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 193 countries as at 31 December 2015. Air China is dedicated to serve 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 a unique and excellent experience and realising sustainable growth to create value for all related parties.

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

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

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 ADDRESS:

www.airchina.com.cn

DIRECTORS:

Cai Jianjiang
Wang Yinxiang
Cao Jianxiong
Feng Gang
John Robert Slosar
Ian Sai Cheung Shiu
Song Zhiyong
Fan Cheng
Pan Xiaojiang
Simon To Chi Keung
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:

Li Qinglin
He Chaofan
Zhou Feng
Xiao Yanjun
Shen Zhen

LEGAL REPRESENTATIVE OF THE COMPANY:

Cai Jianjiang

JOINT COMPANY SECRETARIES:

Rao Xinyu
Tam Shuit Mui

AUTHORISED REPRESENTATIVES:

Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY:

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

INTERNATIONAL AUDITOR:

KPMG

H SHARE REGISTRAR AND TRANSFER OFFICE:

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

LISTING VENUES:

Hong Kong, London and Shanghai

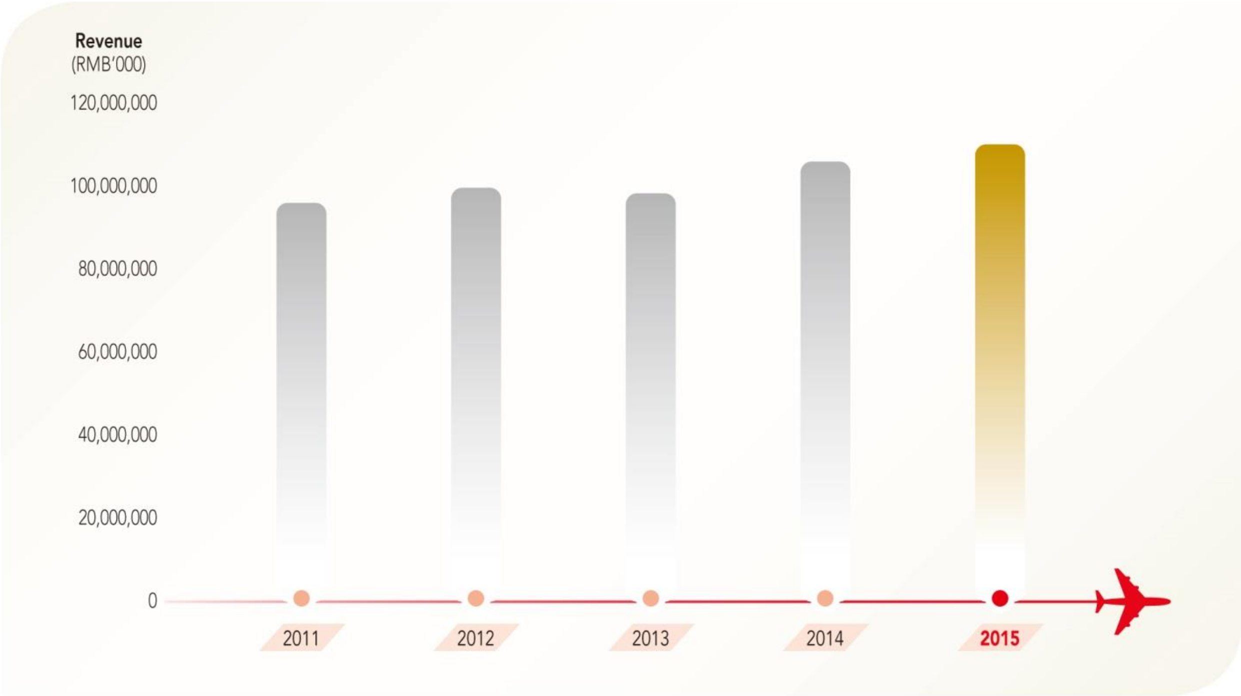
SUMMARY OF FINANCIAL INFORMATION

(RMB'000)

	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)	2011 (Restated)
Revenue	110,057,034	105,964,897	98,265,058	99,617,550	95,988,718
Profit from operations	15,551,622	7,257,047	4,091,469	8,439,565	6,991,063
Profit before taxation	9,355,251	5,134,866	4,592,283	7,009,337	10,278,163
Profit after taxation (including profit attributable to non-controlling interests)	7,509,487	4,334,102	3,667,422	5,370,111	8,014,730
Profit attributable to non-controlling interests	446,140	481,610	396,595	538,590	463,990
Profit attributable to equity shareholders of the Company	7,063,347	3,852,492	3,270,827	4,831,521	7,550,740
EBITDA(1)	28,562,383	18,650,476	15,119,959	18,850,684	16,467,891
EBITDAR(2)	34,725,582	24,131,141	20,044,184	23,015,786	21,071,350
Earnings per share attributable to equity shareholders of the Company (RMB)	0.57	0.31	0.27	0.40	0.62
Return on equity attributable to equity shareholders of the Company (%)	11.82	7.10	6.06	9.63	16.26

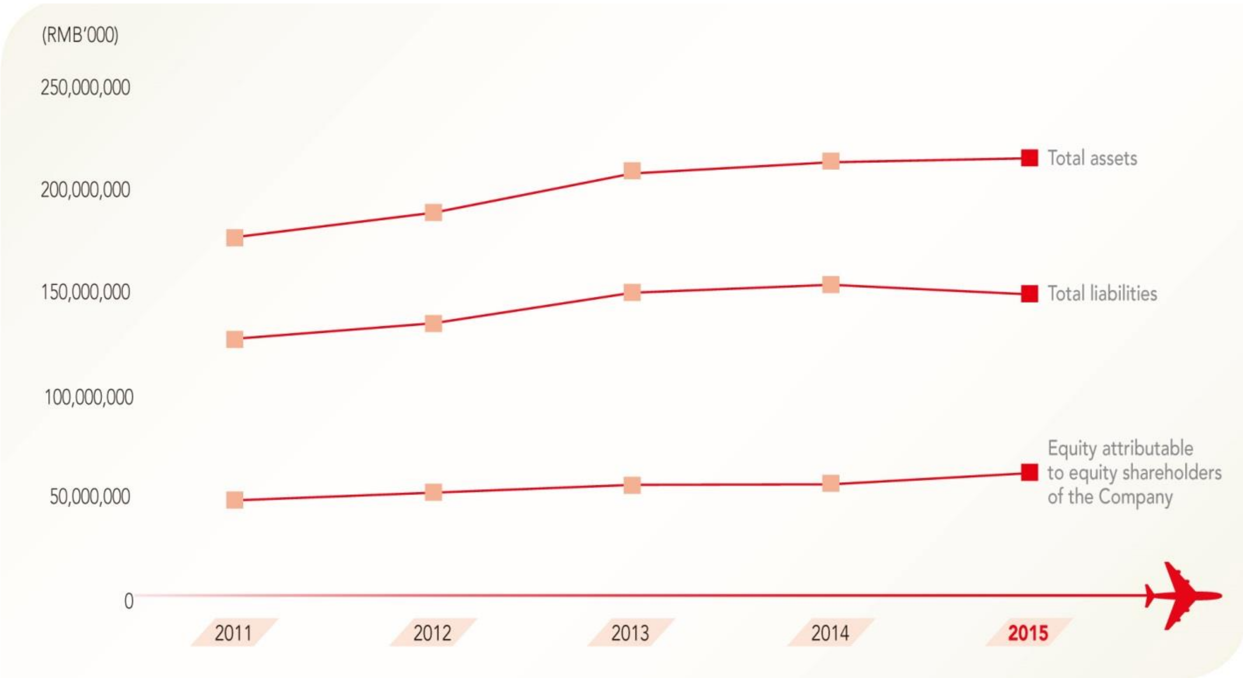
(1) EBITDA represents earnings before finance income, finance costs, income taxes, share of profits of joint ventures and associates, depreciation and amortisation as computed under the IFRSs.

