee of CNACG since July 2011 and the chairman of the board of directors of Chinawings Aviation Technology Co., Ltd since September 2011. Mr. Wang has been an assistant general manager of CNAHC since September 2014. Mr. Wang is currently a member of the Committee of the 12th session of the CPPCC of Beijing Municipality and a member of the Standing Committee of the 5th session the CPPCC of Shunyi District, Beijing Municipality. He was appointed as Chairman of the Supervisory Committee of the Company in August 2016.

Li Qinglin, aged 62, is former Chairman of the Supervisory Committee of the Company. Mr. Li graduated from Beijing Radio and 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. He was appointed as the Head of the Disciplinary and Supervisory Committee of CNAHC from September 2008 to July 2015 and a member of the Communist Party Group of CNAHC from September 2008 to February 2016. Mr. Li served as chairman of the Supervisory Committee the Company from October 2010 to August 2016.

He Chaofan, aged 54, 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 Civil Aviation Administration of China (CAAC), and served various positions in Air China International Corporation, including the section chief, deputy director and director of the finance department and general manager of the revenue accounting centre of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager of CNAF. He served as the General Manager of the finance department of CNAHC and a Supervisor of the Company concurrently from October 2008 to April 2011. He was appointed as vice president of CNACG in May 2011, and has been concurrently served as a director, 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 55, 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 director of the financial planning and audit department of Zhejiang Administration of CAAC; 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 52, 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 Organiser at division level, Secretary of the Party Branch and Head of Officer Training. She served as the Training Manager of the Human Resource Department of the Company from April 2002 to March 2008 and Deputy Director of the Labour Union of the Company 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 50, 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 51, graduated from Inner Mongolia University majoring in planning and statistics and holds a degree of Executive Master in Business Administration in Tsinghua University. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China, 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 and a member of the standing committee of CCP of the Company since April 2010, responsible for air and ground services. From April 2010 to November 2016, he served as Chairman and President of Shandong Aviation Group Corporation and Vice Chairman of Shandong Airlines. He has been a member of the Communist Party Group of CNAHC since August 2016 and Vice General Manager and a member of the Communist Party Group of CNAHC since December 2016.

Zhao Xiaohang, aged 55, 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 of China National Aviation Company Limited from July 2005 to November 2015 and General Manager of China National Aviation Company Limited from July 2005 to May 2016, and director and General Manager of China National Aviation Corporation (Macau) Company Limited from April 2007 to February 2016. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President and a member of the Standing Committee of CCP of the Company since February 2011, responsible for administration, information management, centralized procurement, asset management, investment on the enterprises located in Hong Kong and Macau and logistics support. He is also a director of Shandong Aviation Group Corporation since April 2011 and Chairman of Dalian Airlines since August 2011. Mr. Zhao was appointed Chairman of Air Macau in March 2016, a member of the Communist Party Group of CNAHC in August 2016, Vice General Manager and a member of the Communist Party Group of CNAHC as well as Director and Vice Chairman of CNACG and Director and Chairman of CNAMC in December 2016.

Xu Chuanyu, aged 52, 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, an Inspector in the Safety Supervisory Office and Captain of the Third Group of the Chief Flight Team. 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 CNAHC and Chief Safety Officer of the Company since December 2012. Mr. Xu was appointed Chairman, President, deputy secretary of the CCP committee of Shandong Aviation Group Corporation, responsible for its overall management.

Wang Mingyuan, aged 51, 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, responsible for the planning of the development, aircraft, investment, operation efficiency, marketing, alliance affairs, external cooperation and construction work for the airbase of the Beijing new airport for the Company.

Feng Rune, aged 54, 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 and responsible for the members of the Communist Party in the Company, corporate culture, disciplinary monitoring and supervision, audit and management of the former employees. She served as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011, and president of the Labour Union of the Company from June 2011 to October 2013.

Chai Weixi, aged 54, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including Engineer and Manager of airframe team of Engineering Department of AMECO, Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China, 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 and a member of the CCP standing committee of the Company since March 2012, who is responsible for integration of aircraft engineering and industrialization, as well as the Chief Executive of AMECO.

Chen Zhiyong, aged 53, 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 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 and a member of the CCP committee of the Company since December 2012 till now. He has also been serving as Director and President of Shenzhen Airlines since May 2014, responsible for its operation.

Liu Tiexiang, aged 50, graduated from No.2 Aviation College of the PLA Air Force majoring in pilot and 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 and a member of the CCP committee of the Company since August 2014 and Chief Operating Officer since April 2015, responsible for flight management, operation control, safety and technology management, maintenance of normal flight schedule, national defence mobilisation, management of airport terminals and assisting the President to manage private jets.

Xue Yasong, aged 55, is an economist and lecturer who graduated from the Institute of Financial Science under the Ministry of Finance with a master degree in Economics. From September 1978 to July 1982, Mr. Xue studied in the Department of Mathematics, Henan Normal University. From July 1982 to July 1986, he taught in the Zhumadian Normal School, Henan Province. From August 1986 to August 1991, he taught in the training centre of the Regional Taxation Bureau of Zhumadian, Henan Province. From September 1991 to July 1994, Mr. Xue studied his master course in the Postgraduate Department of the Institute of Financial Science under the Ministry of Finance. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as a project manager of the Investment Department, Manager of Trading Department of Guangdong Property Rights Trading Centre, Assistant to the General Manager of the International Finance Department, Head of the Asset Reorganization Group and Head of Preparatory Group for the Securities Company. He has been a director, Deputy General Manager and Secretary of the Board of Directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999. He served as the Deputy General Manager of CNAHC from November 2004 to August 2009, during which he served concurrently as Chairman of China National Aviation Travel Co., Ltd. from January 2005 to November 2006 and Secretary of the Party Committee of China National Aviation Construction and Development Co., Ltd. under temporary assignment from November 2006 to August 2009. In August 2009, he was elected Chairman of the Labour Union of CNAHC, and appointed Secretary of the Party Committee of CNAHC in January 2016. He was elected Chairman of the Labour Union of the Company in October 2016, responsible for overseeing the daily operation of the Company's Labour Union.

Wang Yantang, aged 60, graduated from Open College of Party School of the Central Committee of C.P.C. majoring in economic management. 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 Labour 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 served as Chairman of the Company's Labour union from October 2013 to September 2016, responsible for the operation of the Labour Union.

Xiao Feng, aged 48, 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 Accountant and Deputy General Manager of Shandong Airlines. Mr. Xiao served as the General Manager of the Finance Department of the Company from December 2009 to July 2014. Mr. Xiao has been serving as the Chief Accountant of the Company since July 2014, responsible for financial management and providing assistance to Vice President Wang Mingyuan in enhancing operation efficiency.

Meng Xianbin, aged 59, graduated from Air Force 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. He is accountable for the provision of assistance to our Vice President Chai Weixi in respect of the integration of aircraft engineering and industrialization, and is appointed as the secretary of the Communist Party Committee and the convener of the labour union of AMECO.

Wang Yingnian, aged 53, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a first-class pilot. Mr. Wang started his career in China's civil aviation industry in August 1984 and has been engaged in work related to piloting. He was the deputy chief of Flying Corps, 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 and is accountable for the trainings of the pilots in the Company.

Rao Xinyu, aged 50, 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 and is responsible for corporate governance, information disclosure, investor relations and equity management and so forth.

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 45, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of 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.

KPMG

To the Shareholders of Air China Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Air China Limited ("the Company") and its subsidiaries ("the Group") set out on pages 92 to 188, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

<table>
<tr><th colspan="2">Assessing the carrying value of aircraft and flight equipment</th></tr>
<tr><td colspan="2">Refer to note 15 to the consolidated financial statements and the accounting policies on page 109.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The carrying value of aircraft and flight equipment is reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may have a material impact on any impairment charges for the year.

We identified the assessment of the carrying value of aircraft and flight equipment as a key audit matter because of its significance to the consolidated financial statements and because assessing the key assumptions underlying impairment assessments involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's aircraft and flight equipment as well as any impairment charges for the year.</td><td>Our audit procedures to assess the carrying value of aircraft and flight equipment included the following:

• discussing with strategy and development department the plans for future fleet composition including future acquisitions and retirement of aircraft as well as indicators of possible impairment of aircraft and flight equipment and, where such indicators were identified, assessing whether management had performed impairment assessments in accordance with the requirements of the prevailing accounting standards;

• assessing management's assertions and estimates adopted in their impairment assessments with reference to valuation reports published by third party specialists, our knowledge of the airline industry and the Group's historical experience and future operating plans;

• challenging the assumptions and critical judgements adopted by management by comparing management's past estimates and plans to the current year's estimates and plans and taking into account recent developments in the airline industry and future operating plans.</td></tr>
</table>

KEY AUDIT MATTERS (Continued)

Provision for major overhauls

Refer to note 36 to the consolidated financial statements and the accounting policies on page 116.

The key audit matter	How the matter was addressed in our audit
The Group held certain aircraft under operating leases at 31 December 2016. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Management estimates the maintenance costs of major overhauls for aircraft held under operating leases at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected standard rates of maintenance costs per flying hour/cycle. We identified provision for major overhauls as a key audit matter because of the inherent level of complex and subjective management judgement required in assessing the variable factors and assumptions in order to quantify the amount of provision required at each reporting date.	Our audit procedures to assess provision for major overhauls included the following: • assessing the design and implementation of the Group's internal controls over making provision for major overhauls for aircraft held under operating leases; • evaluating the methodology and key assumptions adopted by management in estimating the provision for major overhauls. This evaluation included testing the integrity and arithmetic accuracy of the provision model through recalculation, reviewing the terms of the operating leases and comparing assumptions to contract terms, information from the lessors and the Group's maintenance cost experience; • discussing with managers in the engineering department responsible for aircraft engineering the utilisation pattern of aircraft and considering the consistency of the provisions with the engineering department's assessment of the condition of the aircraft; • challenging the assumptions adopted by management by comparing past assumptions adopted by management in prior years with actual events as well as the current year's assumptions.

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to notes 5 and 38 to the consolidated financial statements and the accounting policies on pages 115 and 116.

The key audit matter	How the matter was addressed in our audit
Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of passenger and cargo sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as air traffic liabilities in the consolidated statement of financial position. The fair value of programme awards under the Group's frequent-flyer programme, Phoenix Miles, is deferred and included in deferred income in the consolidated statement of financial position. This deferred income arises from qualifying air travel by Phoenix Miles members or from programme partners that purchase Phoenix Miles from the Group to issue to their own customers. The deferred income is recognised as income when Phoenix Miles members receive the related goods or services after redemption of their Phoenix Miles or when it is assessed that the Phoenix Miles awarded will expire without use. The Group maintains complex information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation of Phoenix Miles. The Group estimates the unit fair value of Phoenix Miles which are initially deferred when earned by members of the programme. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and an estimation of the unit fair value of Phoenix Miles, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation.	Our audit procedures to assess revenue recognition included the following: • assessing the design, implementation and operating effectiveness of Group's internal controls over revenue recognition and assessing the design and implementation of IT controls related to the Group's revenue systems; • performing analytical procedures on passenger and cargo revenue by developing an expectation for each type of revenue using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue; • inspecting underlying documentation for journal entries which were considered to be material or met other specified risk-based criteria; • evaluating the assumptions applied in the mathematical models used to determine the fair value of expected Phoenix Miles awards. This included undertaking a comparison with historical redemption patterns and comparing the calculations for award values against observable inputs such as the prices for third party Phoenix Miles sales; • challenging the assumptions used to estimate the number of Phoenix Miles that will expire without use, including comparing with historical experience and planned changes to the programme that may impact future redemption activities.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit and Risk Control Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Air traffic revenue	5	**108,584,830**	104,368,230
Other operating revenue	6	**6,559,862**	5,688,804
		115,144,692	110,057,034
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	7	**(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)
		(97,612,117)	(94,505,412)
Profit from operations	8	**17,532,575**	15,551,622
Finance income	9	**127,077**	152,257
Finance costs	9	**(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
Profit before taxation		**10,212,902**	9,355,251
Taxation	10	**(2,454,221)**	(1,845,764)
Profit for the year		**7,758,681**	7,509,487
Attributable to:			
– Equity shareholders of the Company		**6,809,159**	7,063,347
– Non-controlling interests		**949,522**	446,140
Profit for the year		**7,758,681**	7,509,487
Earnings per share:	13		
– Basic and diluted		**RMB55.38 cents**	RMB57.45 cents

The notes on pages 99 to 188 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 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2016 RMB'000**	2015 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	14	**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

The notes on pages 99 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	15	**158,012,922**	155,990,977
Lease prepayments	16	**3,057,745**	3,034,209
Investment properties	17	**695,518**	722,663
Intangible assets	18	**113,367**	35,902
Goodwill	19	**1,099,975**	1,099,975
Interests in associates	21	**14,181,687**	11,552,825
Interests in joint ventures	22	**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	23	**1,150,661**	1,106,588
Deferred tax assets	24	**3,054,035**	3,753,729
Other non-current assets		**249,502**	–
		204,064,614	193,419,819
Current assets			
Non-current assets held for sale	25	**913,129**	582,074
Inventories	26	**1,680,633**	1,730,742
Accounts receivable	27	**3,286,091**	3,661,354
Bills receivable		**837**	224
Prepayments, deposits and other receivables	28	**3,729,699**	3,635,925
Financial assets	29	**222**	995
Restricted bank deposits	30	**474,338**	654,946
Cash and cash equivalents	30	**6,848,018**	7,138,098
Other current assets	31	**3,053,370**	2,806,973
		19,986,337	20,211,331
Total assets		**224,050,951**	213,631,150

The notes on pages 99 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Current liabilities			
Air traffic liabilities		**(6,313,936)**	(5,759,233)
Accounts payable	32	**(10,832,292)**	(9,270,752)
Bills payable		**–**	(11,646)
Other payables and accruals	33	**(13,094,920)**	(16,129,727)
Current taxation		**(920,508)**	(819,880)
Obligations under finance leases	34	**(6,099,453)**	(5,963,977)
Interest-bearing bank loans and other borrowings	35	**(25,975,716)**	(11,290,310)
Provision for major overhauls	36	**(943,609)**	(1,301,821)
		(64,180,434)	(50,547,346)
Net current liabilities		**(44,194,097)**	(30,336,015)
Total assets less current liabilities		**159,870,517**	163,083,804
Non-current liabilities			
Obligations under finance leases	34	**(36,295,471)**	(37,803,279)
Interest-bearing bank loans and other borrowings	35	**(37,833,246)**	(48,987,522)
Provision for major overhauls	36	**(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	37	**(269,742)**	(276,968)
Deferred income	38	**(3,092,841)**	(3,489,698)
Deferred tax liabilities	24	**(2,428,313)**	(2,867,738)
		(83,474,118)	(96,561,051)
NET ASSETS		**76,396,399**	66,522,753

The notes on pages 99 to 188 form part of these financial statements.

