中國國際航空股份有限公司

AIR CHINA LIMITED

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

(Stock Code: 00753)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "**Board**") of Air China Limited (the "**Company**") hereby announces that the Board has approved, among others, the unaudited interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017 at a meeting of the Board held on 30 August 2017.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board presents the unaudited interim results of the Group for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue			
Air traffic revenue	4	**55,538,673**	51,012,851
Other operating revenue	5	**3,207,799**	2,971,190
		58,746,472	53,984,041
Operating expenses			
Jet fuel costs		**(13,629,016)**	(9,727,175)
Employee compensation costs		**(10,525,998)**	(9,416,298)
Take-off, landing and depot charges		**(6,656,849)**	(6,166,595)
Depreciation and amortisation		**(6,538,174)**	(6,672,674)
Aircraft and engine operating lease expenses		**(3,675,180)**	(3,013,776)
Aircraft maintenance, repair and overhaul costs		**(3,111,576)**	(2,514,900)
Air catering charges		**(1,638,989)**	(1,563,934)
Other flight operation expenses		**(3,866,439)**	(3,833,879)
Selling and marketing expenses		**(2,166,118)**	(2,067,576)
General and administrative expenses		**(649,263)**	(520,892)
Other operating lease expenses		**(481,165)**	(489,470)
		(52,938,767)	(45,987,169)
Profit from operations	6	**5,807,705**	7,996,872
Other income and gains	7	**1,359,390**	64,738
Finance costs	8	**(1,592,410)**	(3,281,987)
Share of results of associates		**(513,836)**	161,897
Share of results of joint ventures		**112,988**	97,566
Profit before taxation		**5,173,837**	5,039,086
Taxation	9	**(1,253,054)**	(1,244,765)
Profit for the period		**3,920,783**	3,794,321
Attributable to:			
– Equity shareholders of the Company		**3,340,730**	3,468,241
– Non-controlling interests		**580,053**	326,080
Profit for the period		**3,920,783**	3,794,321
Earnings per share			
– Basic and diluted	11	**RMB25.32 cents**	RMB28.21 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**3,920,783**	3,794,321
Other comprehensive (expense) income for the period (after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	**(17,922)**	285
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive (expense) income of associates and joint ventures	**(133,787)**	927,788
– Available-for-sale securities: net change in fair value	**107,727**	7,635
– Exchange realignment	**(636,313)**	386,232
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(26,932)**	(1,909)
Other comprehensive (expense) income for the period	**(707,227)**	1,320,031
Total comprehensive income for the period	**3,213,556**	5,114,352
Attributable to:		
– Equity shareholders of the Company	**2,616,771**	4,776,170
– Non-controlling interests	**596,785**	338,182
Total comprehensive income for the period	**3,213,556**	5,114,352

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**155,735,443**	158,012,922
Lease prepayments		**3,292,755**	3,057,745
Investment properties		**679,517**	695,518
Intangible assets		**95,394**	113,367
Goodwill		**1,099,975**	1,099,975
Interests in associates		**13,042,636**	14,181,687
Interests in joint ventures		**1,123,973**	1,126,992
Advance payments for aircraft and flight equipment		**24,045,542**	20,662,867
Deposits for aircraft under operating leases		**697,325**	649,343
Held-to-maturity securities		**–**	10,000
Available-for-sale securities		**1,298,911**	1,150,661
Deferred tax assets		**2,244,866**	3,054,035
Other non-current assets		**872,188**	249,502
		204,228,525	204,064,614
Current assets			
Non-current assets held for sale		**105,862**	913,129
Inventories		**2,065,946**	1,680,633
Accounts receivable	*12*	**3,736,826**	3,286,091
Bills receivable		**687**	837
Prepayments, deposits and other receivables		**4,858,630**	3,729,699
Financial assets		**20,173**	222
Restricted bank deposits		**525,928**	474,338
Cash and cash equivalents		**11,135,270**	6,848,018
Held-to-maturity securities		**10,000**	–
Other current assets		**2,362,968**	3,053,370
		24,822,290	19,986,337
Total assets		**229,050,815**	224,050,951