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



(RMB'000)

	31 December 2015	31 December 2014 (Restated)	31 December 2013 (Restated)	31 December 2012 (Restated)	31 December 2011 (Restated)
Total assets	213,631,150	211,669,694	206,194,704	187,021,035	175,038,509
Total liabilities	147,108,397	151,791,604	147,908,961	132,990,055	125,397,864
Non-controlling interests	6,774,742	5,604,325	4,268,650	3,833,973	3,200,547
Equity attributable to equity shareholders of the Company	59,748,011	54,273,765	54,017,093	50,197,007	46,440,098
Equity attributable to equity shareholders of the Company per share (RMB)	4.57	4.15	4.13	3.89	3.60



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.

	2015	2014	Increase/ (decrease)
Capacity			
ASK (in millions)	**214,828.73**	193,631.46	10.95%
International	**72,524.99**	60,971.65	18.95%
Domestic	**132,533.45**	123,147.84	7.62%
Hong Kong, Macau and Taiwan	**9,770.29**	9,511.97	2.72%
AFTK (in millions)	**11,982.31**	10,147.93	18.08%
International	**8,353.23**	6,756.08	23.64%
Domestic	**3,311.23**	3,059.20	8.24%
Hong Kong, Macau and Taiwan	**317.86**	332.65	(4.45%)
ATK (in millions)	**31,363.89**	27,616.11	13.57%
Traffic			
RPK (in millions)	**171,713.88**	154,683.91	11.01%
International	**56,147.20**	47,594.82	17.97%
Domestic	**108,643.79**	100,100.44	8.53%
Hong Kong, Macau and Taiwan	**6,922.89**	6,988.66	(0.94%)
RFTK (in millions)	**6,558.43**	5,691.05	15.24%
International	**4,920.87**	4,115.89	19.56%
Domestic	**1,524.56**	1,456.80	4.65%
Hong Kong, Macau and Taiwan	**113.00**	118.36	(4.53%)
Passengers carried (in thousands)	**89,815.89**	83,009.61	8.20%
International	**11,028.76**	9,240.78	19.35%
Domestic	**74,374.25**	69,371.68	7.21%
Hong Kong, Macau and Taiwan	**4,412.88**	4,397.15	0.36%
Cargo and mail carried (tonnes)	**1,664,406.35**	1,552,893.14	7.18%
Kilometres flown (in millions)	**1,181.41**	1,073.18	10.08%
Block hours (in thousands)	**1,875.94**	1,700.01	10.35%
Number of flights	**615,912**	572,338	7.61%
International	**74,016**	62,188	19.02%
Domestic	**505,986**	474,900	6.55%
Hong Kong, Macau and Taiwan	**35,910**	35,250	1.87%

	2015	2014	Increase/ (decrease)
RTK (in millions)	**21,807.18**	19,437.64	12.19%
Load factor			
Passenger load factor (RPK/ASK)	**79.93%**	79.89%	0.04 ppts
International	**77.42%**	78.06%	(0.64 ppts)
Domestic	**81.97%**	81.28%	0.69 ppts
Hong Kong, Macau and Taiwan	**70.86%**	73.47%	(2.62 ppts)
Cargo and mail load factor (RFTK/AFTK)	**54.73%**	56.08%	(1.35 ppts)
International	**58.91%**	60.92%	(2.01 ppts)
Domestic	**46.04%**	47.62%	(1.58 ppts)
Hong Kong, Macau and Taiwan	**35.55%**	35.58%	(0.03 ppts)
Overall load factor (RTK/ATK)	**69.53%**	70.39%	(0.86 ppts)
Daily utilisation of aircraft **(block hours per day per aircraft)**	**9.52**	9.57	(0.05 hrs)
Yield			
Yield per RPK (RMB)	**0.5583**	0.5984	(6.70%)
International	**0.4880**	0.5273	(7.46%)
Domestic	**0.5807**	0.6157	(5.69%)
Hong Kong, Macau and Taiwan	**0.7766**	0.8340	(6.88%)
Yield per RFTK (RMB)	**1.2880**	1.5438	(16.57%)
International	**1.2552**	1.5550	(19.28%)
Domestic	**1.2992**	1.3948	(6.85%)
Hong Kong, Macau and Taiwan	**2.5685**	2.9876	(14.03%)
Unit cost			
Operating cost per ASK (RMB)	**0.4399**	0.5098	(13.70%)
Operating cost per ATK (RMB)	**3.0132**	3.5743	(15.70%)

CHAIRMAN'S STATEMENT

In 2015, recovery of global economy remained weak while the Chinese economy went through a period of transformation and upgrading. The global aviation passenger market was strong and China's civil aviation industry maintained double-digit growth, while the global cargo market remained slack. Although low fuel prices have helped to ease the pressure on operating cost, intensified industrial competition and substantial exchange rate fluctuations have posed severe challenges. By following the strategy of prudent operation and sustainable development, we have responded to market changes, improved the configuration of global network, enhanced marketing and service capability, strengthened cost management, brand positioning and profitability, and maintained our position as the market leader.

During the reporting period, our capacity measured in ATK reached 31,364 million and RTK reached 21,807 million, representing an increase of 13.57% and 12.19%, respectively, over the previous year. We carried 89.82 million passengers, up by 8.20% year-on-year. Our cargo and mail volume reached 1.66 million tonnes, 7.18% more than the previous year. Our revenue reached RMB 110,057 million, representing a year-on-year increase of 3.86%, while our operating expenses reached RMB94,505 million, down by 4.26% over the previous year, among which, fuel cost dropped by RMB10,500 million compared with that of last year. Although exchange rate fluctuations caused a loss of RMB5,156 million, due to profitability in the main business, we still registered RMB7,063 million of profit attributable to equity shareholders, representing a year-on-year increase of 83.34%.