At 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
CAPITAL AND RESERVES			
Issued capital	39	**13,084,751**	13,084,751
Treasury shares	39	**(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		**7,597,144**	6,774,742
TOTAL EQUITY		**76,396,399**	66,522,753

Approved and authorised for issue by the board of directors on 30 March 2017.

Cai Jianjiang
Director

Song Zhiyong
Director

The notes on pages 99 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2015		13,084,751	(3,047,564)	17,790,103	5,802,819	38,364	(3,645,243)	24,250,535	54,273,765	5,604,325	59,878,090
Changes in equity for 2015											
Profit for the year		–	–	–	–	–	–	7,063,347	7,063,347	446,140	7,509,487
Other comprehensive income		–	–	(1,700,234)	–	–	1,052,127	–	(648,107)	49,753	(598,354)
Total comprehensive income		–	–	(1,700,234)	–	–	1,052,127	7,063,347	6,415,240	495,893	6,911,133
Acquisition of a subsidiary		–	–	26,198	–	–	–	–	26,198	514,629	540,827
Acquisition of a subsidiary under common control		–	–	(280,191)	–	–	–	–	(280,191)	280,191	–
Appropriation of statutory reserve funds		–	–	–	544,081	–	–	(544,081)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	285,331	–	–	(287,658)	(2,327)	(2,180)	(4,507)
Appropriation of general reserve		–	–	–	–	16,100	–	(16,100)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(112,022)	(112,022)
Dividends declared in respect of the previous year	39(d)	–	–	–	–	–	–	(683,417)	(683,417)	–	(683,417)
Others		–	–	(4,082)	874	487	–	1,464	(1,257)	(6,094)	(7,351)
As at 31 December 2015 and 1 January 2016		13,084,751	(3,047,564)	15,831,794	6,633,105	54,951	(2,593,116)	29,784,090	59,748,011	6,774,742	66,522,753
Changes in equity for 2016											
Profit for the year		–	–	–	–	–	–	6,809,159	6,809,159	949,522	7,758,681
Other comprehensive income		–	–	2,351,422	–	–	1,293,041	–	3,644,463	53,850	3,698,313
Total comprehensive income		–	–	2,351,422	–	–	1,293,041	6,809,159	10,453,622	1,003,372	11,456,994
Appropriation of statutory reserve funds		–	–	–	652,457	–	–	(652,457)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	544,081	–	–	(546,391)	(2,310)	(2,152)	(4,462)
Appropriation of general reserve		–	–	–	–	11,758	–	(11,758)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(187,806)	(187,806)
Dividends declared in respect of the previous year	39(d)	–	–	–	–	–	–	(1,400,068)	(1,400,068)	–	(1,400,068)
Others		–	–	–	–	–	–	–	–	8,988	8,988
As at 31 December 2016		13,084,751	(3,047,564)	18,183,216	7,829,643	66,709	(1,300,075)	33,982,575	68,799,255	7,597,144	76,396,399

The notes on pages 99 to 188 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	30(b)	**32,827,548**	33,147,993
Income tax paid		**(2,103,188)**	(1,395,286)
Interest paid		**(3,358,127)**	(3,181,177)
Net cash generated from operating activities		**27,366,233**	28,571,530
Investing activities			
Payment for the purchase of property, plant and equipment		**(9,628,246)**	(10,824,751)
Payment for the purchase of intangible assets		**(116,240)**	–
Increase in lease prepayments		**(91,713)**	(472,403)
(Increase)/decrease in advance payments for aircraft and flight equipment		**(10,799,254)**	3,672,076
Proceeds from sale of property, plant and equipment		**171,733**	249,718
Proceeds from sale of held-for-sale assets		**479,522**	110,220
Proceeds from sale of held-to-maturity securities		**–**	20,000
Decrease in intangible assets		**28**	957
Decrease/(increase) in restricted bank deposits against aircraft operating leases and others	30(a)	**194,876**	(202,503)
Cash acquired through acquisition of a subsidiary		**28,984**	145,380
Acquisition of non-controlling interests		**–**	(4,654)
Payment for the purchase of an associate and a joint venture		**–**	(59,085)
Payment for purchase of available-for-sale securities		**(2,545)**	(363,567)
Interest received		**122,283**	159,445
Dividends received from associates, joint ventures and available-for-sale securities		**627,535**	781,082
Net cash used in investing activities		**(19,013,037)**	(6,788,085)
Financing activities			
New bank loans and other loans		**15,270,322**	15,740,698
Proceeds from issuance of corporate bonds		**22,648,240**	3,597,000
Repayment of bank loans and other loans		**(26,543,223)**	(32,485,785)
Repayment of principal under finance lease obligations		**(6,468,849)**	(5,797,142)
Repayment of corporate bonds		**(12,100,000)**	(3,640,000)
Dividends paid		**(1,587,874)**	(795,439)
Net cash used in financing activities		**(8,781,384)**	(23,380,668)
Net decrease in cash and cash equivalents		**(428,188)**	(1,597,223)
Cash and cash equivalents at 1 January	30(a)	**7,138,098**	8,639,687
Effect of foreign exchange rate changes		**138,108**	95,634
Cash and cash equivalents at 31 December	30(a)	**6,848,018**	7,138,098

The notes on pages 99 to 188 form part of these financial statements.

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, which does not produce financial statements available for public use.

The principal activities of the Company and its subsidiaries (together referred to the "Group") are provision of airline and 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 and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed 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. 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 consolidated financial statements.

(b) Basis of preparation of the financial statements

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The consolidated financial statements for the year ended 31 December 2016 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:

– financial instruments classified as available-for-sale or as trading securities (see note 2(g)) and derivatives are stated at their fair value;

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

The preparation of financial statements in conformity with IFRSs requires management to make judgements, 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.

Judgements 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.

(c) 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. The change in policy arising from the amendments to IAS 27 is the only change which has had a material impact on the current and comparative periods. As a result of this change in policy, the Company has chosen to apply the equity method to account for its interests in associates and interests in joint ventures in its company-level financial statements, which were previously stated at cost less impairment. Directors consider that this change provides more relevant and meaningful information about the financial performance of associates and joint ventures in the separate financial statements of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

This change in policy has been applied retrospectively by restating the Company's opening balances at 1 January 2015 and 2016, with consequential adjustments to comparatives for the year ended 31 December 2015. This has resulted in an adjustment to the carrying amount of interests in associates, interests in joint ventures, profit for the year and other comprehensive income for the year of the Company as follows:

	As previously reported RMB'000	Effect of adoption of amendments to IAS 27 RMB'000	As restated RMB'000
Movements in components of equity of the Company for the year ended 31 December 2015			
Statement of financial position at 31 December 2015:			
Interests in associates	687,209	1,317,403	2,004,612
Interests in joint ventures	707,678	304,699	1,012,377
Total non-current assets	142,451,182	1,622,102	144,073,284
Total current assets	10,752,993	–	10,752,993
Total current liabilities	(35,002,147)	–	(35,002,147)
Total assets less current liabilities	118,202,028	1,622,102	119,824,130
Total non-current liabilities	(63,464,321)	–	(63,464,321)
Issued capital	(13,084,751)	–	(13,084,751)
Reserves	(41,652,956)	(1,622,102)	(43,275,058)
Total equity	(54,737,707)	(1,622,102)	(56,359,809)
Profit for the year	(5,088,242)	(317,810)	(5,406,052)
Other comprehensive income for the year	–	(15,083)	(15,083)
Total comprehensive income for the year	(5,088,242)	(332,893)	(5,421,135)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

	As previously reported RMB'000	Effect of adoption of amendments to IAS 27 RMB'000	As restated RMB'000
Statement of financial position at 1 January 2015:			
Interests in associates	766,148	1,072,116	1,838,264
Interests in joint ventures	951,879	217,093	1,168,972
Total non-current assets	141,857,734	1,289,209	143,146,943
Total current assets	11,794,567	–	11,794,567
Total current liabilities	(41,140,397)	–	(41,140,397)
Total assets less current liabilities	112,511,904	1,289,209	113,801,113
Total non-current liabilities	(62,213,159)	–	(62,213,159)
Issued capital	(13,084,751)	–	(13,084,751)
Reserves	(37,213,994)	(1,289,209)	(38,503,203)
Total equity	(50,298,745)	(1,289,209)	(51,587,954)

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

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 (see 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 sale (or included in a disposal group that is classified as held for sale).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or the 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 note 2(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)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 notes 2 (w)(iii) and 2 (w)(iv), respectively.

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 capital 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.

(Expressed in Renminbi, unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, is 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	3 to 15 years	Nil	6.67% – 33.33%
Rotable	3 to 15 years	Nil	6.67% – 33.33%
Buildings	5 to 50 years	3%-5%	1.90% – 19%
Other equipment	3 to 20 years	Nil-5%	4.75% – 33.33%

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Property, plant and equipment under finance leases is depreciated over the same terms as self-owned 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.

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be fully 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.

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 35 years	5%	2.71% – 4.75%
Lease prepayments	50 years	Nil	2%

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 fully recoverable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

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)

– 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.

  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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(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.

– 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Trade and other receivables

Trade and other receivables are 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 expenditure 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax (Continued)

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. Revenue earned under these arrangements is allocated between the code share partners based on existing contractual agreements and airline industry standard sharing formulae and is recognised as passenger revenue when the transportation services are provided.

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

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(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 programme

The Group operates frequent-flyer programme which allows 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 fulfils its obligations to supply services or products or when the miles expire.

(y) Maintenance and overhaul costs

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

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

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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"), Shenzhen Airlines Co., Ltd. ("Shenzhen Airlines"), Beijing Airlines Co., Ltd. ("Beijing Airlines"), Dalian Airlines Co., Ltd. ("Dalian 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 China Services"), Chengdu Falcon Aircraft Engineering Service Co., Ltd. ("Chengdu Falcon"), Aircraft Maintenance and Engineering Corporation Beijing ("AMECO") and China National Aviation Finance Co., Ltd ("CNAF") also implement an additional 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Employee benefits (Continued)

(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. 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.

(v) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary, Mercer Consulting (China) Ltd., Beijing Branch, using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 of disposal.

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.

(dd) Translation of foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity within 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 within 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 reclassified to the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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 policies 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 2016 was RMB1,100 million (31 December 2015: RMB1,100 million). More details are given in note 19 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. Intangible assets with indefinite life are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be fully recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

– Overhaul provisions

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

– 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. Any change in estimate would affect profit or loss in future years.

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 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.