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Current liabilities			
Air traffic liabilities		**(6,303,794)**	(6,313,936)
Accounts payable	*13*	**(12,277,824)**	(10,832,292)
Dividends payable		**(1,564,468)**	–
Other payables and accruals		**(13,073,813)**	(13,094,920)
Current taxation		**(1,202,604)**	(920,508)
Obligations under finance leases		**(5,799,979)**	(6,099,453)
Interest-bearing bank loans and other borrowings		**(22,305,662)**	(25,975,716)
Provision for major overhauls		**(1,484,099)**	(943,609)
		(64,012,243)	(64,180,434)
Net current liabilities		**(39,189,953)**	(44,194,097)
Total assets less current liabilities		**165,038,572**	159,870,517
Non-current liabilities			
Obligations under finance leases		**(33,930,608)**	(36,295,471)
Interest-bearing bank loans and other borrowings		**(33,767,257)**	(37,833,246)
Provision for major overhauls		**(3,615,342)**	(3,523,236)
Provision for early retirement benefit obligations		**(6,200)**	(7,919)
Long-term payables		**(63,814)**	(23,350)
Defined benefit obligations		**(277,881)**	(269,742)
Deferred income		**(3,307,775)**	(3,092,841)
Deferred tax liabilities		**(998,954)**	(2,428,313)
		(75,967,831)	(83,474,118)
NET ASSETS		**89,070,741**	76,396,399
CAPITAL AND RESERVES			
Issued capital		**14,524,815**	13,084,751
Treasury shares		**(3,047,564)**	(3,047,564)
Reserves		**69,575,681**	58,762,068
Total equity attributable to equity shareholders of the Company		**81,052,932**	68,799,255
Non-controlling interests		**8,017,809**	7,597,144
TOTAL EQUITY		**89,070,741**	76,396,399

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "**Interim Financial Reporting**" issued by the International Accounting Standards Boards as well as with the applicable disclosure requirements of Appendix 16 to The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2016.

As at 30 June 2017, the Group's current liabilities exceeded its current assets by approximately RMB39,190 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 Group's sources of liquidity and the unutilised bank facilities of RMB170,138 million as at 30 June 2017, the directors of the Company ("**Directors**") believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing these condensed consolidated financial statements for the six months ended 30 June 2017. Accordingly, these condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and liabilities for cash-settled share-based payment transaction which are measured at fair value.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

In the current period, the Group has applied for the first time, certain amendments to International Financial Reporting Standards ("**IFRSs**") that are mandatorily effective for the current interim period. The adoption of amendments to IFRSs in the current interim period does not have any material impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China (the "**PRC**") ("**CASs**") for the six months ended 30 June 2017 and 2016 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2017 (unaudited)

	Airline operations *RMB'000*	**Other operations** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Revenue				
Sales to external customers	**57,656,846**	**498,143**	**–**	**58,154,989**
Intersegment sales	**82,804**	**3,766,046**	**(3,848,850)**	**–**
Revenue for reportable segments under CASs	**57,739,650**	**4,264,189**	**(3,848,850)**	**58,154,989**
Other income not included in segment revenue				**591,483**
Revenue for the period under IFRSs				**58,746,472**
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	**5,117,946**	**49,997**	**(13,186)**	**5,154,757**
Effect of differences between IFRSs and CASs				**19,080**
Profit before taxation for the period under IFRSs				**5,173,837**

For the six months ended 30 June 2016 (unaudited)