We continued to optimise our fleet structure and enhanced efficiency in operation. During the year, we introduced 66 aircraft and phased out 16 aircraft. The total fleet size numbered 590 aircraft with an average age of 6.2 years, which enabled our fleet to sustain its competitive advantages. With continued fleet expansion as well as improved overall planning and allocation of crew resources, our crew readiness has steadily enhanced. In keeping with market changes, we have been flexible in adjusting the structure and pace of deployment of capacity. Given the fast-growing demand in the international market, we have devoted more capacities to international routes and significantly increased the utilisation of wide-body aircraft. In domestic services, we focused on increasing capacities for high-yield routes, and took appropriate steps to control deployment in short-haul routes and increase operation in long-haul routes. At the same time, we capitalised on key opportunities like the Spring Festival holiday season and the summer peak-season to boost revenue, and properly handled unexpected incidents like the South Korean MERS outbreak and the Paris extremist attack. We have improved efficiency in the utilisation of key resources and enhanced the ability to grasp market opportunities. All these have ensured maximum returns for the Group.

The layout of our global network continued to improve and the commercial value of our aviation hub resources continued to increase. To implement the country's "One Belt, One Road" and "Go Global" strategies, we focused our efforts on global network expansion and launched 65 new routes (including reopening of old routes) during the year, e.g. from Beijing to Havana, Johannesburg and other overseas destinations, which made Air China the only Chinese airline company with operations covering all six continents. The development of the Beijing hub made further progress. We added international and domestic routes and optimised flight bank structure, resulting in a further increase in the number of connecting flights and connecting passengers. The network of Chengdu regional hub has been expanded to meet the changes in the Western China market. Apart from opening new routes and increasing the frequency of existing international and domestic flights, some of the international services have been extended to the main cities in Northwest China, thereby consolidating Chengdu's regional hub status. The Shanghai international gateway focused on developing a better-structured flight network by way of increasing frequency on trunk routes, strengthening support for connecting flights, advancing regional connectivity and enhancing transit capability.

Various measures have been taken to enhance marketing capabilities. We continued to optimise channel structure, and made vigorous efforts to support the expansion of direct sales channels, such as official website and mobile application platform (mobile phone App). The new online mobile application platform (new App) has attracted 2 million additional subscribers. At the same time, we have expanded marketing at our flagship stores on leading third-party online platforms, and established standard management procedures to improve the overall quality of distribution channels. We have strengthened international marketing capabilities, conducted comprehensive marketing campaigns for new routes, and enhanced the international sales capabilities of second- and third-tier domestic cities. We have diversified our product portfolio and built a new product system that focuses on ancillary revenue and value-added services, achieving initial breakthroughs in incremental revenue and diversified sources of revenue on the industrial chain.

The foundation of service management has been strengthened, resulting in the improvement in the management of the service system. We have enhanced the alignment of services with operation, and strengthened our ability for emergency response and risk control. We have focused on passenger needs, improved the quality of food and beverages, provided a wider choice of in-flight entertainment programs, and introduced easy travel and mobile internet technologies to deliver better travel experience for our passengers. We have completed WiFi modification on 24 wide-body aircraft and started to broadcast live TV programs using satellite broadband technology.

Cost control and risk prevention have been given greater emphasis. Through continuous optimization of flight network and better alignment of aircraft capacity with flight routes, cost efficiency has notably enhanced. We have exerted greater efforts to broaden the direct sales channels, leading to an increase in direct sales proportion to 30% and reduced agency fees. We have strengthened centralised management of capital under the Air China family, which improved the efficiency of capital circulation and utilisation. At the same time, we have taken the initiative to optimise our debt structure, reduced the amount of US dollar loans to offset a rise in US dollar exchange rate, and increased the proportion of aircraft leasing to minimise the risk in exchange rate and foreign exchange losses. As such, we have maintained the Company's cost advantage.

Cargo business made steady advances. In 2015, the global cargo market experienced another downturn. Against such a backdrop, Air China Cargo took active efforts to improve freighter operations, adapted to market developments, optimised route structure and improved the efficiency of capacity allocation. We have capitalised on the new routes to expand international cargo network, actively promoted new businesses and products, and strengthened mail, express delivery and special cargo services. We have accelerated the development of the Shanghai transit hub and improved the cargo load factor. In 2015, the volume of cargo transited through Shanghai rose by 76% over the previous year. We have strengthened combined passenger and cargo services and refined the management of belly capacity, thus maintaining our competitive advantage in belly space services. We have promoted professional operation of cargo terminals, expanded collaboration with third-party courier and launched the business of cross-border logistic centers for online merchants. Through business transformation and optimised cost control, Air China Cargo continued to make progress in business performance and recorded profits despite the unfavorable conditions in supply and demand and exchange rate.

In 2016, the global economy will continue to face uncertainties, and the Chinese economy will stay in the "new normal". With the adjustment of economic structure and the upgrade of household consumption, China's civil aviation business is expected to maintain a high growth rate. On the other hand, intensified industrial competition and exchange rate fluctuations will also bring major challenges. We will continue to pursue our goal of "building a large network airline with international competitiveness", follow a prudent approach to business operation, stay committed to reform and innovation, and continue to consolidate our competitive advantages and international competitiveness, thereby reciprocating the trust of our shareholders and the society with better business performance.

蔡剑江

Cai Jianjiang
Chairman

Beijing, PRC
30 March 2016

BUSINESS OVERVIEW

In 2015, the Group's ASKs reached 214,829 million and the RPKs reached 171,714 million, representing an increase of 10.95% and 11.01%, respectively, over the previous year. The passenger load factor was 79.93%, representing an increase of 0.04 ppts compared to 2014. The Group's AFTKs reached 11,982 million and the RFTKs reached 6,558 million, representing an increase of 18.08% and 15.24%, respectively, over the previous year. The Group's cargo and mail load factor was 54.73%, representing a decrease of 1.35 ppts compared to 2014.

DEVELOPMENT OF FLEET

In 2015, the Group introduced 66 aircraft, including A319, A320, A321, B737-800, A330, B747-8 and B777F, etc., and phased out 16 aircraft, such as the B737-700, 737-800, B757 and A340. As at 31 December 2015, the Group has a total of 590 aircraft, with an average age of 6.2 years (excluding aircraft under wet leases).

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

	31 December 2015					Introduction plan		
	Sub-total	Self-owned	Finance leases	Operating leases	Average age	2016	2017	2018
Passenger aircraft	**567**	**229**	**175**	**163**	**6.1**	**50**	**48**	**41**
Of which:								
Airbus	**273**	**101**	**97**	**75**	**5.8**	**19**	**18**	**18**
A319	42	26	10	6	9.9	0	0	0
A320/A321	177	63	68	46	5.1	19	17	15
A330	53	11	19	23	4.9	0	0	0
A340	1	1	0	0	16.8	0	0	0
A350	0	0	0	0	–	0	1	3
Boeing	**294**	**128**	**78**	**88**	**6.4**	**31**	**30**	**23**
B737	252	104	63	85	6.2	21	21	21
B747	11	9	2	0	8.0	0	0	0
B757	1	1	0	0	23.4	0	0	0
B777	30	14	13	3	7.3	3	3	0
B787	0	0	0	0	–	7	6	2
Cargo aircraft	**15**	**10**	**5**	**0**	**8.5**	**0**	**0**	**0**
B747F	3	3	0	0	13.5	0	0	0
B757F	4	4	0	0	19.4	0	0	0
B777F	8	3	5	0	1.3	0	0	0
Business jets	**8**	**1**	**0**	**7**	**4.1**	**0**	**0**	**0**
Total	**590**	**240**	**180**	**170**	**6.2**	**50**	**48**	**41**

Among the aircraft set out above, the Company operated a fleet of 360 aircraft in total, with an average age of 6.3 years (excluding aircraft under wet leases). In 2015, the Company introduced 35 aircraft and phased out nine aircraft.