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 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	243,209	8,400,147	(8,643,356)	–
Revenue for reportable segments under CASs	112,878,075	9,729,271	(8,643,356)	113,963,990
Other income not included in segment revenue				1,180,702
Revenue for the year under IFRSs				115,144,692
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	10,011,057	328,378	(120,059)	10,219,376
Effect of differences between IFRSs and CASs				(6,474)
Profit before taxation for the year under IFRSs				10,212,902

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2015

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

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 2016 and 2015 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

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

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2016 under CASs	**147,086,337**	**9,662,575**	**(9,094,360)**	**147,654,552**
Effect of differences between IFRSs and CASs				**–**
Total liabilities under IFRSs				**147,654,552**
Total liabilities for reportable segments as at 31 December 2015 under CASs	147,140,525	8,492,758	(8,524,886)	147,108,397
Effect of differences between IFRSs and CASs				–
Total liabilities under IFRSs				147,108,397

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2016

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	(258,709)	280,944	–	22,235	–	22,235
Impairment losses and inventories provision recognised in profit or loss, net	244,283	23,059	(13,500)	253,842	38,598	292,440
Depreciation and amortisation	13,222,642	289,906	(3,980)	13,508,568	(34,848)	13,473,720
Finance income	147,634	68,200	(88,757)	127,077	–	127,077
Finance costs	7,699,365	69,745	(148,261)	7,620,849	(151,864)	7,468,985
Taxation	2,394,383	91,471	(30,015)	2,455,839	(1,618)	2,454,221
Interests in associates and joint ventures	13,911,830	1,256,930	–	15,168,760	139,919	15,308,679
Additions to non-current assets	31,314,344	387,335	–	31,701,679	–	31,701,679

Year ended 31 December 2015

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of profits less losses of associates and joint ventures	1,281,527	338,670	–	1,620,197	–	1,620,197
Impairment losses and inventories provision recognised in profit or loss, net	151,211	30,674	–	181,885	(6,828)	175,057
Depreciation and amortisation	12,774,041	279,284	–	13,053,325	(42,564)	13,010,761
Finance income	161,508	71,371	(80,622)	152,257	–	152,257
Finance costs	8,182,665	60,210	(142,087)	8,100,788	(131,963)	7,968,825
Taxation	1,816,017	20,986	(13,906)	1,823,097	22,667	1,845,764
Interests in associates and joint ventures	11,293,713	1,157,311	–	12,451,024	139,919	12,590,943
Additions to non-current assets	23,866,084	92,630	–	23,958,714	–	23,958,714

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 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	**74,968,688**	**5,460,001**	**10,015,695**	**10,294,873**	**6,800,675**	**7,604,760**	**115,144,692**

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	70,578,761	5,666,889	10,882,067	10,196,925	6,029,137	6,703,255	110,057,034

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 Mainland China.

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year ended 31 December 2016 (2015: 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:

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

6 OTHER OPERATING REVENUE

	2016 RMB'000	2015 RMB'000
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	**1,862,045**	1,576,326
	6,559,862	5,688,804

7 EMPLOYEE COMPENSATION COSTS

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

	2016 RMB'000	2015 RMB'000
Wages, salaries and other benefits	**18,167,651**	16,325,780
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**1,925,864**	1,907,635
– Early retirement benefits	**(1,589)**	(1,664)
Share-based benefits (note 40)	**(16,324)**	(910)
	20,075,602	18,230,841

8 PROFIT FROM OPERATIONS

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

	2016 RMB'000	2015 RMB'000
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	**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

9 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 RMB'000	2015 RMB'000
Interest income	**127,077**	152,257

9 FINANCE INCOME AND FINANCE COSTS (Continued)

Finance costs

	2016 RMB'000	2015 RMB'000
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	**4,233,668**	5,156,039
	7,700,434	8,336,800
Less: Interest capitalised	**(231,449)**	(367,975)
	7,468,985	7,968,825

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

10 TAXATION

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

	2016 RMB'000	2015 RMB'000
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 (note 24)	**250,405**	281,181
	2,454,221	1,845,764

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.

10 TAXATION (Continued)

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

	2016 RMB'000	2015 RMB'000
Profit before taxation	**10,212,902**	9,355,251
Notional tax on profit before taxation using the Company's domestic tax rate	**2,553,226**	2,338,813
Tax rate differential in foreign jurisdictions	**(126,637)**	(96,023)
Tax effect of share of profits less losses of associates and joint ventures	**(5,559)**	(405,050)
Tax effect of non-deductible expenses	**46,800**	46,216
Tax effect of non-taxable income	**(1,543)**	(56,222)
Deductible temporary differences and tax losses not recognised	**105,783**	100,078
Utilisation of tax losses not recognised in prior years	**(27,165)**	(43,221)
Utilisation of deductible temporary differences not recognised in prior years	**(89,368)**	(40,026)
(Over)/under-provision in respect of prior years	**(1,316)**	1,199
Actual tax expense	**2,454,221**	1,845,764
Effective tax rate	**24.0%**	19.7%

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments disclosed pursuant to section 383 (1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of directors) Regulation are as follows:

For the year ended 31 December 2016 are as follows:

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	SARs (Note 40) RMB'000	Total RMB'000
Executive directors						
Song Zhiyong	–	–	–	–	–	–
Fan Cheng (Resigned on 14 April 2016)	–	73	465	29	–	567
	–	73	465	29	–	567
Non-executive directors						
Cai Jianjiang	–	–	–	–	–	–
Wang Yinxiang (Resigned on 6 June 2016)	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Feng Gang	–	–	–	–	–	–
John Robert Slosar	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Pan Xiaojiang(2)	–	–	–	–	–	–
To Chi Keung, Simon	150	–	–	–	–	150
Hui Hon-chung, Stanley	150	–	–	–	–	150
Li Dajin	150	–	–	–	–	150
	450	–	–	–	–	450
Supervisors						
Wang Zhengang (Appointed on 30 August 2016)	–	–	–	–	–	–
Li Qinglin (Resigned on 30 August 2016)	–	–	–	–	–	–
He Chaofan	–	–	–	–	–	–
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	395	129	69	–	593
Shen Zhen	–	207	41	47	–	295
	–	602	170	116	–	888
	450	675	635	145	–	1,905

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

For the year ended 31 December 2015 are as follows:

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	SARs (Note 40) RMB'000	Total RMB'000
Executive directors						
Song Zhiyong	–	476	391	82	–	949
Fan Cheng	–	201	595	85	–	881
	–	677	986	167	–	1,830
Non-executive directors						
Cai Jianjiang	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Feng Gang	–	–	–	–	–	–
John Robert Slosar	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Fu Yang (Resigned on 22 December 2015)	150	–	–	–	–	150
Yang Yuzhong (Resigned on 22 May 2015)	63	–	–	–	–	63
Pan Xiaojiang(2)	–	–	–	–	–	–
To Chi Keung, Simon	150	–	–	–	–	150
Hui Hon-chung, Stanley (Appointed on 22 May 2015)	88	–	–	–	–	88
Li Dajin (Appointed on 22 December 2015)	4	–	–	–	–	4
	455	–	–	–	–	455
Supervisors						
Li Qinglin	–	–	–	–	–	–
He Chaofan	–	–	–	–	–	–
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	377	129	65	–	571
Shen Zhen	–	196	33	46	–	275
	–	573	162	111	–	846
	455	1,250	1,148	278	–	3,131

(1) 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.

(2) Mr. Pan Xiaojiang had waived the remuneration for the year ended 31 December 2016, 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.

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors (2015: none), whose emoluments are disclosed in the note 11, was among the five highest paid individuals in the Group for 2016. The aggregate emoluments in respect of the five (2015: five) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	**8,395**	8,254
Discretionary bonuses	**535**	492
Retirement benefits	**503**	670
	9,433	9,416

The emoluments of the five (2015: five) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK$2,000,001 to HK$2,500,000	**5**	5

13 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 ("Cathay Pacific") through reciprocal shareholding.

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

14 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have significant tax effect for the years ended 31 December 2016 and 2015.

15 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2015	193,807,199	8,167,791	7,906,352	8,299,544	218,180,886
Additions	4,397,898	5,267	252,115	14,755,805	19,411,085
Additions through business combinations	60,050	2,125,639	1,398,906	66,166	3,650,761
Transfer from construction in progress	15,358,527	939,364	552,722	(16,850,613)	–
Reclassification to non-current assets held for sale	(3,050,637)	–	–	–	(3,050,637)
Disposals	(4,007,909)	(62,627)	(155,263)	–	(4,225,799)
Exchange realignment	44,075	–	5,052	–	49,127
At 31 December 2015 and 1 January 2016	206,609,203	11,175,434	9,959,884	6,270,902	234,015,423
Additions	**3,415,522**	**1,433**	**272,972**	**12,949,130**	**16,639,057**
Transfer from construction in progress	**9,255,096**	**813,455**	**493,434**	**(10,561,985)**	**–**
Reclassification to non-current assets held for sale	**(6,193,899)**	**(19,065)**	**–**	**–**	**(6,212,964)**
Disposals	**(1,284,481)**	**(98,790)**	**(173,932)**	**–**	**(1,557,203)**
Exchange realignment	**104,905**	**–**	**8,773**	**–**	**113,678**
At 31 December 2016	**211,906,346**	**11,872,467**	**10,561,131**	**8,658,047**	**242,997,991**
Accumulated depreciation					
1 January 2015	(62,063,991)	(2,608,104)	(4,410,013)	–	(69,082,108)
Reclassification to non-current assets held for sale	2,430,990	–	–	–	2,430,990
Charge for the year	(11,748,512)	(367,488)	(795,350)	–	(12,911,350)
Additions through business combinations	(25,954)	(635,593)	(852,345)	–	(1,513,892)
Written back on disposals	3,747,059	23,031	142,934	–	3,913,024
Exchange realignment	(24,577)	–	(3,714)	–	(28,291)
At 31 December 2015 and 1 January 2016	(67,684,985)	(3,588,154)	(5,918,488)	–	(77,191,627)
Reclassification to non-current assets held for sale	**5,062,845**	**10,495**	**–**	**–**	**5,073,340**
Charge for the year	**(12,111,448)**	**(472,788)**	**(755,415)**	**–**	**(13,339,651)**
Written back on disposals	**1,142,242**	**46,698**	**153,757**	**–**	**1,342,697**
Exchange realignment	**(42,635)**	**–**	**(6,638)**	**–**	**(49,273)**
At 31 December 2016	**(73,633,981)**	**(4,003,749)**	**(6,526,784)**	**–**	**(84,164,514)**
Impairment					
1 January 2015	(899,076)	(7,119)	–	–	(906,195)
Reclassification to non-current assets held for sale	–	–	–	–	–
Charge for the year	–	–	–	–	–
Written back on disposals	73,376	–	–	–	73,376
At 31 December 2015 and 1 January 2016	(825,700)	(7,119)	–	–	(832,819)
Reclassification to non-current assets held for sale	**–**	**7,119**	**–**	**–**	**7,119**
Charge for the year	**–**	**–**	**–**	**–**	**–**
Written back on disposals	**5,145**	**–**	**–**	**–**	**5,145**
At 31 December 2016	**(820,555)**	**–**	**–**	**–**	**(820,555)**
Net book value					
At 31 December 2016	**137,451,810**	**7,868,718**	**4,034,347**	**8,658,047**	**158,012,922**
At 31 December 2015	138,098,518	7,580,161	4,041,396	6,270,902	155,990,977

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, no impairment losses relating to aircraft and flight equipment were recognised (2015: Nil). The recoverable amounts of the impaired aircraft and flight equipment are the higher of their fair value less costs of disposal and value in use. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31 December 2016 and 2015. During the year, a number of aircraft have been transferred to assets held for sale. The fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

As at 31 December 2016, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB21,922 million (2015: RMB37,953 million) were pledged to secure certain bank loans of the Group (note 35(a)).

The aggregate net book value of aircraft and simulator held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB62,108 million (2015: RMB68,218 million) (note 34).

As at 31 December 2016, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,177 million (2015: RMB2,780 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 the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2016.

16 LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost		
As at 1 January	**3,535,843**	3,063,440
Additions	**91,713**	472,403
As at 31 December	**3,627,556**	3,535,843
Accumulated amortisation		
As at 1 January	**(501,634)**	(429,782)
Amortisation for the year	**(68,177)**	(71,852)
As at 31 December	**(569,811)**	(501,634)
Net carrying amount		
As at 31 December	**3,057,745**	3,034,209

16 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 2016, the Group's land use rights with an aggregate net book value of approximately RMB35 million (2015: RMB36 million) were pledged to secure certain bank loans of the Group (note 35(a)).

As at 31 December 2016, 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 RMB552 million (2015: RMB536 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 the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2016.

17 INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Cost		
As at 1 January	**903,707**	837,140
Additions	**–**	66,567
As at 31 December	**903,707**	903,707
Accumulated depreciation/amortisation		
As at 1 January	**(181,044)**	(153,485)
Depreciation/amortisation for the year	**(27,145)**	(27,559)
As at 31 December	**(208,189)**	(181,044)
Net carrying amount		
As at 31 December	**695,518**	722,663

18 INTANGIBLE ASSETS

	2016 RMB'000	2015 RMB'000
As at 1 January	**35,902**	36,859
Addition	**116,240**	–
Amortisation for the year	**(38,747)**	–
Reduction upon admission of new Star Alliance members	**(28)**	(957)
As at 31 December	**113,367**	35,902

18 INTANGIBLE ASSETS (Continued)

The Group's intangible assets include the right of using given flight slots and the admission rights of the Company and Shenzhen Airlines to Star Alliance ("the admission rights"), which are stated at cost less impairment losses. The admission rights have an indefinite useful life due to their lasting legal and economic significance.

19 GOODWILL

	2016 **RMB'000**	2015 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

Full impairment provision was made for goodwill allocated to the Air China Cargo in 2011.

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 of Shenzhen Airlines. The discount rate applied to the cash flow projections is 10% (2015: 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.

The key assumptions used for cash flow projections are as follows:

Budgeted gross margin – determined based on management's expectations for efficiency improvement and market development.