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	52,816,702	707,756	–	53,524,458
Intersegment sales	124,917	3,805,867	(3,930,784)	–
Revenue for reportable segments under CASs	52,941,619	4,513,623	(3,930,784)	53,524,458
Business tax and surcharges net off with segment revenue				(137,426)
Other income not included in segment revenue				597,009
Revenue for the period under IFRSs				53,984,041
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,950,659	134,830	(60,563)	5,024,926
Effect of differences between IFRSs and CASs				14,160
Profit before taxation for the period under IFRSs				5,039,086

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2017 and 31 December 2016 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations *RMB'000*	**Other operations** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Segment assets				
Total assets for reportable segments as at 30 June 2017 under CASs (unaudited)	**222,248,755**	**16,213,511**	**(9,348,520)**	**229,113,746**
Effect of differences between IFRSs and CASs				**(62,931)**
Total assets as at 30 June 2017 under IFRSs (unaudited)				**229,050,815**
Total assets for reportable segments as at 31 December 2016 under CASs (audited)	215,918,569	17,435,746	(9,226,123)	224,128,192
Effect of differences between IFRSs and CASs				(77,241)
Total assets as at 31 December 2016 under IFRSs (audited)				224,050,951

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2017 and 2016, respectively:

For the six months ended 30 June 2017 (unaudited)

	Mainland China	**Hong Kong, Macau and Taiwan**	**Europe**	**North America**	**Japan and Korea**	**Asia Pacific and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Sales to external customers and total revenue	**38,769,862**	**2,821,873**	**5,144,950**	**4,721,114**	**3,049,580**	**4,239,093**	**58,746,472**

For the six months ended 30 June 2016 (unaudited)

	Mainland China	Hong Kong, Macau and Taiwan	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers and total revenue	35,306,967	2,860,613	4,257,048	4,501,813	3,141,470	3,916,130	53,984,041

4. AIR TRAFFIC REVENUE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Passenger	**51,051,975**	47,263,059
Cargo and mail	**4,486,698**	3,749,792
	55,538,673	51,012,851

5. OTHER OPERATING REVENUE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Aircraft engineering income	**373,661**	467,891
Ground service income	**462,202**	403,695
Government grants:		
– Recognition of deferred income	**20,464**	18,346
– Others	**508,560**	512,596
Service charges on return of unused flight tickets	**727,150**	671,473
Training service income	**17,133**	17,770
Rental income	**42,758**	70,955
Import and export service income	**39,703**	26,120
Others	**1,016,168**	782,344
	3,207,799	2,971,190

6. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**6,469,650**	6,606,986
Depreciation of investment properties	**14,756**	13,328
Amortisation of lease prepayments	**34,311**	32,986
Amortisation of intangible assets	**19,457**	19,374
Accrual/(reversal) of bad debt provision, net	**6,479**	(13,160)
Loss on disposal of property, plant and equipment, net	**2,194**	8,608
Minimum lease payments under operating leases:		
– Aircraft and related equipment	**3,675,180**	3,013,776
– Land and buildings	**451,560**	441,719
– Others	**29,605**	47,751

7. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains during the period is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Exchange gains, net	**1,269,684**	–
Interest income	**89,706**	64,738
	1,359,390	64,738

8. FINANCE COSTS

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on borrowings and finance leases	**1,794,159**	1,749,709
Exchange loss, net	**–**	1,697,710
	1,794,159	3,447,419
Less: Interest capitalised	**(201,749)**	(165,432)
	1,592,410	3,281,987

The interest capitalisation rates during the period ranges from 3.09% to 3.92% per annum relating to the costs of related borrowings during the period.

9. TAXATION

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	**1,906,068**	1,003,557
– Hong Kong and Macau	**–**	8,179
(Over) under-provision in respect of prior years	**(5,473)**	642
Deferred taxation	**(647,541)**	232,387
	1,253,054	1,244,765

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% (six months ended 30 June 2016: 15%) and a subsidiary which is exempted from the local income tax of the Inner Mongolia Autonomous Region from year 2016 to 2020, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2016: 25%) during the current period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2016: 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 periods.