In 2015, the Company made new progress in terms of hub network construction, sales and marketing capabilities, products and services quality, as well as cost control, in accordance with our business strategies.

HUB NETWORK

We optimized our hub network coverage and continued to enhance the hub commercial value. In 2015, the Company introduced 65 new routes (including reopening of old routes) and has become the only carrier in China with operations covering six continents of the world. We continued to strengthen the Beijing hub, launched (including adjustment in the existing routes) 13 international and regional routes, such as Beijing-Minsk-Budapest, Beijing-Auckland, Beijing-Havana, etc. We also increased the frequencies of international long-haul routes, such as routes from Beijing to New York, Vancouver, Dusseldorf and Sydney, and increased capacity deployment on certain routes with outstanding revenue-generating track record, such as the routes from Beijing to Manila, Bangkok and Phuket. We launched five new domestic routes including routes from Beijing to Dali, Liupanshui and other destinations. The number of transferable origin and destination points reached 5,500 pairs per week, representing an increase of 206 pairs compared to last year. The number of transit onward passengers reached 5.532 million, representing an increase of 13.3% over the previous year. We have actively expanded the Chengdu regional hub network so as to align with the changes in the market in western China and to tap into the potential for development in these markets with a differentiated approach. As such, we launched 17 new routes (including adjustments in the existing routes), such as routes from Chengdu to Colombo and from Paris to Dali. Flights from Chengdu to Frankfurt and to Singapore were extended to Lanzhou and Yingchuan and the frequencies of domestic flights from Chengdu to Shanghai and to Guiyang were increased. The number of international and regional routes from and to Chengdu reached 12, thereby consolidating Chengdu's status as our regional hub. We optimized the Shanghai international gateway network by launching five new domestic routes such as routes from Shanghai to Harbin and to Fuzhou, and changed some transit flights which originated from Shanghai to become direct non-stop flights. We also launched the new international baggage all through tagging service from Sydney or Melbourne to Europe via Shanghai, thereby raising its capabilities as the transit gateway.

As at 31 December 2015, the number of passenger routes of the Company reached 360, with routes covering six continents of the world, of which 245 were domestic routes, 100 international routes and 15 regional routes; covering 40 countries (regions) and 174 cities, including 106 domestic cities, 64 international cities and four regions. Through the Star Alliance, the Company's network now covers 1,330 destinations in 193 countries.

SALES AND MARKETING

We employed innovative marketing initiatives and upgraded our management and control model. Our direct sales revenue increased significantly by 42% compared to last year, primarily as a result of improved sales channel and optimized marketing services interface. Our direct sales revenue accounted for 30% of our total revenue. The cost of sales has been reduced by standardizing distribution channel management and reducing agency fees, and at the same time the quality of the channels was improved steadily. The revenue from our value-added services grew by 8% over the previous year, primarily due to our efforts in diversifying our product portfolio and establishing a new product system focusing on ancillary and value-added services. We have actively promoted the frequent flyer program and upgraded its electronic capabilities. The total number of "PhoenixMiles" members reached 37.37 million and its contribution to revenue increased by 15% over the previous year. Sales of premium class continued to grow and the revenue has increased by 9% over the previous year. We have strengthened the Air China brand at the newly launched international routes with the slogan of "Let The World Discover You". The Air China brand was again included in the World Brand Lab of the world's most influential 500 brands and has moved up 22 places to the 300th position. We were awarded with the "Chinese Brand Annual Top Award No. 1 (Aviation)" and was named the "Top 50 Chinese Influential Brands in 2015" by the Association of Asian Brands and the Academy of Asian Brands.

PRODUCTS AND SERVICES

Our performance highlights include launching innovative services and improving our service quality. We have launched the "Varieties of Noodles" and "Genuine Taste" series of food and beverages in our lounges, installed new cabin décor and designed new in-flight amenities for passengers; upgraded in-flight entertainment and its software of statistics function, offering a wide spectrum of up-to-date programs to meet the personalised demands of passengers for in-flight entertainment. Designated VIP check-in area has been deployed and service standard been optimized, thereby enhancing the ground services for elite passengers. We launched the "Fragrant Air China" project to improve cabin environment and strengthen the Company's brand recognition, and promoted the "Global Flight Manager Program" system, serving 930,000 Platinum members and providing services such as seat-selecting and online check-in services for a total number of 1.23 million times. We have promoted the concept of easy travelling, deployed self-service baggage check-in facilities in Beijing and rolled out self-service check-in outlets at 132 stations domestically and outside China, thereby enabling more passengers to enjoy our innovative self-service platforms throughout the entire service process. We have accelerated the installation of in-flight Wifi network and have completed the installation of WiFi on 24 wide-body aircraft using broadband satellite technology to broadcast live satellite TV programs.

COST CONTROL

We strengthened our cost management and continued to maintain our advantages in cost efficiency. We achieved better cost efficiency by focusing on improvement in operational efficiency, implementing changes in marketing model and optimizing working capital structure. By continuously monitoring changes in the market demand, making timely adjustment of our product strategy and utilizing appropriate aircraft models capacity, we achieved better alignment of our operation and the market demands. We improved efficiency in fuel consumption by taking various measures including the use of flight management computer FMC system, route optimization, improvement in the efficiency of boarding bridge utilization, and strengthened monitoring of APU usage data. The agency fees were reduced significantly through strengthening the direct sales channels and proportionately increased direct sales. We also took measures to optimize our debt structure, timely reduced the size of US dollar loan to offset a rise in US dollar exchange rate, reasonably increased aircraft operating leases, minimized the risk in exchange rate and foreign exchange losses. Furthermore, we enhanced the quality and efficiency of centralized management of the Group's capital and improved its utilization. We implemented the "loss making rectification plan" and appropriate cost reduction measures, thereby improving the profitability of loss-making routes.

NURTURING TALENTS

We adhere to the "people-oriented" philosophy and pursue the concept of sustainable joint development of the Company and its employees. We strictly complied with the PRC Employment Law and other laws and regulations. We implemented transparent, fair and equal opportunity employment policy, offered competitive remuneration and benefits, and enhanced incentives for our lower-level and front-line staff. We continued to improve our labor union system in protecting the legitimate rights and interests of employees, encouraged employees to make suggestions and facilitated the interactions between employees and the Company. We broadened staff promotion channels, improved and strengthened our system in staff training and leadership training, promoted international exchange programs in learning and the talents' growth and development of multi-levels. We placed emphasis on the psychological well-being of our employees, promoting counselling service with the "Happiness • Heart Program", thereby providing a wide range of services in psychological well-being. We have instituted a staff service center which was committed to providing a comprehensive and integrated one-stop shop service for our employees. We organized various cultural and sporting activities for our employees in their leisure time so as to provide a platform to boost the employee morale and develop their interests in cultural pursuits.