Discount rate – The discount rate 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 changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(Expressed in Renminbi, unless otherwise indicated)

20 INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2016 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 Direct	Indirect	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$331,268,000	69	31	Investment holding
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 Services# (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	–	66.9	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
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
AMECO(北京飛機維修工程有限公司)	PRC/Mainland China	Limited liability company	US$300,052,800	75	–	Provision of aircraft and engine overhaul and maintenance services
CNAF(中航集團財務有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	–	Provision of financial services

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

20 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 2016 or formed a substantial portion of the net assets of the Group as at 31 December 2016. To give details of other subsidiaries would, in the opinion of the directors, result in particulars 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 interests (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016		2015	
	Shenzhen Airlines RMB'000	Air China Cargo RMB'000	Shenzhen Airlines RMB'000	Air China Cargo RMB'000
NCI percentage	49%	49%	49%	49%
Current assets	2,332,454	3,128,327	2,822,886	2,441,221
Non-current assets	44,885,787	11,615,443	43,281,129	12,239,974
Current liabilities	(19,701,150)	(3,350,084)	(16,548,558)	(2,866,494)
Non-current liabilities	(21,040,470)	(8,545,805)	(24,492,300)	(8,985,997)
Net assets	6,476,621	2,847,881	5,063,157	2,828,704
– Equity contributed to equity shareholder of the subsidiary	6,382,748	2,838,575	5,004,435	2,828,704
– Equity contributed to the NCI at the subsidiary level	93,873	9,306	58,722	–
Carrying amount of NCI	3,221,420	1,400,208	2,510,895	1,386,065
Revenue	26,321,092	9,022,883	24,244,072	9,131,736
Profit for the year	1,605,922	10,499	725,742	6,992
Total comprehensive income	1,641,664	12,007	738,432	8,325
Total comprehensive income allocated to NCI	822,343	6,973	370,398	4,079
Dividend paid to NCI	(111,818)	(1,818)	(85,603)	–
Cash flows generated from operating activities	7,626,164	1,445,017	6,188,398	1,158,564
Cash flows (used in)/generated from investing activities	(2,557,435)	(98,595)	(1,228,977)	675,921
Cash flows used in financing activities	(5,483,318)	(1,103,903)	(5,046,709)	(1,870,127)

21 INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets		
– Listed shares in the PRC	**746,275**	648,878
– Listed shares in Hong Kong	**9,056,334**	6,789,902
– Unlisted investments	**1,511,568**	1,246,535
Goodwill	**2,914,352**	2,914,352
	14,228,529	11,599,667
Less: impairment	**(46,842)**	(46,842)
As at 31 December	**14,181,687**	11,552,825
Market value of listed shares	**12,115,901**	15,172,661

Particulars of the principal associates as at 31 December 2016 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share 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
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Civil aircraft line maintenance
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
Tibet Airlines Co., Ltd.# (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator

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

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

21 INTERESTS IN ASSOCIATES (Continued)

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 2016 or formed a substantial portion of the net assets of the Group as at 31 December 2016. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

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

	2016 RMB'000	2015 RMB'000
Gross amounts of the associate's		
Current assets	**28,080,458**	27,835,241
Non-current assets	**130,624,401**	116,955,764
Current liabilities	**(39,440,735)**	(41,702,175)
Non-current liabilities	**(69,595,562)**	(62,819,258)
Equity	**49,668,562**	40,269,572
– Equity contributed to equity shareholders of the associate	**49,524,546**	40,152,282
– Equity contributed to NCI of the associate	**144,016**	117,290
Revenue	**80,335,815**	83,237,307
(Loss)/profit for the year	**(237,324)**	5,130,454
Other comprehensive income	**8,030,896**	(6,302,455)
Total comprehensive income	**7,793,572**	(1,172,001)
Dividend received from the associate	**337,702**	513,958
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**49,524,546**	40,152,282
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**14,852,411**	12,041,669
Elimination of reciprocal shareholding	**(5,796,077)**	(5,251,767)
Goodwill	**2,701,567**	2,701,567
Carrying amount in the consolidated financial statements	**11,757,901**	9,491,469

21 INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material:

	2016 RMB'000	2015 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**2,423,786**	2,061,356
Aggregate amounts of the Group's share of those associates'		
– Profit from continuing operations	**447,309**	310,689
– Other comprehensive income	**19,137**	17,526
Total comprehensive income	**466,446**	328,215

22 INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	**1,120,497**	1,031,623
Goodwill	**6,495**	6,495
	1,126,992	1,038,118

22 INTERESTS IN JOINT VENTURES (Continued)

Particulars of the joint ventures of the Group at 31 December 2016 are as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of (%) Ownership interest	Voting power	Profit sharing	Principal activities
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo carriage services
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$88,000,000	60	60	60	Provision of engine overhaul and maintenance services
GA Innovation China Co., Ltd.# (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	50	Wholesale and import of aircraft and components
Shanghai International Airport Service Co., Ltd.# (上海國際機場地面服務有限公司)	PRC/Mainland China	RMB360,000,000	24	22.2	24	Provision of airport ground handling services

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

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 material are listed as follows:

	2016 RMB'000	2015 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,126,992**	1,038,118
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**233,423**	300,897
– Other comprehensive income	**–**	1,347
Total comprehensive income	**233,423**	302,244

23 AVAILABLE-FOR-SALE SECURITIES

	2016 RMB'000	2015 RMB'000
Available-for-sale debt securities	**993,161**	996,044
Available-for-sale equity securities		
– Unlisted	**42,725**	42,725
– Listed	**114,775**	67,819
	1,150,661	1,106,588

24 DEFERRED TAX ASSETS AND LIABILITIES

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
As at 1 January	**3,753,729**	3,581,841
Additions through business combinations	**–**	56,334
(Charged)/credited to profit or loss (note 10)	**(699,694)**	115,554
Gross deferred tax assets as at 31 December	**3,054,035**	3,753,729
Deferred tax liabilities:		
As at 1 January	**2,867,738**	2,337,958
Additions through business combinations	**–**	125,707
(Credited)/charged to profit or loss (note 10)	**(449,289)**	396,735
Recognised in other comprehensive income	**9,864**	7,338
Gross deferred tax liabilities as at 31 December	**2,428,313**	2,867,738
Net deferred tax assets as at 31 December	**625,722**	885,991

24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**70,968**	69,350
Provisions and accruals	**2,489,095**	2,514,787
Unrealised profit of intra-group transactions	**84,959**	67,680
Impairment	**396,903**	423,241
Deductible tax losses	**12,110**	678,671
Gross deferred tax assets	**3,054,035**	3,753,729
Deferred tax liabilities:		
Unrealised exchange gain	**(781)**	(14,247)
Changes in fair value of available-for-sale securities	**(28,762)**	(18,898)
Depreciation allowances in excess of the related depreciation	**(2,386,268)**	(2,627,729)
Others	**(12,502)**	(206,864)
Gross deferred tax liabilities	**(2,428,313)**	(2,867,738)
Net deferred tax assets	**625,722**	885,991

Deferred tax assets not recognised for the following temporary differences:

	2016 RMB'000	2015 RMB'000
Deductible tax losses	**1,650,342**	2,186,235
Other deductible temporary differences	**783,256**	773,845
	2,433,598	2,960,080

The Group has no tax losses arising from operations outside Mainland China (2015: Nil). The Group has tax losses and other deductible temporary differences arising from the operation in Mainland China of RMB2,433,598,000 (2015: RMB2,960,080,000) 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.

25 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale mainly represent aircraft and the related flight equipment which are planned to be retired in the next 12 months and are measured at the lower of their carrying amounts and fair values less costs of disposal.

	2016 RMB'000	2015 RMB'000
Non-current assets held for sale	**913,129**	582,074

An impairment loss charged of approximately RMB219,376,000 for the Group, was made against these non-current assets held for sale for the year ended 31 December 2016 (2015: RMB112,791,000). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31 December 2016. The fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

26 INVENTORIES

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

	2016 RMB'000	2015 RMB'000
Spare parts of flight equipment	**1,166,544**	1,215,004
Catering supplies	**84,572**	111,524
Ordinary equipments	**9,869**	17,356
Others	**419,648**	386,858
	1,680,633	1,730,742

27 ACCOUNTS RECEIVABLE

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

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 impairment, is as follows:

	2016 RMB'000	2015 RMB'000
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
	3,286,091	3,661,354

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**155,162**	69,334
Impairment losses recognised	**13,087**	49,273
Additions through business combinations	**–**	38,399
Amount reversed	**(22,118)**	(106)
Amount written off	**(17,878)**	(1,830)
Exchange realignment	**222**	92
As at 31 December	**128,475**	155,162

As at 31 December 2016, the Group's accounts receivable of RMB126,028,000 (2015: RMB148,180,000) was 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 doubtful.

27 ACCOUNTS RECEIVABLE (Continued)

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**2,292,312**	2,661,746
Less than 3 months past due	**418,089**	455,368
More than 3 months past due	**333,481**	305,421
	3,043,882	3,422,535

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.

28 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:

	2016 RMB'000	2015 RMB'000
Prepayments		
Manufacturers' credits	**863,950**	882,801
Prepaid aircraft operating lease rentals	**637,427**	507,505
Other prepayments	**499,399**	561,758
	2,000,776	1,952,064
Deposits and other receivables	**1,728,923**	1,683,861
	3,729,699	3,635,925

28 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**2,410,672**	2,410,655
Impairment losses recognised	**2,992**	324
Amount reversed	**(6,529)**	(56)
Amount written off	**(6,244)**	(290)
Exchange realignment	**61**	39
As at 31 December	**2,400,952**	2,410,672

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 recovery is doubtful, 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 2016, the gross amount due from Shenzhen Huirun Investment Co., Ltd. ("Huirun") was RMB1,075,182,000, for which full provision had been provided.

As at 31 December 2016, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property") and its subsidiaries was RMB649,486,000 (31 December 2015: RMB649,486,000), for which full provision had been provided.

29 FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Interest rate swaps	**222**	967
Listed equity securities	**–**	28
	222	995

The above financial assets 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 quotations from counterparty banks, 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.

30 RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	Note	2016 RMB'000	2015 RMB'000
Time deposits with banks		**1,227,715**	1,940,479
Cash and bank		**6,094,641**	5,852,565
Less: Restricted bank deposits	(i)	**(474,338)**	(654,946)
Cash and cash equivalents		**6,848,018**	7,138,098

Note:

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

	2016 RMB'000	2015 RMB'000
Deposits with the central bank by CNAF	**386,657**	377,873
Restricted bank deposits against aircraft operating leases and others	**87,681**	277,073
	474,338	654,946

30 RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS (Continued)

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

	2016 RMB'000	2015 RMB'000
Cash flows generated from operating activities		
Profit before taxation	**10,212,902**	9,355,251
Adjustments for:		
Share of profits less losses of associates and joint ventures	**(22,235)**	(1,620,197)
Exchange losses, net	**4,233,668**	5,156,039
Interest income	**(127,077)**	(152,257)
Finance costs	**3,235,317**	2,812,786
Depreciation of property, plant and equipment	**13,339,651**	12,911,350
Losses/(gains) on disposal of property, plant and equipment, net	**37,628**	(10,319)
Losses on disposal of non-current assets held for sale	**4,659**	101,554
Amortisation of lease prepayments	**68,177**	71,852
Depreciation of investment properties	**27,145**	27,559
Amortisation of intangible assets	**38,747**	–
Impairment of non-current assets held for sale	**219,376**	112,791
Provision for inventories	**71,570**	12,831
(Reversal of impairment)/impairment of accounts receivable	**(9,031)**	49,167
(Reversal of impairment)/impairment of prepayments, deposits and other receivables	**(3,537)**	268
Impairment of other non-current assets	**2,516**	–
Impairment of other current assets	**11,546**	–
Increase in deposits for aircraft under operating leases	**(51,423)**	(74,582)
Increase in inventories	**(21,461)**	(643,394)
Decrease/(increase) in accounts receivable	**384,294**	(726,312)
Increase in bills receivable	**(613)**	(69)
(Increase)/decrease in prepayments, deposits and other receivables	**(90,237)**	579,192
(Increase)/decrease in other current assets	**(246,397)**	1,998,620
Increase in air traffic liabilities	**554,703**	928,427
Increase/(decrease) in accounts payable	**1,561,540**	(532,169)
Decrease in bills payable	**(11,646)**	(138,354)
(Decrease)/increase in other payables and accruals	**(255,824)**	2,621,730
Increase in provision for major overhauls	**52,823**	194,057
Decrease in provision for early retirement benefit obligations	**(5,546)**	(5,745)
(Decrease)/increase in deferred income	**(396,857)**	153,592
Increase/(decrease) in long-term payables	**13,170**	(35,675)
Cash generated from operations	**32,827,548**	33,147,993

(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 RMB2,440 million (2015: RMB11,112 million).

31 OTHER CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
The VAT tax credit and others	**1,010,316**	1,661,973
Loans to related parties	**1,154,600**	1,145,000
Others	**900,000**	–
	3,064,916	2,806,973
Impairment	**(11,546)**	–
	3,053,370	2,806,973

Loans owed to related parties mainly are the loans to CNAHC and its subsidiaries by CNAF at a rate of 2.90% – 3.92%.