10. DIVIDEND

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

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

The Board decided not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the current interim period, of RMB1.0771 per ten shares (including tax) (six months ended 30 June 2016: RMB1.0700 per ten shares (including tax))	**1,564,468**	1,400,068

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,341 million (six months ended 30 June 2016 (unaudited): RMB3,468 million) and the weighted average of 13,193,942,334 ordinary shares (six months ended 30 June 2016: 12,294,896,740 shares) in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific Airways Limited ("**Cathay Pacific**") through reciprocal shareholding.

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

12. ACCOUNTS RECEIVABLE

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

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

	At 30 June 2017 *RMB'000* (Unaudited)	At 31 December 2016 *RMB'000* (Audited)
Within 30 days	**2,432,214**	2,460,470
31 to 60 days	**507,972**	407,875
61 to 90 days	**246,892**	68,167
Over 90 days	**549,748**	349,579
	3,736,826	3,286,091

13. ACCOUNTS PAYABLE

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

	At 30 June 2017 *RMB'000* (Unaudited)	At 31 December 2016 *RMB'000* (Audited)
Within 30 days	**4,227,612**	4,288,890
31 to 60 days	**2,486,415**	1,692,454
61 to 90 days	**1,249,212**	1,397,287
Over 90 days	**4,314,585**	3,453,661
	12,277,824	10,832,292

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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

Profit Analysis

For the six months ended 30 June 2017, the Group proactively grasped market opportunities, and further strengthened the advantages of our core air traffic business by adopting measures including expanding the scale of production, optimising production organization, stabilising the yield level and refining cost control. Despite of influences of unfavorable factors including the oil price rebound, the Group still achieved satisfactory results. During the reporting period, the Group recorded a profit after tax of RMB3,921 million, representing a year-on-year increase of 3.33%.

Revenue

For the six months ended 30 June 2017, the Group's revenue was RMB58,746 million, representing an increase of RMB4,762 million, or 8.82%, on a year-on-year basis. Among the total revenue, revenue from our air traffic operations contributed RMB55,539 million, representing an increase of RMB4,526 million, or 8.87%, on a year-on-year basis. Other operating revenue was RMB3,208 million, representing an increase of RMB237 million, or 7.96%, on a year-on-year basis.

Revenue Contribution by Geographical Segments

	For the six months ended 30 June				
	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**17,154,737**	**29.20%**	15,816,461	29.30%	8.46%
Domestic	**38,769,862**	**66.00%**	35,306,967	65.40%	9.81%
Hong Kong, Macau and Taiwan	**2,821,873**	**4.80%**	2,860,613	5.30%	(1.35%)
Total	**58,746,472**	**100.00%**	53,984,041	100.00%	8.82%

Air Passenger Revenue

For the six months ended 30 June 2017, the Group recorded an air passenger revenue of RMB51,052 million, representing an increase of RMB3,789 million, or 8.02%, as compared to that of the same period of 2016. Among the Group's air passenger revenue, the increase in capacity contributed to an increase of RMB2,336 million, and the increase in passenger load factor and passenger yield resulted in an increase in revenue of RMB748 million and RMB705 million, respectively. The capacity, load factor and yield of our passenger operations for the six months ended 30 June 2017 are as follows:

	For the six months ended 30 June		
	2017	2016	Change
Available seat kilometres *(million)*	**118,991.56**	113,386.98	4.94%
Passenger load factor *(%)*	**81.02**	79.82	1.20 ppts
Yield per RPK *(RMB)*	**0.5294**	0.5219	1.42%

Air Passenger Revenue Contributed by Geographical Segment

	For the six months ended 30 June				
	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**13,607,876**	**26.65%**	12,978,371	27.46%	4.85%
Domestic	**34,789,902**	**68.15%**	31,555,519	66.77%	10.25%
Hong Kong, Macau and Taiwan	**2,654,197**	**5.20%**	2,729,169	5.77%	(2.75%)
Total	**51,051,975**	**100.00%**	47,263,059	100.00%	8.02%