CUSTOMER SERVICE

Air China's "Four Cs" services – "Credibility, Convenience, Comfort and Choice" – is central to our philosophy and responsibility to the customers, and is also our promise to our customers. Air China constantly improves its service management system, strengthens the foundation in management, enhances the effectiveness of the service system, and strives to provide passengers with a comfortable and convenient travel experience, thereby creating an image of premium quality of being professional and trustworthy with international quality and Chinese etiquette. Adhering to the philosophy of "Four Cs" services, we continued to improve our service standards and optimize our service processes, made improvements in the day-to-day service and management, promoted our service quality. We built new lounges, ensured smooth operation of flights, created convenient service processes and improved the ground services. We improved our overall in-flight service quality by making improvements in the quality of our food and beverages, the cabin design and in-flight entertainment system. We also vigorously developed in-flight Internet services, improved equipments and facilities and promoted self-service facilities throughout the entire journey for our passengers. We paid attention to our customers' needs, strived to provide personalized services to our passengers, and developed a comprehensive emergency service support system that fully meets the needs of special travellers.

SUPPLIERS MANAGEMENT

We have established close relationships with our suppliers to achieve sustainable development. We completed revision of the new procurement management system which served as the guidance for supply chain management. The system provides detailed guidance with respect to supplier sourcing, engagement of suppliers and annual performance evaluation of suppliers. With regards to engagement of suppliers, we identified and selected those suppliers which were socially and environmentally responsible with a sound track record of good business ethics. We required all our suppliers to complete "Air China Limited Supplier Social Standards Compliance Self-Audit Questionnaire", and conduct a self-audit on its compliance with laws and regulations, environmentally-friendly mode of operation, respect for workers' rights and other aspects. We conducted assessments on our suppliers by evaluating supplier's performance in accordance with terms in the procurement contract or agreement entered into by Air China for goods and services, and requesting the suppliers to provide evidence to substantiate their improvement on their operations on an annual basis.

ENVIRONMENTAL PROTECTION

We implemented our green development philosophy in virtually all aspects of our daily operations. We are committed to improving efficiency in energy consumption and reducing emissions, conserving resources and continuous improvement in other aspects. We formulated guidelines and principles on energy conservation for the Company by establishing "Air China's 13th Five-Year Plan on Energy Conservation and Emission Reduction" and analyzing the trend of the development in environmental protection, energy conservation and emission reduction by taking into external and internal factors. With energy usage as the starting point, following energy review according to the requirements stipulated in "Energy Management System – Requirements" (GB/T 23331-2012) toward flight operations, ground support and other aspects, we have obtained certification in management system. In 2015, we strengthened our energy saving capabilities through "wide-body aircraft weight losing", APU fuel economy, electronic-enabled and other projects, thereby achieving a saving of 47,900 tonnes of fuel oil and a reduction of 156,600 tonnes of carbon dioxide.

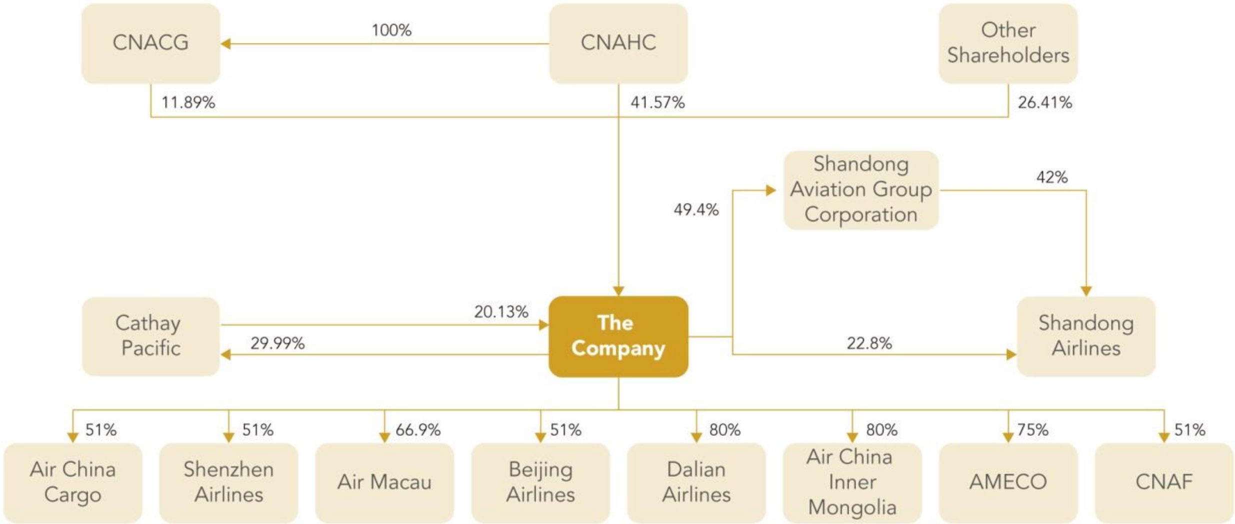
SOCIAL WELFARE

We assumed our social responsibility by taking advantages of our strengths and took the lead in proactively promoting social responsibility for sustainable development in all fields of the society. We deployed Nepal earthquake emergency relief charter, transported the stranded travellers home, transported relief supplies and aids, and helped Nepal to cope with the earthquake disasters. We undertook the tasks in chartering flights for the Winter Olympics delegation, and successfully provided the smooth return flights for Olympic delegates. Strengthening our efforts in the Ganzi Autonomous Prefecture, Batang poverty aid project, we sponsored a pedestrian bridge across the Bachu River to pave the way for the residents' commuting. We built a caring platform to provide support to underprivileged children to improve their living conditions and helping them to grow. We are committed to promoting the spirit of volunteerism. We transported medical experts to Tibet to participate in the "One Heart • One Chinese Heart" Tibetan medical welfare activities, and organized volunteers to accompany the medical team to the heart of Tibet to participate in the social welfare activities.

COMPLIANCE OPERATIONS

During the reporting period, in all material aspects, the Company did not have any violations of laws and regulations that would have a significant impact on the Company.

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 2015, Air China Cargo operated a fleet of 15 aircraft with an average age of 8.54 years. During the year, three new aircraft were introduced.

In 2015, the AFTKs of Air China Cargo reached 11,175 million, representing a year-on-year increase of 18.40%. Its RFTKs reached 6,012 million, representing a year-on-year increase of 16.06%. The volume of cargo and mail was 1.3192 million tonnes, representing a year-on-year increase of 7.24%. The cargo and mail load factor was 53.80%, representing a decrease of 1.09 ppts compared to 2014.

In 2015, Air China Cargo's revenue was RMB9,132 million, representing a decrease of 1.42%, of which, cargo and mail transportation revenue amounted to RMB7,741 million, representing a year-on-year decrease of 3.98%. The profit after taxation was RMB9 million, representing a decrease of 87.70% 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 2015, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 178 aircraft with an average age of 5.61 years. During the year, 22 aircraft was introduced, and four aircraft were phased out.