32 ACCOUNTS PAYABLE

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

	2016 RMB'000	2015 RMB'000
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
	10,832,292	9,270,752

The accounts payable are non-interest-bearing and have normal credit terms up to 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:

	2016 **RMB'000**	2015 RMB'000
Accrued salaries, wages and benefits	**2,191,248**	1,933,927
Receipts in advance for employee residence	**592,397**	308,377
Accrued operating expenses	**565,292**	1,727,321
Other tax payable	**441,234**	484,499
Deposits received from sales agents	**780,302**	850,339
Due to a non-controlling shareholder of a subsidiary	**100,000**	100,000
Interest payable	**761,913**	679,394
Current portion of deferred income related to the frequent-flyer programme (note 38(a))	**652,170**	711,345
Current portion of deferred income related to government grants (note 38(b))	**36,158**	47,807
Current portion of long-term payables	**2,721**	40,665
Provision for staff housing benefits	**109,850**	109,264
Deposits received by CNAF from related parties	**3,845,923**	3,417,770
Others	**3,015,712**	5,719,019
	13,094,920	16,129,727

34 OBLIGATIONS UNDER FINANCE LEASES

The Group have obligations under finance lease agreements expiring during the years from 2017 to 2027 (2015: 2016 to 2027) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, is as follows:

	Minimum lease payments 2016 RMB'000	Present values of minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	Present values of minimum lease payments 2015 RMB'000
Amounts repayable:				
– Within 1 year	**7,000,199**	**6,099,453**	6,683,391	5,963,977
– After 1 year but within 2 years	**6,519,323**	**5,739,351**	6,261,603	5,592,839
– After 2 years but within 5 years	**15,562,232**	**13,957,147**	15,293,774	13,828,594
– After 5 years	**17,492,189**	**16,598,973**	19,367,819	18,381,846
Total minimum finance lease payments	**46,573,943**	**42,394,924**	47,606,587	43,767,256
Less: Amounts representing finance costs	**(4,179,019)**		(3,839,331)	
Present values of minimum lease payments	**42,394,924**		43,767,256	
Less: Portion classified as current liabilities	**(6,099,453)**		(5,963,977)	
Non-current portion	**36,295,471**		37,803,279	

The Group's finance leases were secured by the Group's aircraft with net carrying amount of approximately RMB62,108 million (2015: RMB68,218 million) (note 15).

At 31 December 2016, the obligations under finance leases of the Group with an aggregate amount of US$305 million (equivalent to RMB2,118 million) were guaranteed by an associate of the Group.

Under the terms of the finance lease agreements, the Group has the option to purchase these aircraft at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements.

35 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans:		
– Secured	**20,052,374**	30,785,825
– Unsecured	**12,413,453**	8,700,126
	32,465,827	39,485,951
Corporate bonds:		
– Secured	**10,000,000**	10,000,000
– Unsecured	**21,343,135**	10,791,881
	31,343,135	20,791,881
	63,808,962	60,277,832

	2016 RMB'000	2015 RMB'000
Bank loans repayable:		
– Within 1 year	**19,630,605**	8,691,467
– After 1 year but within 2 years	**3,371,915**	7,347,641
– After 2 years but within 5 years	**6,169,893**	13,993,366
– After 5 years	**3,293,414**	9,453,477
	32,465,827	39,485,951
Corporate bonds:		
– Within 1 year	**6,345,111**	2,598,843
– After 1 year but within 2 years	**4,498,024**	1,195,982
– After 2 years but within 5 years	**14,000,000**	10,497,056
– After 5 years	**6,500,000**	6,500,000
	31,343,135	20,791,881
Total interest-bearing bank loans and other borrowings	**63,808,962**	60,277,832
Less: Portion classified as current liabilities	**(25,975,716)**	(11,290,310)
Non-current portion	**37,833,246**	48,987,522

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

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

	2016 RMB'000	2015 RMB'000
Bank loans		
RMB denominated loans:		
Fixed interest rate ranging from 2.65% to 5.80% (2015: 2.00% to 6.80%) per annum, with final maturities through to 2017	**8,775,185**	1,750,839
Floating interest rate ranging from 0.00% to 5.00% (2015: 4.86% to 5.40%) per annum, with final maturities through to 2026	**8,119,190**	1,445,779
Total RMB denominated loans	**16,894,375**	3,196,618
US$ denominated loans:		
Fixed interest rate at 3.80% (2015: 2.70% to 3.80%) per annum, with final maturities through to 2019	**112,274**	890,612
Floating interest rate ranging from 0.93% to 4.62% (2015: 0.93% to 6.40%) per annum, with final maturities through to 2024	**15,138,886**	33,547,598
Total US$ denominated loans	**15,251,160**	34,438,210
Euros denominated loans:		
Fixed interest rate at 4.38% (2015: 4.38%) per annum, with final maturities through to 2047	**113,065**	112,261
Floating interest rate at 1.35% per annum, with final maturities through to 2016	**–**	1,489,992
Total Euros denominated loans	**113,065**	1,602,253
MOP denominated loans:		
Floating interest rate at 2.63% per annum, with final maturities through to 2020	**207,227**	248,870
Total bank loans	**32,465,827**	39,485,951
Corporate bonds		
RMB denominated loans:		
Fixed interest rate ranging from 2.63% to 5.60% (2015: 2.91% to 5.60%) per annum, with final maturities through to 2023	**31,343,135**	20,791,881
Total interest-bearing bank loans and other borrowings	**63,808,962**	60,277,832

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

The Group's bank loans and corporate bonds of approximately RMB30,052 million as at 31 December 2016 (2015: RMB40,786 million) were secured by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB21,922 million as at 31 December 2016 (2015: RMB37,953 million) (note 15); and land use rights with an aggregate carrying amount of approximately RMB35 million as at 31 December 2016 (2015: RMB36 million) (note 16);

(b) As at 31 December 2016, bank loans of the Group with an aggregate amount of US$204 million (equivalent to RMB1,415 million) were guaranteed by an associate of the Group (31 December 2015: US$237 million (equivalent to RMB1,541 million)); and

(c) As at 31 December 2016, corporate bonds issued by the Group with a face value of RMB10,000 million (31 December 2015: RMB10,000 million) were guaranteed by CNAHC.

As at 31 December 2016, corporate bonds with carrying amount of RMB7,343 million were issued by Shenzhen Airlines.

36 PROVISION FOR MAJOR OVERHAULS

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**4,414,022**	4,219,965
Provision for the year	**1,849,427**	1,918,121
Utilisation during the year	**(1,796,604)**	(1,724,064)
As at 31 December	**4,466,845**	4,414,022
Less: Portion classified as current liabilities	**(943,609)**	(1,301,821)
Non-current portion	**3,523,236**	3,112,201

Provision is estimated based on the costs of overhauls and flying hours/cycles of aircraft under operating leases. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

37 DEFINED BENEFIT OBLIGATIONS

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

	2016 RMB'000	2015 RMB'000
Post-retirement benefit obligations	**298,219**	304,613
Less: current portion	**(28,477)**	(27,645)
Long-term portion	**269,742**	276,968

AMECO, a subsidiary of the Company, affords monthly retirement benefits for those staffs who were retired before AMECO adopted its own enterprise annuity plan. These retirement benefits are recognised as defined benefit obligations.

(a) Movements in the defined benefit obligations are set out as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**304,613**	–
Acquired through business combinations	**–**	294,109
Remeasurement (gain)/loss	**(2,295)**	21,054
Past service cost	**16,418**	–
Interest cost	**8,355**	5,908
Payments	**(28,872)**	(16,458)
At 31 December	**298,219**	304,613
Less: current portion	**(28,477)**	(27,645)
Long-term portion	**269,742**	276,968

37 DEFINED BENEFIT OBLIGATIONS (Continued)

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

	2016 RMB'000	2015 RMB'000
Employee compensation costs		
– Past service cost	**16,418**	–
Finance costs		
– Interest cost	**8,355**	5,908
Other comprehensive income		
– Remeasurement (gain)/loss	**(2,295)**	21,054
Total defined benefit costs	**22,478**	26,962

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

	2016 RMB'000	2015 RMB'000
Discount rate	**3.0%**	2.8%
Annual growth rate	**0%**	0%
Average expected remaining life of eligible employees	**13.3 years**	14 years

38 DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Frequent-flyer programme (a)	**2,420,734**	2,815,760
Government grants (b)	**610,284**	617,605
Gain on sale and lease back arrangements	**27,950**	46,428
Operating lease rebates	**33,873**	9,905
	3,092,841	3,489,698

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**3,527,105**	3,525,638
Additions during the year	**1,654,138**	2,140,031
Recognised as revenue during the year	**(2,108,339)**	(2,138,564)
As at 31 December	**3,072,904**	3,527,105
Less: Portion classified as current liabilities	**(652,170)**	(711,345)
Non-current portion	**2,420,734**	2,815,760

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**665,412**	708,386
Additions	**42,137**	32,362
Additions through business combinations	**–**	4,322
Recognised in profit or loss	**(61,107)**	(79,658)
As at 31 December	**646,442**	665,412
Less: Portion classified as current liabilities	**(36,158)**	(47,807)
Non-current portion	**610,284**	617,605

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:

	Note	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2015		13,084,751	17,654,960	5,766,587	13,792,447	50,298,745
Impact of change in accounting policy	2(c)	–	(29,751)	–	1,318,960	1,289,209
Restated balance as at 1 January 2015		13,084,751	17,625,209	5,766,587	15,111,407	51,587,954
Total comprehensive income for the year (restated)	2(c)	–	15,083	–	5,406,052	5,421,135
Acquisition of a subsidiary under common control		–	36,834	–	–	36,834
Dividends declared in respect of the previous year		–	–	–	(683,417)	(683,417)
Appropriation of statutory reserve funds		–	–	544,081	(544,081)	–
Appropriation of discretionary reserve fund		–	–	285,331	(285,331)	–
Others		–	(2,697)	–	–	(2,697)
As at 31 December 2015 and 1 January 2016 (restated)		13,084,751	17,674,429	6,595,999	19,004,630	56,359,809
Total comprehensive income for the year		**–**	**16,691**	**–**	**6,519,712**	**6,536,403**
Appropriation of statutory reserve funds		**–**	**–**	**652,457**	**(652,457)**	**–**
Appropriation of discretionary reserve fund		**–**	**–**	**544,081**	**(544,081)**	**–**
Others		**–**	**–**	**–**	**(1,400,068)**	**(1,400,068)**
As at 31 December 2016		**13,084,751**	**17,691,120**	**7,792,537**	**22,927,736**	**61,496,144**

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 2016, in accordance with the PRC Company Law, an amount of approximately RMB20,857 million (2015: RMB20,857 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB7,793 million (2015: RMB6,596 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 RMB21,717 million available for distribution as at 31 December 2016 (2015: RMB17,789 million).

39 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2016 and 31 December 2015 are as follows:

	Number of shares 2016	Nominal value 2016 RMB'000	Number of shares 2015	Nominal value 2015 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	8,522,067,640	8,522,068	8,329,271,309	8,329,272
– Trade-restricted*	–	–	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 2015 became tradable on 1 February 2016.

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.

(c) Treasury shares

As at 31 December 2016, the Group owned 29.99% equity interest in Cathay Pacific (2015: 29.99%), which in turn owned 20.13% equity interest in the Company (2015: 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.

39 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Dividends

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

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.

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 2016 and 31 December 2015.

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:

	2016 RMB'000	2015 RMB'000
Total liabilities	**147,654,552**	147,108,397
Total assets	**224,050,951**	213,631,150
Gearing ratio	**65.90%**	68.86%

40 SHARE APPRECIATION RIGHTS

The Company's "Measures on Management of the Stock Appreciation Rights ("SARs") of Air China Limited (revised)" and "Proposal for the Second Grant of the Stock Appreciation Rights of Air China Limited" (together "the Scheme") were approved by the 2012 Annual General Meeting on 23 May 2013.

Pursuant to the Scheme, 26,200,000 units of SARs were granted to 160 employees of the Group at the exercise price of HK$6.46 per unit on 6 June 2013, with valid period of 5 years since granted.

No shares will be issued under the Scheme. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price. Upon the satisfaction of certain performance conditions, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants, since the first trading day after the second, third and fourth anniversary from the grant date.

The exercise price, expected period, expected volatility of the share price, expected dividend yield, the risk free rate and market price are used as the key inputs into the model for the SARs with reference to the Scheme's provisions and the Company's H Share's historical trading information. The fair value of the liability for SARs as at 31 December 2016 was RMB2,028,000 (2015: RMB18,352,000).

41 CONTINGENT LIABILITIES

As at 31 December 2016, 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 summons 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 during the period between 1 January 2000 and 30 September 2006 ("the Period"). On 5 February 2016, the Company and Air China Cargo entered into a settlement agreement with the plaintiffs in respect of the lawsuit. Under the settlement agreement, the Company and Air China Cargo have agreed to make a payment of US$50 million in aggregate to settle the lawsuit, which has been paid out in March 2016. The settlement agreement was officially approved by the Court in October 2016.

(c) In May 2011, Shenzhen Airlines received a summons issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loans borrowed by Huirun. 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 2016, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB111,973,000 (31 December 2015: RMB357,010,000) and for pilot trainees' tuition loans amounting to RMB264,000 (31 December 2015: RMB1,108,000).

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's principal financial instruments, other than derivatives, comprise bank loans and corporate bonds, obligations under finance leases, cash and cash equivalents and restricted bank 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 Group's credit risk is primarily attributable to cash and cash equivalents, accounts receivables and the 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.

The Group's cash and cash equivalents are deposited with banks in Mainland China and overseas banks. 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 RMB895 million or 27% of accounts receivable as at 31 December 2016 (2015: RMB990 million or 27% of accounts receivable). The credit risk exposure to BSP and the remaining accounts receivables balance are monitored by the Group on an ongoing basis and the allowance for impairment of doubtful debts is within management's expectations.

Shenzhen Airlines provided the 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. The detailed guarantees information is set out in Note 41 (d).