Air Cargo and Mail Transportation Revenue

For the six months ended 30 June 2017, the Group's air cargo and mail transportation revenue was RMB4,487 million, representing an increase of RMB737 million, or 19.65%, as compared to that of the same period of 2016. Among the Group's air cargo and mail transportation revenue, the increase in capacity and cargo and mail load factor contributed to an increase in revenue of RMB71 million and RMB161 million respectively, and the increase in yield of cargo and mail resulted in an increase in revenue of RMB505 million. The capacity, load factor and yield of our air cargo and mail operations for the six months ended 30 June 2017 are as follows:

	For the six months ended 30 June		
	2017	2016	Change
Available freight tonne kilometres *(million)*	**6,408.22**	6,288.85	1.90%
Cargo and mail load factor *(%)*	**55.09**	52.86	2.23 ppts
Yield per RFTK *(RMB)*	**1.2707**	1.1279	12.66%

Air Cargo and Mail Transportation Revenue Contributed by Geographical Segment

	For the six months ended 30 June				
	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**3,399,277**	**75.76%**	2,714,438	72.39%	25.23%
Domestic	**929,415**	**20.71%**	911,409	24.31%	1.98%
Hong Kong, Macau and Taiwan	**158,006**	**3.53%**	123,945	3.30%	27.48%
Total	**4,486,698**	**100.00%**	3,749,792	100.00%	19.65%

Operating Expenses

For the six months ended 30 June 2017, the Group's operating expenses were RMB52,939 million, representing an increase of 15.12% as compared to that of RMB45,987 million in the same period of 2016. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2017		2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**13,629,016**	**25.74%**	9,727,175	21.15%	40.11%
Take-off, landing and depot charges	**6,656,849**	**12.57%**	6,166,595	13.41%	7.95%
Depreciation and amortisation	**6,538,174**	**12.35%**	6,672,674	14.51%	(2.02%)
Aircraft maintenance, repair and overhaul costs	**3,111,576**	**5.88%**	2,514,900	5.47%	23.73%
Employee compensation costs	**10,525,998**	**19.88%**	9,416,298	20.48%	11.78%
Air catering charges	**1,638,989**	**3.10%**	1,563,934	3.40%	4.80%
Selling and marketing expenses	**2,166,118**	**4.09%**	2,067,576	4.50%	4.77%
General and administrative expenses	**649,263**	**1.23%**	520,892	1.13%	24.64%
Others	**8,022,784**	**15.16%**	7,337,125	15.95%	9.35%
Total	**52,938,767**	**100.00%**	45,987,169	100.00%	15.12%

In particular:

- Jet fuel costs increased by RMB3,902 million, or 40.11%, on a year-on-year basis, mainly due to the increase in jet fuel price.

- Take-off, landing and depot charges increased by RMB490 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.

- Depreciation expenses slightly decreased due to the decrease in the number of self-owned and finance leased aircraft during the reporting period.

- Aircraft maintenance, repair and overhaul costs increased by RMB597 million on a year-on-year basis, mainly due to the expansion of fleet.

- Employee compensation costs increased by RMB1,110 million on a year-on-year basis, mainly due to the increase in the number of employees and the adjustment of employee compensation standard.

- Air catering charges increased by RMB75 million on a year-on-year basis, mainly due to the increase in the number of passengers.

- Sales and marketing expenses increased by RMB99 million on a year-on-year basis, mainly due to the increase in fees charged for reservation via computers and system use and maintenance fees.

- General and administrative expenses increased by RMB128 million on a year-on-year basis, mainly due to the full transition from BT to VAT, resulting in the year-on-year increase in tax and surcharges.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items. Other operating expenses increased by 9.35% on a year-on-year basis, mainly due to, among others, the year-on-year increase in the operating lease expenses of aircraft, engines, and houses, etc. and the year-on-year increase in the contributions to the civil aviation development fund for the reporting period.