In 2015, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 52,734 million, representing a year-on-year increase of 10.15%. Its RPKs reached 43,138 million, representing a year-on-year increase of 11.56%. Shenzhen Airlines (including Kunming Airlines) carried 28.7925 million passengers, representing a year-on-year increase of 9.68%. The average passenger load factor was 81.80%, representing an increase of 1.03 ppts compared to last year.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 687million, representing a year-on-year increase of 13.74%. Its RFTKs reached 501 million, representing a year-on-year increase of 6.00%. The volume of cargo and mail carried by Shenzhen Airlines was 0.3103 million tonnes, representing a year-on-year increase of 5.47%, while the cargo and mail load factor was 72.93%, representing a decrease of 5.32 ppts compared to last year.

In 2015, Shenzhen Airlines recorded a revenue of RMB24,244 million, representing a year-on-year increase of 3.50%, of which, air traffic revenue amounted to RMB23,074 million, representing a year-on-year increase of 3.80%. The profit attributable to equity shareholders for the year was RMB733 million, representing a decrease of 5.97% compared to last year.

(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 66.9% of its equity interest.

As at 31 December 2015, Air Macau operated a fleet of 18 aircraft with an average age of 9.32 years. During the year, four new aircraft were introduced and two were phased out.

In 2015, the ASKs of Air Macau reached 5,735 million, representing a year-on-year increase of 11.10%. Its RPKs reached 3,847 million, representing a year-on-year increase of 9.27%. It carried a total of 2.3076 million passengers during the year, representing a year-on-year increase of 8.79%, with an average passenger load factor of 67.08%, representing a decrease of 1.12 ppts compared to last year.

In terms of air cargo, the AFTKs of Air Macau reached 91.41 million, representing a year-on-year increase of 12.92%. Its RFTKs reached 25.44 million, representing a year-on-year increase of 6.07%. It carried 17,153 tonnes of cargo and mail, representing a year-on-year increase of 7.84%. The cargo and mail load factor was 27.83%, representing a decrease of 1.80 ppts compared to last year.

In 2015, Air Macau recorded a revenue of RMB2,444 million, representing a year-on-year decrease of 9.29%, of which, air traffic revenue amounted to RMB1,928 million, representing a year-on-year decrease of 7.45%. Profit after taxation was RMB31 million, representing a year-on-year decrease of 70.58%.

(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 2015, Beijing Airlines operated a fleet of seven entrusted business jets and one privately-owned business jet with an average age of 4.1 years. One aircraft was phased out during the year.

In 2015, Beijing Airlines completed 473 flights, representing a year-on-year decrease of 28.12%. It completed 1,403.60 flying hours, representing a year-on-year decrease of 13.85%. It carried a total of 3,161 passengers, representing a year-on-year decrease of 25.01%.

In 2015, Beijing Airlines recorded a revenue of RMB128 million, representing a year-on-year decrease of 7.49%, of which, charter service revenue amounted to RMB52 million, representing a year-on-year increase of 46.25%. Profit after taxation was RMB3 million, representing a year-on-year decrease of 54.02%.

(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 2015, Dalian Airlines operated a fleet of eight aircraft with an average age of 3.96 years. One aircraft was introduced during the year.

In 2015, the ASKs of Dalian Airlines reached 2,200 million, representing a year-on-year increase of 17.12%. Its RPKs reached 1,837 million, representing a year-on-year increase of 20.77%. It carried a total of 1.7483 million passengers during the year, representing an increase of 26.15%, with an average passenger load factor of 83.50%, representing an increase of 2.53 ppts compared to last year.

In terms of air cargo, the AFTKs of Dalian Airlines reached 24.379 million, representing a year-on-year increase of 10.03%. Its RFTKs reached 15.6084 million, representing a year-on-year increase of 28.54%. It carried a total of 13,581.65 tonnes of cargo and mail during the year, representing a year-on-year increase of 34.45%. Its cargo and mail load factor was 64.02%, representing an increase of 9.22 ppts compared to last year.

In 2015, Dalian Airlines recorded a revenue of RMB1,239 million, representing a year-on-year increase of 26.64%, of which, air traffic revenue amounted to RMB1,238 million, representing a year-on-year increase of 26.51%. Profit after taxation was RMB116 million, representing a year-on-year increase of 1,157.98%.

(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 2015, Air China Inner Mongolia operated a fleet of three aircraft with an average age of 8.14 years. One aircraft was introduced during the year.

In 2015, the ASKs of Air China Inner Mongolia reached 539 million, representing a year-on-year increase of 96.69%. Its RPKs reached 440 million, representing a year-on-year increase of 87.38%. It carried a total of 0.5123 million passengers during the year, representing a year-on-year increase of 43.11%, with an average passenger load factor of 81.70%, a decrease of 4.06 ppts compared to last year.

In terms of air cargo, the AFTKs of Air China Inner Mongolia reached 4.7456 million, representing a year-on-year increase of 65.54%. Its RFTKs reached 3.9927 million, representing a year-on-year increase of 124.05%. The amount of cargo and mail carried by Air China Inner Mongolia was 4,213.46 tonnes, representing a year-on-year increase of 59.65%, with a cargo and mail load factor of 84.13%, representing an increase of 21.97 ppts compared to last year.

In 2015, Air China Inner Mongolia recorded a revenue of RMB428 million, representing a year-on-year increase of 70.44%, of which, air traffic revenue amounted to RMB400 million, representing a year-on-year increase of 60.00%. Profit after taxation was RMB4 million, representing a year-on-year increase of 12.95%.

(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 2015, AMECO recorded a revenue of RMB4,644 million and profit after taxation amounted to RMB26 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. Upon restructuring, CNAF registered capital became RMB1,127,961,864 with Air China holding 51% of its equity interest.

In 2015, CNAF recorded a revenue of RMB178 million and profit after taxation amounted to RMB83 million.

(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 2015, Cathay Pacific operated a fleet of 201 aircraft with an average age of 9.1 years. nine aircraft were introduced and eight were phased out during the year.

In 2015, the ASKs of Cathay Pacific reached 142,680 million, representing a year-on-year increase of 5.92%. Its RPKs reached 122,330 million, representing a year-on-year increase of 8.97%. A total of 34.0649 million passengers were carried, representing a year-on-year increase of 7.90%, with an average passenger load factor of 85.7%, an increase of 2.4 ppts compared to last year.

In terms of air cargo, the AFTKs of Cathay Pacific reached 16,481 million, representing a year-on-year increase of 5.45%. Its RFTKs reached 10,586 million, representing a year-on-year increase of 5.40%. It carried a total of 1.7978 million tonnes of cargo and mail during the year, representing a year-on-year increase of 4.33%. The cargo and mail load factor was 64.23%, representing a reduction of 0.03 ppts compared to last year.

In 2015, Cathay Pacific recorded a revenue of RMB83,237 million, representing a year-on-year decrease of 0.28%, of which, air traffic revenue amounted to RMB78,217 million, representing a year-on-year decrease of 1.80%. The profit attributable to equity shareholders was RMB4,880 million, representing a year-on-year increase of 96.71%.