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk

The Group's net current liabilities amounted to approximately RMB44,194 million as at 31 December 2016 (2015: RMB30,336 million). The Group recorded a net cash inflow from operating activities of approximately RMB27,366 million for the year ended 31 December 2016 (2015: RMB28,572 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB19,013 million (2015: RMB6,788 million). The Group also recorded a net cash outflow from financing activities of approximately RMB8,781 million for the year ended 31 December 2016 (2015: RMB23,381 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB428 million for the year ended 31 December 2016 and an decrease of approximately RMB1,597 million for the year ended 31 December 2015, 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 RMB155,535 million as at 31 December 2016 (2015: RMB144,433 million), of which an amount of approximately RMB20,835 million was utilised (2015: RMB25,508 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 2017. 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:

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Accounts payable	10,832,292	–	–	–	10,832,292	10,832,292
Financial liabilities included in other payables and accruals	9,944,667	–	–	–	9,944,667	9,944,667
Obligations under finance leases	7,000,199	6,519,323	15,562,232	17,492,189	46,573,943	42,394,924
Interest-bearing bank loans and other borrowings	27,426,442	9,303,485	22,539,282	11,283,938	70,553,147	63,808,962
Provision for major overhauls	943,609	107,362	2,229,256	1,186,618	4,466,845	4,466,845
Long-term payables	3,190	12,235	11,356	–	26,781	26,071
	56,150,399	15,942,405	40,342,126	29,962,745	142,397,675	131,473,761

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Accounts payable	9,270,752	–	–	–	9,270,752	9,270,752
Bills payable	11,646	–	–	–	11,646	11,646
Financial liabilities included in other payables and accruals	13,188,131	–	–	–	13,188,131	13,188,131
Obligations under finance leases	6,683,391	6,261,603	15,293,774	19,367,819	47,606,587	43,767,256
Interest-bearing bank loans and other borrowings	12,466,797	9,990,501	27,374,630	17,570,426	67,402,354	60,277,832
Provision for major overhauls	1,301,821	396,732	1,276,089	1,439,380	4,414,022	4,414,022
Long-term payables	40,665	3,550	7,223	–	51,438	50,845
	42,963,203	16,652,386	43,951,716	38,377,625	141,944,930	130,980,484

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 financial instruments that are exposed to interest rate risk:

	2016		2015	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate:				
Other payables and long-term payables	1.35% – 4.13%	1,948,000	1.35% – 4.13%	1,926,660
Obligations under finance leases	1.61% – 5.22%	17,079,503	1.61% – 4.86%	13,807,055
Interest-bearing bank loans and other borrowings	2.63% – 5.80%	40,343,659	2.00% – 6.80%	23,545,593
Bank deposits	1.35% – 3.30%	(1,227,715)	1.35% – 3.08%	(1,940,479)
Other current assets	2.90% – 5.70%	(1,900,000)	3.50%	(1,000,000)
		56,243,447		36,338,829
Floating interest rate:				
Other payables and accruals	0.35%	1,911,923	0.35%	1,499,110
Obligations under finance leases	(1.06%) – 4.14%	25,315,421	(1.46%) – 3.39%	29,960,201
Interest-bearing bank loans and other borrowings	0.00% – 5.00%	23,465,303	0.93% – 6.40%	36,732,239
Bank deposits	0.35%	(5,999,120)	0.35%	(5,771,243)
Other current assets	3.92%	(154,600)	3.92% – 5.25%	(145,000)
Other non-current assets	4.02%	(251,600)	–	–
		44,287,327		62,275,307
Total net borrowings		100,530,774		98,614,136
Net fixed rate borrowings as a percentage of total net borrowings		56%		37%

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

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.

(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	Total equity RMB'000
31 December 2016		
If interest rate increases by 50 basis points	**(166,077)**	**(166,077)**
31 December 2015		
If interest rate increases by 50 basis points	(233,532)	(233,532)

(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 Euros, 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 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)

	Exposure to foreign currencies (expressed in RMB)					
	2016			2015		
	US$	EURO	HK$	US$	EURO	HK$
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	**535,030**	**128,614**	**50,891**	393,681	156,038	50,192
Other receivables	**1,098,418**	**13,488**	**17,089**	1,022,794	16,652	13,279
Cash and cash equivalents	**1,025,067**	**185,878**	**278,237**	1,559,863	914,604	347,796
Accounts payable	**(1,379,388)**	**(489,965)**	**(121,359)**	(1,246,193)	(443,415)	(116,769)
Other payables and accruals	**(40,054)**	**–**	**–**	(83,280)	–	–
Obligations under finance leases	**(36,919,220)**	**–**	**–**	(42,030,307)	–	–
Interest-bearing bank loans and other borrowings	**(15,251,160)**	**(113,065)**	**–**	(34,438,210)	(1,602,253)	–
Net exposure arising from recognised assets and liabilities	**(50,931,307)**	**(275,050)**	**224,858**	(74,821,652)	(958,374)	294,498

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)). Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

31 December 2016	**Profit for the year RMB'000**	**Total equity RMB'000**
If RMB appreciates against following currencies by 1%		
United States Dollars	**376,021**	**376,021**
Euros	**2,063**	**2,063**
Hong Kong Dollars	**(1,686)**	**(1,686)**
	376,398	**376,398**

31 December 2015	Profit for the year RMB'000	Total equity RMB'000
If RMB appreciates against following currencies by 1%		
United States Dollars	529,934	529,934
Euros	7,188	7,188
Hong Kong Dollars	(2,209)	(2,209)
	534,913	534,913

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(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	**Total equity** RMB'000
31 December 2016		
If jet fuel price increases by 5%	**(1,099,097)**	**(1,099,097)**
31 December 2015		
If jet fuel price increases by 5%	(1,202,131)	(1,202,131)

(f) Fair value hierarchy

(i) Financial assets and liabilities measured at fair value

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

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

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

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

42 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value hierarchy (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

	As at 31 December 2016			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets				
– Interest rate swaps	**222**	**–**	**222**	**–**
Available-for-sale equity securities				
– Listed	**114,775**	**–**	**114,775**	**–**
Available-for-sale debt securities	**993,161**	**164,288**	**828,873**	**–**
Total financial assets at fair value	**1,108,158**	**164,288**	**943,870**	**–**

	As at 31 December 2015			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets				
– Interest rate swaps	967	–	967	–
– Listed equity securities	28	28	–	–
Available-for-sale equity securities				
– Listed	67,819	–	67,819	–
Available-for-sale debt securities	996,044	194,395	801,649	–
Total financial assets at fair value	1,064,858	194,423	870,435	–

During the year ended 31 December 2016, There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: 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.

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 quotations from counterparty banks, 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.

For the fair value of available-for-sale debt securities, the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2016, the fair value is close to the carrying amount.

(ii) 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 2016 and 2015.

43 COMMITMENTS

(a) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**84,450,700**	94,397,176
– Buildings and others	**691,804**	397,920
	85,142,504	94,795,096
Authorised, but not contracted for:		
– Buildings and others	**306,233**	1,013,146
Total capital commitments	**85,448,737**	95,808,242

(b) Investment commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
– Associates and joint ventures	**59,280**	57,728

(c) Operating lease commitments

The Group lease certain office premises, aircraft and flight equipment under operating lease arrangements.

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**6,922,872**	5,969,033
After 1 year but within 5 years	**21,787,782**	17,124,487
Over 5 years	**23,460,545**	17,045,029
	52,171,199	40,138,549

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:

(i) Transactions with related parties

	2016 RMB'000	2015 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**5,851**	9,082
Sale of cargo space	**58,807**	74,679
Government charter flights	**518,275**	417,077
Ground services income	**2,332**	3,280
Air catering income	**16,329**	17,596
Income from advertising media business	**14,324**	28,775
Aircraft and flight equipment leasing income	**123**	185
Others	**2,402**	10,716
	618,443	561,390
Service provided by the CNAHC Group		
Sales commission expenses	**969**	1,371
Air catering charges	**1,008,107**	913,250
Airport ground services, take-off, landing and depot expenses	**884,341**	780,761
Repair and maintenance costs	**366**	5,580
Management fees	**114,804**	117,578
Expense on finance lease	**23,442**	–
Lease charges for land and buildings	**147,599**	155,337
Other procurement and maintenance	**79,661**	61,417
Aviation communication expenses	**528,225**	487,436
Interest expenses	**38,713**	15,935
Media advertisement expenses	**207,666**	133,481
Construction management expenses	**4,360**	4,414
Others	**502**	576
	3,038,755	2,677,136

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)

(i) Transactions with related parties (Continued)

	2016 RMB'000	2015 RMB'000
Loans to the CNAHC Group by CNAF:		
Net granting of loans	**(20,000)**	(759,000)
Interest income	**40,684**	48,843
	20,684	(710,157)
Deposits from the CNAHC Group received by CNAF:		
Increase in deposits received	**345,122**	256,377
Interest expenses	**45,970**	43,313
	391,092	299,690
Service provided to joint ventures and associates		
Sales commission income	**18,601**	17,851
Ground services income	**123,700**	119,528
Aircraft maintenance income	**124,843**	60,987
Air catering income	**3,899**	4,792
Frequent-flyer programme income	**114,840**	26,422
Lease income for land and buildings	**–**	7,749
Airline joint venture income	**7,824**	16,799
Aircraft and flight equipment leasing income	**–**	1,256
Others	**868**	5,894
	394,575	261,278

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)

(i) Transactions with related parties (Continued)

	2016 RMB'000	2015 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	9,079	53,486
Air catering charges	24,028	21,998
Airport ground services, take-off, landing and depot expenses	444,368	427,725
Repair and maintenance costs	977,689	2,074,002
Aircraft and flight equipment leasing fees	251,792	349,725
Lease charges for land and buildings	–	4,785
Other procurement and maintenance	36,676	4,514
Aviation communication expenses	51,352	32,558
Interest expenses	14,537	15,408
Frequent-flyer programme expenses	4,017	4,345
Airline joint venture expenses	34,650	28,384
	1,848,188	3,016,930
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	281,200	–
Interest income	5,735	–
	286,935	–
Deposits from joint ventures and associates received by CNAF:		
Increase in deposits received	89,031	94,516
Interest expenses	707	234
	89,738	94,750

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)

(ii) Outstanding balances with related parties

	2016 RMB'000	2015 RMB'000
Outstanding balances with related parties:		
Amounts due from the ultimate holding company	**125,684**	409,149
Amounts due from associates	**209,077**	150,253
Amounts due from joint ventures	**1,700**	3,041
Amounts due from other related companies	**12,729**	8,655
Amounts due to the ultimate holding company	**51,384**	2,739,181
Amounts due to associates	**256,575**	351,608
Amounts due to joint ventures	**100,614**	50,439
Amounts due to other related companies	**871,603**	937,133

The above outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

	2016 RMB'000	2015 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing bank loans and other borrowings:		
– Due to the ultimate holding company	**1,000,000**	–
– Due to an associate	**980,000**	980,000

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)

(ii) Outstanding balances with related parties (Continued)

	2016 RMB'000	2015 RMB'000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**1,125,000**	1,145,000
Deposits received	**3,676,376**	3,331,254
Interest payable to related parties	**14,067**	12,569
Interest receivable to related parties	**18**	–
(2) Outstanding balances between CNAF and related parties other than CNAHC Group		
Loans granted	**281,200**	–
Deposits received, current and non-current portion	**183,547**	94,516
Interest payable to related parties	**59**	10

The outstanding balances between CNAF and related parties represent loans to related parties or deposits received by CNAF from related parties. The applicable interest rates are determined in accordance with the prevailing borrowing rates/deposit saving rates published by the People's Bank of China.

(b) Guarantee with related parties

Name of guarantor	Name of guarantee	Amount of guaranty US$'000	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo	67,714	16/12/2013	15/12/2023
Cathay Pacific	Air China Cargo	72,958	12/03/2014	11/03/2024
Cathay Pacific	Air China Cargo	63,158	31/03/2014	30/03/2024
Obligations under finance leases:				
Cathay Pacific	Air China Cargo	56,450	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo	57,953	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo	61,362	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo	64,812	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo	64,742	31/08/2015	30/08/2027

All the other information about guarantee with related parties besides the aforementioned are disclosed in note 35.

44 RELATED PARTY TRANSACTIONS (Continued)

(c) An analysis of the compensation of key management personnel of the Group is as follows:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**13,891**	15,150
Retirement benefits	**1,173**	1,337
Emoluments for key management personnel	**15,064**	16,487
Expense for SARs (note 40)	**(3,699)**	105
	11,365	16,592

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

	2016 RMB'000	2015 RMB'000
Directors and supervisors	**1,905**	3,131
Senior management	**13,159**	13,356
	15,064	16,487

Further details of the remuneration of the directors and supervisors are included in note 11 to the financial statements.

The emoluments of senior executives were within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**5**	6
HK$1,500,001 to HK$2,000,000	**4**	4
	13	14

(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 the years ended 31 December 2016 and 2015.

44 RELATED PARTY TRANSACTIONS (Continued)

(e) The Company entered into several agreements with CNAHC regarding the use of trademarks granted by the Company to CNAHC; 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; financial services; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; the media service arrangement to China National Aviation Media Co., Ltd.; the services co-operation agreement with CNAHC; the services agreement with CNACG.

(f) Commitments

(i) Investment commitments

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 2016, RMB10,000,000 had been paid and the outstanding commitment balance is RMB35,000,000.