Other Income and Gains and Finance Costs

For the six months ended 30 June 2017, the Group recorded a net exchange gain of RMB1,270 million, as compared to the net exchange loss of RMB1,698 million for the same period of 2016, which was mainly due to the depreciation in the exchange rate of US dollars against RMB during the reporting period. The Group incurred interest expenses (excluding the capitalised portion) of RMB1,592 million during the reporting period, representing a year-on-year increase of RMB8 million.

Share of profits of associates and joint ventures

For the six months ended 30 June 2017, the Group's share of results of its associates was a loss of RMB514 million, representing a decrease of RMB676 million as compared to the share of results of associates as a profit of RMB162 million for the same period of 2016, mainly due to the year-on-year decrease in the profits of Cathay Pacific, an associate of the Group, during the reporting period. The Group recorded a loss on investment of Cathay Pacific of RMB665 million during the reporting period, as compared to a loss on investment of RMB70 million in the same period of last year.

For the six months ended 30 June 2017, the Company's share of results of its joint ventures was a profit of RMB113 million, representing a year-on-year increase of RMB15 million as compared to the share of results of joint ventures as a profit of RMB98 million for the same period of 2016. This was mainly due to the increase in the profits of joint ventures during the reporting period.

Analysis of Assets Structure

As at 30 June 2017, the total assets of the Group amounted to RMB229,051 million, representing an increase of 2.23% from those as at 31 December 2016, among which current assets accounted for RMB24,822 million, or 10.84% of the total assets, while non-current assets accounted for RMB204,229 million, or 89.16% of the total assets.

Among the current assets, cash and cash equivalents were RMB11,135 million, representing an increase of 62.61% from those as at 31 December 2016, which was mainly because the proceeds from the non-public issue of A shares have not been fully utilized by the end of the reporting period. Accounts receivable amounted to RMB3,737 million, representing an increase of 13.72% as compared with those as at 31 December 2016.

Among the non-current assets, the net book value of property, plant and equipment as at 30 June 2017 was RMB155,735 million, representing a decrease of 1.44% from that as at 31 December 2016.

Assets Mortgage

As at 30 June 2017, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB81,589 million (RMB84,030 million as at 31 December 2016) and land use rights with a net book value of approximately RMB34 million (RMB35 million as at 31 December 2016). At the same time, the Group had approximately RMB526 million (approximately RMB474 million as at 31 December 2016) in bank deposits with title being restricted, which were mainly reserves deposited in the People's Bank of China.

Capital Expenditure

For the six months ended 30 June 2017, the Company's capital expenditure amounted to RMB11,311 million, of which the total investment in aircraft and engines was RMB9,923 million.

Other capital expenditure amounted to RMB1,388 million, mainly including investments in expensive rotable parts, flight simulators, infrastructure construction, IT system construction, procurement of equipment and facilities and cash component of the long-term investments.

Equity Investment

As at 30 June 2017, the Group's equity investment in its associates was RMB13,043 million, representing a decrease of 8.03% from that as at 31 December 2016, of which the equity investment in Cathay Pacific, Shandong Aviation Group Company Limited and Shandong Airlines Co., Ltd. was RMB10,491 million, RMB1,274 million and RMB814 million, respectively. Cathay Pacific, Shandong Aviation Group Company Limited and Shandong Airlines Co., Ltd. recorded a loss of RMB1,675 million, a profit of RMB114 million and a profit of RMB90 million, respectively, for the six months ended 30 June 2017.

As at 30 June 2017, the Group's equity investment in its joint ventures was RMB1,124 million, representing a decrease of 0.27% from that as at 31 December 2016.