(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 2015, Shandong Airlines operated a fleet of 86 aircraft (excluding four aircraft on wet leases to Air China) with an average age of 4.3 years. 17 aircraft were introduced and five were phased out during the year.

In 2015, the ASKs of Shandong Airlines reached 28,307 million, representing a year-on-year increase of 23.72%. Its RPKs reached 21,413 million, representing a year-on-year increase of 21.80%. It carried a total of 15.8987 million passengers during the year, representing a year-on-year of 12.62%, with an average passenger load factor of 69.88%, representing a decrease of 1.19 ppts compared to last year.

In terms of air cargo, the AFTKs of Shandong Airlines reached 607 million, representing a year-on-year increase of 23.14%. Its RFTKs reached 215 million, representing a year-on-year increase of 2.33%. It carried a total of 0.1428 million tonnes of cargo and mail during the year, representing a year-on-year increase 1.00%. The cargo and mail load factor was 35.46%, representing a decline of 7.21 ppts compared to last year.

In 2015, Shandong Airlines recorded a revenue of RMB12,109 million, representing a year-on-year increase of 4.66%, of which, air traffic revenue amounted to RMB11,841 million, representing a year-on-year increase of 4.25%. The profit attributable to equity shareholders was RMB532 million, representing a year-on-year increase of 84.91%.

SUBSEQUENT EVENTS

At the Board meeting of the Company held on 11 December 2015, the Board approved the issue of not more than 1,520,912,547 new A shares to not more than 10 investors (including CNAHC). The proposed non-public issue of such A shares was approved by the independent shareholders at the extraordinary general meeting ("EGM") held on 26 January 2016. Details are set out in the section headed "Non-public Issue of A Shares" on page 66 of this annual report.

The Company and its wholly-owned subsidiary Air China Import & Export Co. Ltd. entered into an agreement with The Boeing Company on 7 January 2016 to purchase six Boeing B777-300ER aircraft. The basic price per aircraft is inclusive of the price of the fuselage, parts and engines. The total basic price of the six Boeing B777-300ER amounted to US$2,051 million (open market price in July 2014). The transaction will enable a capacity growth of about 5% for the Group. Details are set out in the Company's announcement which was published on the Hong Kong Stock Exchange website on 7 January 2016.

The Company and its wholly-owned subsidiary Air China Import & Export Co. Ltd. entered into an agreement with Airbus S.A.S. on 29 February 2016 to purchase 12 Airbus A330-300 aircraft. The basic price per aircraft is inclusive of the price of the fuselage, parts and engines. The total basic price of the 12 Airbus A330-300 aircraft amounted to US$2,927 million (the open market price in January 2013). The transaction will enable a capacity growth of about 5.6% for the Group. Details are set out in the Company's announcement which was published on the Hong Kong Stock Exchange website on 29 February 2016.

On 5 February 2016, the Company and Air China Cargo entered into a settlement agreement with the plaintiffs in the United States cargo antitrust lawsuit (see Financial Report Note 41). Under the settlement agreement, subject to approval by the court, the Company and Air China Cargo agreed to make a payment of US$50 million in aggregate to settle the lawsuit. Neither the Company nor Air China Cargo acknowledges any wrongdoing or liability on the part of the Company or Air China Cargo in the Settlement Agreement and there is no admission of any wrongdoing or liability in the settlement agreement. The underlying actions of the allegation by the plaintiffs in the antitrust lawsuit took place during the period between 1 January 2000 and 30 September 2006. In 2004, the Company and CNAHC and CNACG entered into a restructuring agreement, and in 2010, the Company, Cathay Pacific China Cargo Holdings, Fine Star and Air China Cargo entered into a capital increase agreement with respect to the capital increase in Air China Cargo. Pursuant to the above agreements, CNAHC and the Company shall bear 52.27% and 47.73%, respectively, of the settlement amount and settlement costs in connection with the antitrust lawsuit. The amount due was fully settled by both parties on 18 March 2016. Details are set out in the Company's announcements which were published on the website of the Hong Kong Stock Exchange on 5 February 2016 and 18 March 2016.

FUTURE PROSPECTS

We envisage rapid growth and profound structural changes in the Chinese aviation passenger market.

Despite the slowdown in the economic growth, the driving force of China's aviation market demand is strong and the market potential remains considerable. There will be structural changes to the market, and we envisage that the passenger throughput capacity for second- and third-tier cities will grow faster than that in the first-tier cities, and the number of travellers from the central and western inland cities will also grow substantially. The market for business travels and tourist travels has great development potential due to the growth in the number of business travellers and the cost-sensitive tourists. The growth in the number of passengers of international travelling will exceed that of passengers of domestic travelling due to the growing trend of overseas studies, emigration, relaxation of visa requirements and other factors. The number of passengers of international travelling in the coming decade will continue to increase.

The national strategies on three regions will substantially change the aviation market.

As an initiative to promote synergistic development of various regions, the strategies on the three regions, being the Beijing/Tianjin/Hebei region, the "One Belt, One Road" region and the Yangtze River economic region – will not only strengthen the coordination and the synergy of the three regions, but also change the aviation market. The synergistic development of Beijing/Tianjin/Hebei region will significantly enhance the international competitiveness of the Beijing hub and further strengthen its significance as a hub. The "One Belt, One Road" strategy will promote economic and trade exchange and cooperation between China and Southeast Asia, Northeast Asia and Europe. It will not only strengthen the status of Shanghai and Guangzhou as international hubs, but also nurture opportunities to the second-tier cities' airports. The Yangtze River economic region will accelerate the construction of Shanghai international hub and the regional hub as the core of aviation network.

Global competition and cooperation in the aviation industry is taking new forms, and competition in Chinese aviation market is increasingly intensifying.

In the global market, competition is taking new forms. Airline companies in Europe and America are rapidly building up competitiveness through integration. Airline alliances are being replaced by bilateral and multilateral code-sharing flight arrangements of major network carriers. The non-controlling equity investment strategy has led to a global partnership that goes beyond the existing framework of airline alliance and code-sharing model.

To explore the Chinese market for international flights, we, the Company, China Eastern Airlines Co. Ltd. and China Southern Airlines Co. Ltd. are in the process of bringing on a large number of wide-body aircraft, accelerating the expansion of international routes and continuously improve their proportion of international routes. With more and more medium-size domestic airlines applying for the rights to fly medium-and long-haul routes, the availability of international air traffic rights in the future will become more competitive. In the meantime, with intensifying competition from other international hubs, passengers of our North American direct flights are being diverted to other international hubs such as Seoul, Tokyo and Hong Kong, while passengers of our European direct flights are being diverted to certain hubs in the Middle East, since these hubs offer transit flights for passengers of European and American routes.