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 2016, US$1,500,000 had been paid and the outstanding commitment balance is US$3,500,000.

(ii) Operating lease commitments

The Group lease certain aircraft, flight equipment, office premises and warehouses from related parties under operating lease arrangements. Leases for these assets are negotiated for terms within 3 year.

	2016 RMB'000	2015 RMB'000
Operating lease commitments to associates	**143,025**	306,230
Operating lease commitments to other related parties	**86,036**	26,565
	229,061	332,795

(iii) Capital commitments

Capital commitments are mainly represent the construction contracts between the Group and Aviation Construction & Development.

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
– Capital commitments to other related parties	**176,092**	11,585
Authorised, but not contracted for:		
– Capital commitments to other related parties	**58,550**	578,439

45 SUBSEQUENT EVENTS

Pursuant to the approval of China Securities Regulatory Commission [2016]2026 on 5 September 2016, Air China issued new non-public A shares to 8 specific shareholders including CNAHC. On 10 March 2017, Air China issued 1,440,064,181 new non-public A shares at the price of RMB7.79 per share with the par value of RMB1. Air china raised RMB11,218,099,970 totally from the issue of new non-public A shares, after deducting the issue cost of RMB17,681,499 (including VAT), the net cash inflow was RMB11,200,418,471.

46 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)	1 January 2015 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	**104,485,927**	103,512,118	102,138,037
Lease prepayments	**1,976,989**	1,994,237	1,576,050
Intangible assets	**11,857**	11,885	12,842
Interests in subsidiaries	**21,476,446**	21,476,446	19,643,911
Interests in associates	**2,364,782**	2,004,612	1,838,264
Interests in joint ventures	**1,126,992**	1,012,377	1,168,972
Advance payments for aircraft and flight equipment	**15,911,987**	10,623,845	13,275,785
Deposits for aircraft under operating leases	**470,648**	412,808	349,500
Entrusted loans	**1,020,000**	1,020,000	1,020,000
Available-for-sale securities	**22,110**	22,110	22,110
Deferred tax assets	**1,936,377**	1,982,846	2,101,472
	150,804,115	144,073,284	143,146,943
Current assets			
Non-current assets held for sale	**911,680**	582,074	460,028
Inventories	**130,941**	243,332	633,178
Accounts receivable	**3,028,488**	2,556,398	2,033,210
Prepayments, deposits and other receivables	**3,471,581**	2,805,266	3,514,733
Cash and cash equivalents	**2,221,952**	3,223,977	3,258,265
Other current assets	**829,828**	1,341,946	1,895,153
	10,594,470	10,752,993	11,794,567
Total assets	**161,398,585**	154,826,277	154,941,510

46 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)	1 January 2015 RMB'000 (Restated)
Current liabilities			
Air traffic liabilities	**(4,909,318)**	(4,587,000)	(3,917,724)
Accounts payable	**(9,818,098)**	(7,600,071)	(7,203,711)
Other payables and accruals	**(9,071,796)**	(11,549,560)	(6,522,590)
Current taxation	**(611,110)**	(778,149)	(574,177)
Obligations under finance leases	**(4,441,898)**	(4,636,614)	(3,972,048)
Interest-bearing bank loans and other borrowings	**(16,490,414)**	(5,318,956)	(18,542,372)
Provision for major overhauls	**(468,625)**	(531,797)	(407,775)
	(45,811,259)	(35,002,147)	(41,140,397)
Net current liabilities	**(35,216,789)**	(24,249,154)	(29,345,830)
Total assets less current liabilities	**115,587,326**	119,824,130	113,801,113
Non-current liabilities			
Obligations under finance leases	**(22,519,793)**	(25,446,576)	(23,895,151)
Interest-bearing bank loans and other borrowings	**(27,025,373)**	(33,156,055)	(33,612,658)
Provision for major overhauls	**(1,821,218)**	(1,768,166)	(1,757,510)
Provision for early retirement benefit obligations	**(7,760)**	(13,206)	(18,751)
Deferred income	**(2,614,384)**	(2,963,675)	(2,798,912)
Deferred tax liabilities	**(102,654)**	(116,643)	(130,177)
	(54,091,182)	(63,464,321)	(62,213,159)
NET ASSETS	**61,496,144**	56,359,809	51,587,954
CAPITAL AND RESERVES			
Issued capital	**13,084,751**	13,084,751	13,084,751
Reserves	**48,411,393**	43,275,058	38,503,203
TOTAL EQUITY	**61,496,144**	56,359,809	51,587,954

Approved and authorised for issue by the board of directors on 30 March 2017.

Cai Jianjiang
Director

Song Zhiyong
Director

(Expressed in Renminbi, unless otherwise indicated)

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IAS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts, and IFRIC 13, *Customer Loyalty Programs*. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The Group does not plan to early adopt the above new standards or amendments. Given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

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: (Losses)/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: Gains on disposal of non-current assets	**39,416**	69,960
Less: Non-operating expenses	**116,172**	456,308
Including: Losses 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 RMB'000	2015 RMB'000
Other comprehensive income for the year		
Other comprehensive income attributed to equity shareholders of the Company after taxation		
Items 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)
Items 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	**53,850**	49,753
Total comprehensive income	**11,461,850**	6,621,794
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	**3,053,370**	2,806,973
Total current assets	**19,322,381**	19,527,614
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	**2,983,067**	3,684,379
Total non-current assets	**204,805,811**	194,175,921
Total assets	**224,128,192**	213,703,535

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
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
Total current liabilities	**63,846,434**	50,213,346
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
Total non-current liabilities	**83,808,118**	96,895,051
Total liabilities	**147,654,552**	147,108,397

	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
Equity attributable to shareholders of the Company	**68,876,496**	59,820,396
Non-controlling interests	**7,597,144**	6,774,742
Total shareholders' equity	**76,473,640**	66,595,138
Total liabilities and shareholders' equity	**224,128,192**	213,703,535

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:

	Note	2016 RMB'000	2015 RMB'000
Net profit attributable to shareholders of the Company under CASs		**6,814,015**	6,774,008
Deferred taxation	(i)	**1,618**	(22,667)
Differences in value of fixed assets and other non-current assets	(ii)	**(6,474)**	282,454
Government grants	(iii)	**–**	29,552
Net profit attributable to shareholders of the Company under IFRSs		**6,809,159**	7,063,347

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Equity attributable to shareholders of the Company under CASs		**68,876,496**	59,820,396
Deferred taxation	(i)	**70,968**	69,350
Differences in value of fixed assets and other non-current assets	(ii)	**(288,128)**	(281,654)
Unrealised profit of the disposal of Hong Kong Dragon Airlines	(iv)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**68,799,255**	59,748,011

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs (Continued)

Notes:

(i) The differences in deferred taxation were mainly caused by the other differences under IFRSs and CASs as explained below.

(ii) The differences in the value of fixed assets and other non-current assets mainly consist of the following three types: (1) fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government-prescribed rates) under CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under IFRSs and CASs; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (3) the differences were caused by the adoption of component accounting in different years under IFRSs and CASs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) 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 eliminated in 2015.

(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)"	"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 freight tonne 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:

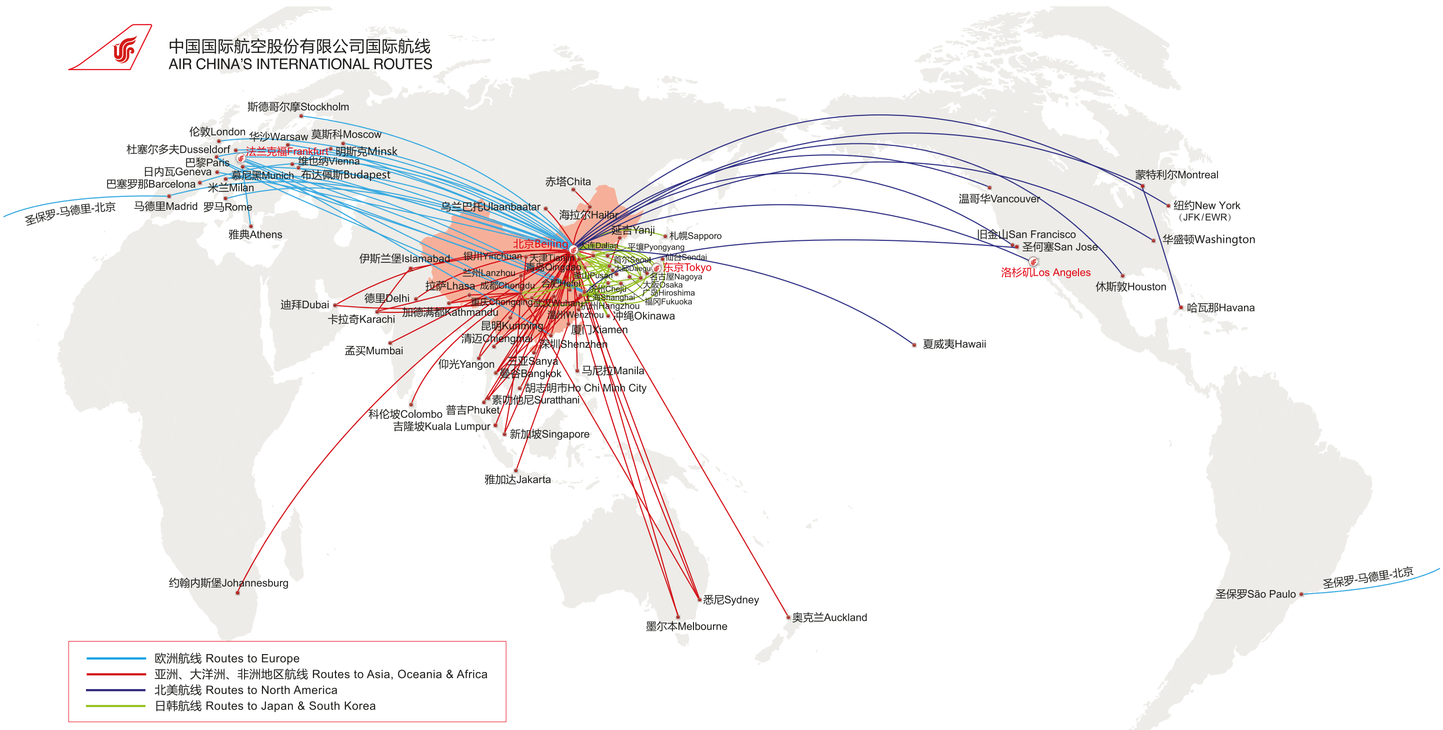
"A Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
"Air China Cargo"	Air China Cargo Co., Ltd.
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd.
"Air Macau"	Air Macau Company Limited
"AMECO"	Aircraft Maintenance and Engineering Corporation
"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 Dragon"	Hong Kong Dragon Airlines Limited
"Cathay Pacific"	Cathay Pacific Airways Limited
"China Eastern Airlines"	China Eastern Airlines Corporation Limited
"China Southern Airlines"	China Southern Airlines Company Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAF"	China National Aviation Finance Co., Ltd.
"CNAHC"	China National Aviation Holding Company
"CNAHC Group"	China National Aviation Holding Company and its subsidiaries
"CNAMC"	China National Aviation Media Co., Ltd
"Company", "We" or "Air China"	Air China Limited
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Group"	Air China Limited and its subsidiaries

"H Share(s)"	the overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards
"Juneyao Airlines"	Juneyao Airlines Co., Ltd.
"Kunming Airlines"	Kunming Airlines Company Limited
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"reporting period"	the period from 1 January 2016 to 31 December 2016
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Spring Airlines"	Spring Airlines Co., Ltd.
"Supervisors(s)"	The supervisor(s) of the Company
"Supervisory Committee"	The supervisory committee of the Company