Debt Structure Analysis

As at 30 June 2017, the total liabilities of the Group amounted to RMB139,980 million, representing a decrease of 5.20% from those as at 31 December 2016, among which current liabilities were RMB64,012 million and non-current liabilities were RMB75,968 million, representing 45.73% and 54.27% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB28,106 million, representing a decrease of 12.38% from those as at 31 December 2016. Other payables and accruals amounted to RMB13,074 million, representing a decrease of 0.16% from those as at 31 December 2016.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and liabilities under finance leases) amounted to RMB67,698 million, representing a decrease of 8.68% from those as at 31 December 2016.

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

	30 June 2017		31 December 2016		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
US dollars	**42,576,657**	**44.44%**	52,170,383	49.12%	(18.39%)
RMB	**51,872,540**	**54.14%**	52,434,834	49.37%	(1.07%)
Others	**1,354,309**	**1.42%**	1,598,669	1.51%	(15.29%)
Total	**95,803,506**	**100.00%**	106,203,886	100.00%	(9.79%)

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 16.44% from those of RMB85,143 million as at 31 December 2016 to RMB71,142 million as at 30 June 2017. 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 RMB53,571 million as at 30 June 2017, representing a year-on-year increase of 2.68%. The Group's investment commitments, which were mainly used in the investment agreements entered into, amounted to RMB59 million as at 30 June 2017, similar to those as at 31 December 2016.

GEARING RATIO

As at 30 June 2017, the Group's gearing ratio (total liabilities divided by total assets) was 61.11%, representing a decrease of 4.79 percentage points as compared to the gearing ratio of 65.90% as at 31 December 2016, which was mainly due to the impact of non-public issue of A shares during the reporting period. Given that high gearing ratios are common among aviation enterprises, the Group continued to maintain a reasonable gearing ratio and the long-term insolvency risks are under control.

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2017, the Group's net current liabilities (current liabilities minus current assets) were RMB39,190 million, representing a decrease of RMB5,004 million from those as at 31 December 2016. The Group's current ratio (current assets divided by current liabilities) was 0.39, representing an increase as compared to that of 0.31 as at 31 December 2016.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In the first half of 2017, the Group's net cash inflow generated from operating activities was RMB9,087 million, representing a decrease of 19.48% as compared with that of RMB11,285 million in the same period of 2016, which was mainly due to the increase of jet fuel costs during the reporting period. Net cash outflow from investment activities was RMB5,185 million, representing a decrease of 64.66% from that of RMB14,669 million in the same period of 2016, mainly due to the year-on-year decrease in the amount paid for aircraft procurement during the reporting period. The Group recorded a net cash inflow from financing activities of RMB446 million, representing a decrease of 88.95% from that of RMB4,035 million in the same period of 2016, which was mainly due to the year-on-year increase in repayment of interest-bearing debts during the reporting period.

The Company has obtained certain bank facilities of up to RMB185,715 million granted by a number of banks in the PRC, among which approximately RMB15,577 million has been utilised, sufficient to meet our demands on working capital.

NON-PUBLIC ISSUE OF A SHARES

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to China National Aviation Holding Company (the "**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 of the Company with a shareholding of 51.70%, and remains the controlling shareholder of the Company. For further details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 13 March 2017.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group holds a substantial amount of financial liabilities and financial assets dominated in foreign currencies. When exchange rate fluctuates, gains and losses resulting from foreign exchanges are substantial enough to affect the Group's operating results. Exchange rate fluctuation also affects the Group's costs generated from overseas purchase of aircraft, equipment, jet fuel and expenses relating to take-off and landing in overseas airports, and it could also have an impact on the demands of Chinese citizens for overseas travel, which in turn affects the operating results of the Group to a certain degree. In addition, interest rate fluctuation could also affect the Group's finance costs, which will affect the Group's operating results.