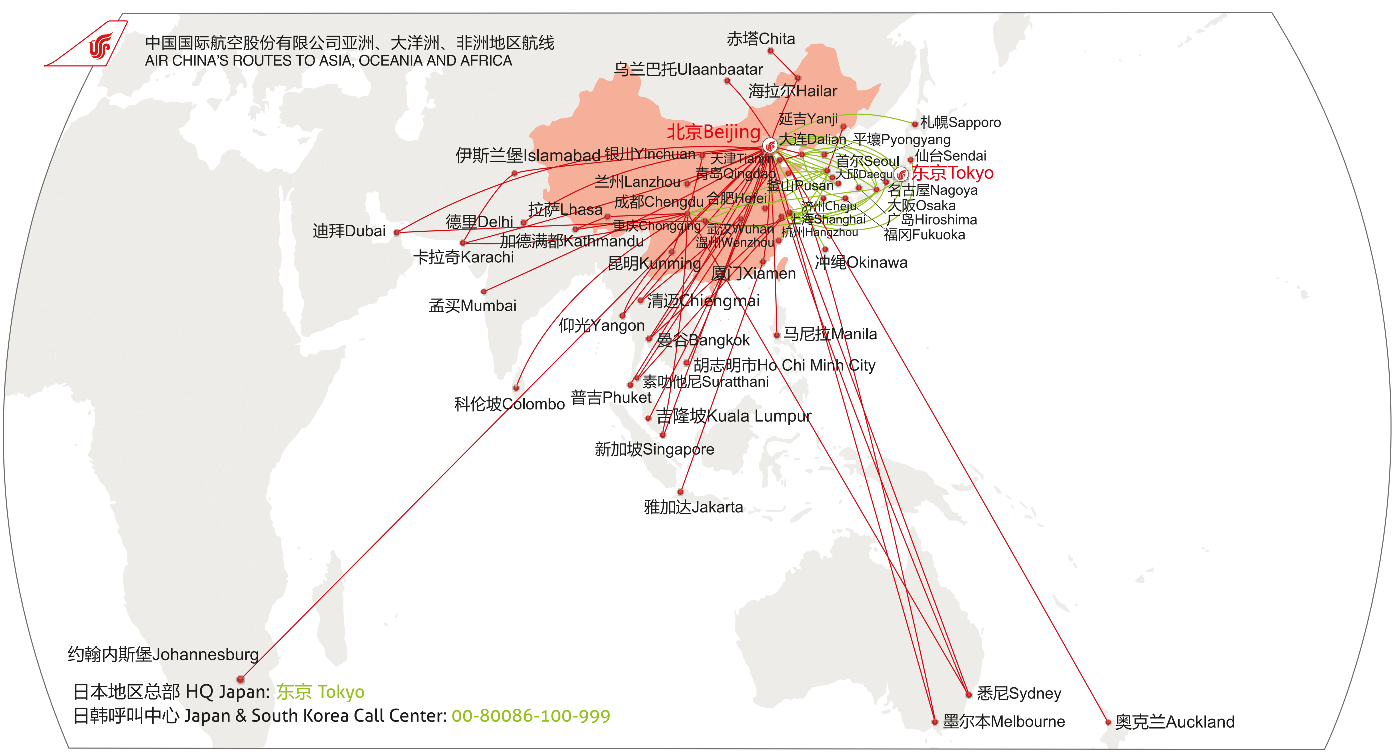
中国国际航空股份有限公司国内及地区航线
AIR CHINA'S DOMESTIC & REGIONAL ROUTES

国内航线 Domestic Routes
地区航线 Regional Routes

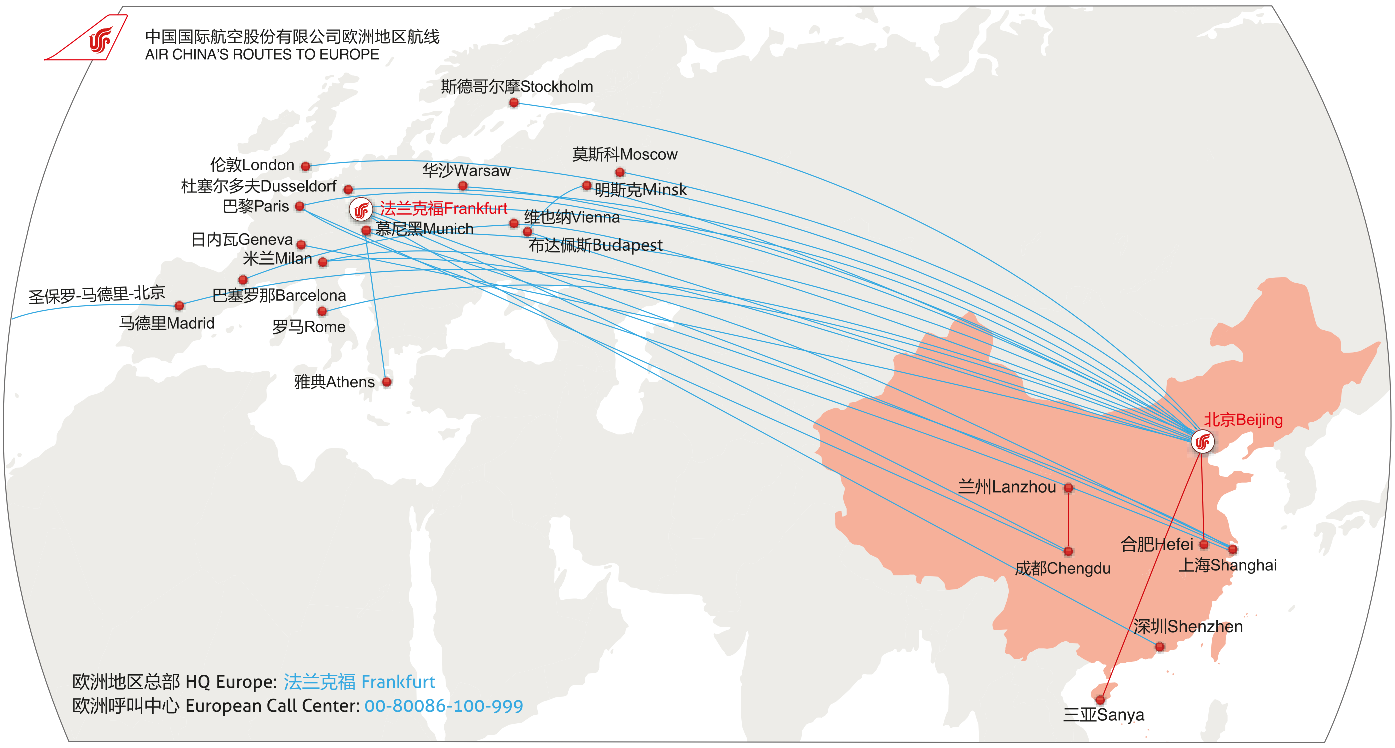
注：扬州泰州共用同一机场
Note: The cities of Yangzhou and Taizhou share one airport.



中国国际航空股份有限公司国际航线
AIR CHINA'S INTERNATIONAL ROUTES
欧洲航线 Routes to Europe
亚洲、大洋洲、非洲地区航线 Routes to Asia, Oceania & Africa
北美航线 Routes to North America
日韩航线 Routes to Japan & South Korea
斯德哥尔摩Stockholm
伦敦London
华沙Warsaw
莫斯科Moscow
杜塞尔多夫Dusseldorf
法兰克福Frankfurt
明斯克Minsk
巴黎Paris
维也纳Vienna
日内瓦Geneva
慕尼黑Munich
布达佩斯Budapest
巴塞罗那Barcelona
米兰Milan
圣保罗-马德里-北京
马德里Madrid
罗马Rome
雅典Athens
赤塔Chita
乌兰巴托Ulaanbaatar
海拉尔Hailar
延吉Yanji
札幌Sapporo
北京Beijing
伊斯兰堡Islamabad
银川Yinchuan
兰州Lanzhou
拉萨Lhasa
成都Chengdu
迪拜Dubai
德里Delhi
加德满都Kathmandu
卡拉奇Karachi
重庆Chongqing
东京Tokyo
大阪Osaka
冲绳Okinawa
昆明Kunming
厦门Xiamen
清迈Chiengmai
深圳Shenzhen
孟买Mumbai
仰光Yangon
三亚Sanya
曼谷Bangkok
马尼拉Manila
胡志明市Ho Chi Minh City
素叻他尼Suratthani
科伦坡Colombo
普吉Phuket
吉隆坡Kuala Lumpur
新加坡Singapore
雅加达Jakarta
约翰内斯堡Johannesburg
悉尼Sydney
墨尔本Melbourne
奥克兰Auckland
夏威夷Hawaii
蒙特利尔Montreal
温哥华Vancouver
纽约New York
(JFK/EWR)
旧金山San Francisco
圣何塞San Jose
华盛顿Washington
洛杉矶Los Angeles
休斯敦Houston
哈瓦那Havana
圣保罗São Paulo
圣保罗-马德里-北京



中国国际航空股份有限公司亚洲、大洋洲、非洲地区航线
AIR CHINA'S ROUTES TO ASIA, OCEANIA AND AFRICA
赤塔Chita
乌兰巴托Ulaanbaatar
海拉尔Hailar
延吉Yanji
札幌Sapporo
北京Beijing
大连Dalian
平壤Pyongyang
仙台Sendai
伊斯兰堡Islamabad
银川Yinchuan
天津Tianjin
首尔Seoul
大邱Daegu
东京Tokyo
兰州Lanzhou
青岛Qingdao
釜山Pusan
名古屋Nagoya
成都Chengdu
合肥Hefei
拉萨Lhasa
济州Cheju
大阪Osaka
迪拜Dubai
德里Delhi
重庆Chongqing
上海Shanghai
广岛Hiroshima
武汉Wuhan
杭州Hangzhou
福冈Fukuoka
加德满都Kathmandu
温州Wenzhou
卡拉奇Karachi
昆明Kunming
冲绳Okinawa
厦门Xiamen
清迈Chiengmai
孟买Mumbai
仰光Yangon
马尼拉Manila
曼谷Bangkok
胡志明市Ho Chi Minh City
素叻他尼Suratthani
科伦坡Colombo
普吉Phuket
吉隆坡Kuala Lumpur
新加坡Singapore
雅加达Jakarta
约翰内斯堡Johannesburg
悉尼Sydney
墨尔本Melbourne
奥克兰Auckland
日本地区总部 HQ Japan: 东京 Tokyo
日韩呼叫中心 Japan & South Korea Call Center: 00-80086-100-999


中国国际航空股份有限公司欧洲地区航线
AIR CHINA'S ROUTES TO EUROPE
斯德哥尔摩Stockholm
伦敦London
华沙Warsaw
莫斯科Moscow
杜塞尔多夫Dusseldorf
明斯克Minsk
巴黎Paris
法兰克福Frankfurt
慕尼黑Munich
维也纳Vienna
日内瓦Geneva
布达佩斯Budapest
米兰Milan
圣保罗-马德里-北京
巴塞罗那Barcelona
马德里Madrid
罗马Rome
雅典Athens
北京Beijing
兰州Lanzhou
合肥Hefei
成都Chengdu
上海Shanghai
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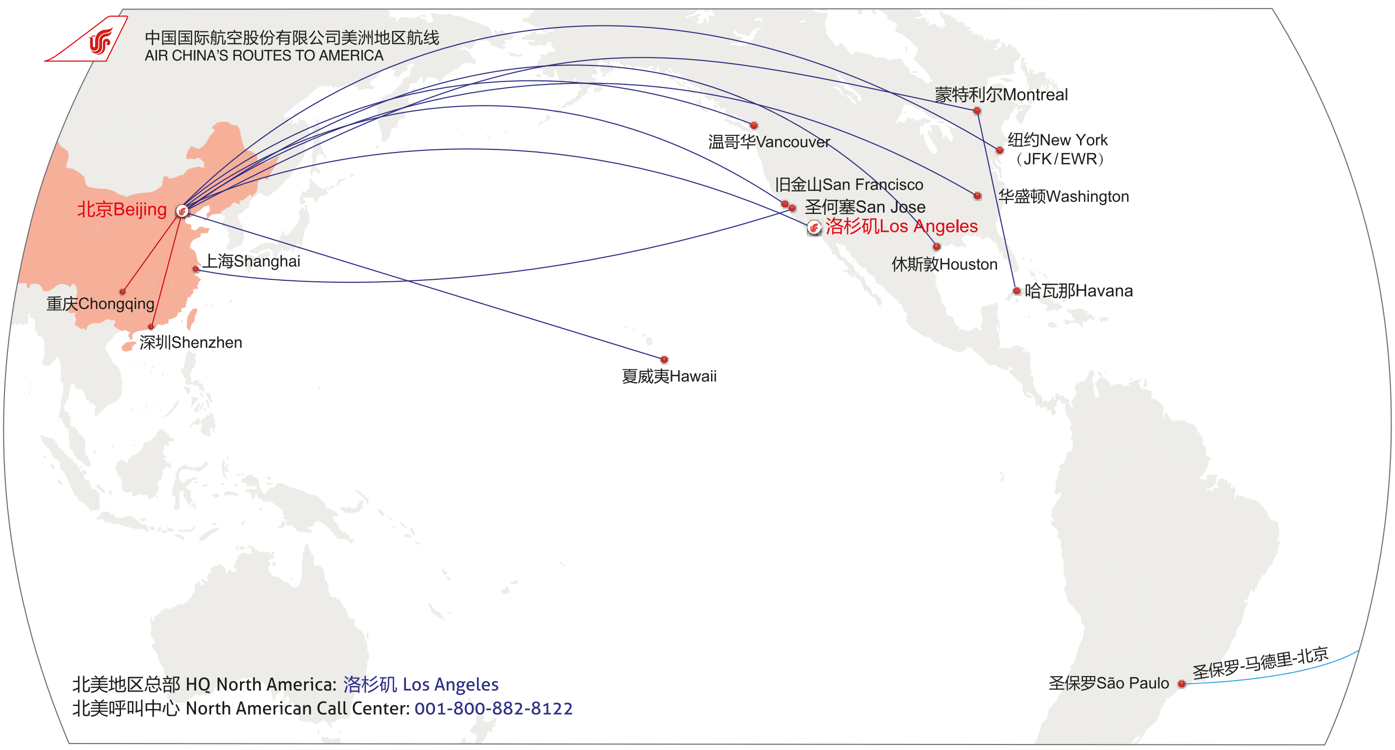
中国国际航空股份有限公司美洲地区航线
AIR CHINA'S ROUTES TO AMERICA
蒙特利尔Montreal
纽约New York
（JFK/EWR）
温哥华Vancouver
旧金山San Francisco
华盛顿Washington
北京Beijing
圣何塞San Jose
洛杉矶Los Angeles
休斯敦Houston
上海Shanghai
哈瓦那Havana
重庆Chongqing
深圳Shenzhen
夏威夷Hawaii
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