PROSPECTS

In the second half of 2017, China's economic growth will continue its steady trajectory, and the civil aviation market will continue its rapid pace of growth. The Company looks to capitalize on strategic opportunities, while awares that industry competition, particularly in the international market, will continue to intensify, the business environment will become more complex, and uncertainties from oil price fluctuations and geopolitical risks will persist. In addressing the opportunities and challenges ahead, the Group will remain focused on the goal of becoming a "large network airline with international competitive edge" and on upholding our diligent management philosophy, deepening reform with innovation, and enhancing our competitive advantage in the international market so as to deliver better returns to shareholders and to society.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

During the first half of 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company (the term "securities" has the meaning ascribed to it under paragraph 1 of Appendix 16 to the Listing Rules).

INTERIM DIVIDEND

No interim dividend will be paid by the Company for the six months ended 30 June 2017.

SUBSEQUENT EVENTS

On 30 August 2017, the Board resolved to propose to elect Mr. Cai Jianjiang and Mr. John Robert Slosar as non-executive directors of the fifth session of the Board, to elect Mr. Song Zhiyong as executive director of the fifth session of the Board, and to elect Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin as independent non-executive directors of the fifth session of the Board. On the same date, the supervisory committee of the Company (the "**Supervisory Committee**") resolved to propose to elect Mr. Wang Zhengang and Mr. He Chaofan as shareholder representative supervisors of the fifth session of the Supervisory Committee. The aforesaid proposed election of directors and supervisors are subject to approval of the shareholders of the Company at a general meeting. For details, please refer to the announcement of the Company dated 30 August 2017.

CORPORATE GOVERNANCE

1. Compliance with the Code Provisions of the Corporate Governance Code and the requirements of the Listing Rules on audit committee and remuneration committee

Save and except for code provision A.5.1, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2017.

Code provision A.5.1 requires that the nomination committee shall be chaired by the chairman of the Board or an independent non-executive director, and comprise a majority of independent non-executive directors. Rule 3.21 of the Listing Rules requires that the audit committee shall comprise at least three members and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, and the chairman of the audit committee must also be an independent non-executive director. Rule 3.25 of the Listing Rules requires that the remuneration committee must comprise a majority of independent non-executive directors.

Mr. Pan Xiaojiang and Mr. Simon To Chi Keung resigned as independent non-executive directors of the Company on 8 May 2017, and the resignation became effective from the date of the annual general meeting of the Company held on 25 May 2017, where Mr. Wang Xiaokang and Mr. Liu Deheng were elected as independent non-executive directors of the Company. After the resignation becomes effective, Mr. Pan Xiaojiang is no longer the chairman of the audit and risk control committee of the Board and a member of the nomination and remuneration committee of the Board, and Mr. Simon To Chi Keung is no longer a member of the nomination and remuneration committee of the Board. Therefore, the Company failed to meet the composition requirements of audit committee, remuneration committee and nomination committee under the aforesaid rules of the Listing Rules and code provision. On 9 August 2017, Mr. Wang Xiaokang was appointed as a member of the nomination and remuneration committee of the Board and Mr. Liu Deheng was appointed as the chairman of the audit and risk control committee of the Board. The aforementioned requirements of the Listing Rules and code provision have been fulfilled since then.

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

The Company has adopted and formulated a code of conduct on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code and the Company's code of conduct throughout the six months ended 30 June 2017.

DISCLOSURE REQUIRED BY THE LISTING RULES

In compliance with paragraph 46 of Appendix 16 to the Listing Rules, the Company confirms that in relation to those matters set out in paragraph 46(3) of Appendix 16 to the Listing Rules, save as disclosed herein, there has been no material change in the Company's existing information from the relevant disclosure in the 2016 Annual Report of the Company.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company's interim results for the six months ended 30 June 2017, the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

By Order of the Board
Air China Limited
Zhou Feng   Tam Shuit Mui
Joint Company Secretaries

Beijing, the PRC, 30 August 2017

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Cao Jianxiong, Mr. Feng Gang, Mr. John Robert Slosar, Mr. Ian Sai Cheung Shiu, Mr. Wang Xiaokang, Mr. Liu Deheng*, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

*   *Independent non-executive director of the Company*