To explore the Chinese market for domestic flights, privately owned airlines such as the Spring Airlines and Juneyao Airlines are on the increase and will intensify the competition. With the gradual relaxation of market access, locally based regional airlines are being established, coupled with the gradual wave of low-cost carriers emerging in the market, the competition in the domestic market will intensify and will result in reduced revenue. In addition, the expansion of high-speed rail has a significant impact on the short- to medium-haul air travel. Passengers of short- to medium-haul flights are diverted not only on newly launched high-speed railway routes, but also on the existing railway routes with enhanced operation with greater network coverage, higher travelling speed, increased frequencies and extension of 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 prepared in accordance with the IFRSs and are designed to assist readers in further understanding the information provided in this report and to better understand the financial performance and results of operation of the Group as a whole.

PROFIT ANALYSIS

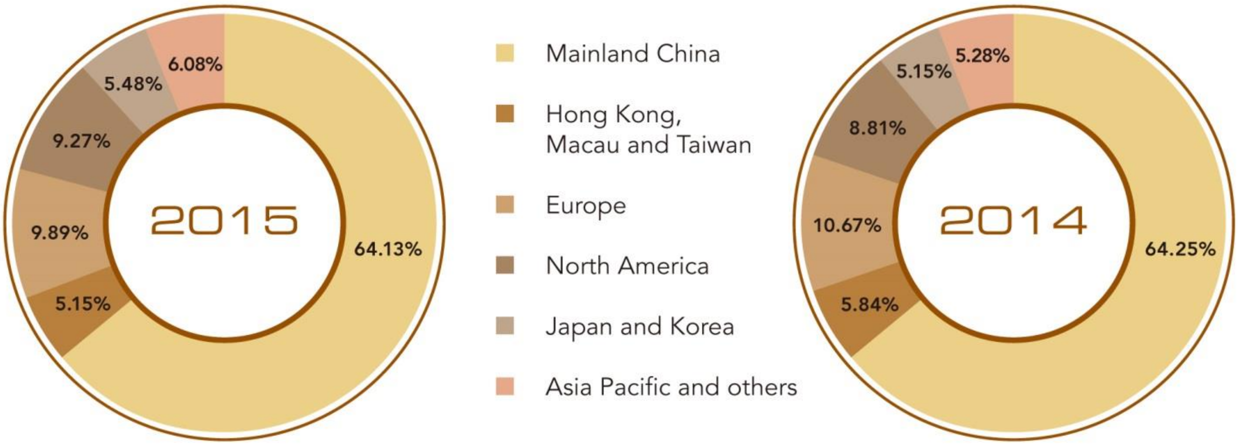
In 2015, the Group proactively responded to changes in the competitive landscape and market demand by adopting various measures such as optimising operational arrangement, enhancing marketing capability and strengthening cost management. We recorded an operating profit of RMB15,552 million, representing an increase of RMB8,295 million or 114.30% as compared with that of the previous year. However, due to the offset by unfavorable factors including the depreciation of RMB against US dollars, profit attributable to equity shareholders of the Company and earnings per share amounted to RMB7,063 million and RMB0.57 respectively, representing a year-on-year increase of 83.34% and 83.34%, respectively.

REVENUE

In 2015, the Group's total revenue was RMB110,057 million, representing an increase of RMB4,092 million or 3.86% as compared with last year. Revenue from traffic operations was RMB104,368 million, representing an increase of RMB2,983 million or 2.94% over last year. Other operating revenue was RMB5,689 million, representing a year-on-year increase of RMB1,109 million or 24.22%, mainly due to the consolidation of AMECO as our subsidiary during the reporting period.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	2015		2014 (Restated)		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**70,578,761**	**64.13%**	68,083,855	64.25%	3.66%
Hong Kong, Macau and Taiwan	**5,666,889**	**5.15%**	6,186,245	5.84%	(8.40%)
Europe	**10,882,067**	**9.89%**	11,304,062	10.67%	(3.73%)
North America	**10,196,925**	**9.27%**	9,339,397	8.81%	9.18%
Japan and Korea	**6,029,137**	**5.48%**	5,452,765	5.15%	10.57%
Asia Pacific and others	**6,703,255**	**6.08%**	5,598,573	5.28%	19.73%
Total	**110,057,034**	**100.00%**	105,964,897	100.00%	3.86%



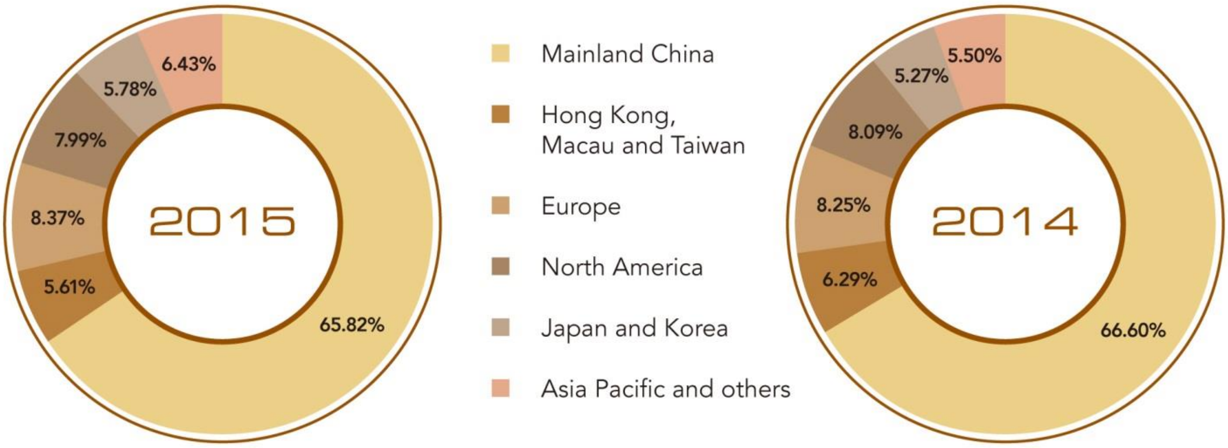
AIR PASSENGER REVENUE

In 2015, the Group recorded air passenger revenue of RMB95,921 million, representing an increase of RMB3,321 million over that of 2014. Among the air passenger revenue, the increase of capacity contributed an increase of RMB10,137 million to revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB6,869 million. The increase of passenger load factor also brought an increase of RMB53 million to the revenue. The Group's capacity, load factor of passenger and yield per RPK in 2015 are as follows:

	2015	2014	Change
Available seat kilometres (million)	**214,828.73**	193,631.46	10.95%
Passenger load factor (%)	**79.93**	79.89	0.04 ppts
Yield per RPK (RMB)	**0.5583**	0.5984	(6.70%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2015		2014		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**63,145,755**	**65.82%**	61,672,170	66.60%	2.39%
Hong Kong, Macau and Taiwan	**5,376,649**	**5.61%**	5,828,565	6.29%	(7.75%)
Europe	**8,025,820**	**8.37%**	7,640,985	8.25%	5.04%
North America	**7,662,868**	**7.99%**	7,490,522	8.09%	2.30%
Japan and Korea	**5,541,750**	**5.78%**	4,876,735	5.27%	13.64%
Asia Pacific and others	**6,167,903**	**6.43%**	5,090,340	5.50%	21.17%
Total	**95,920,745**	**100.00%**	92,599,317	100.00%	3.59%



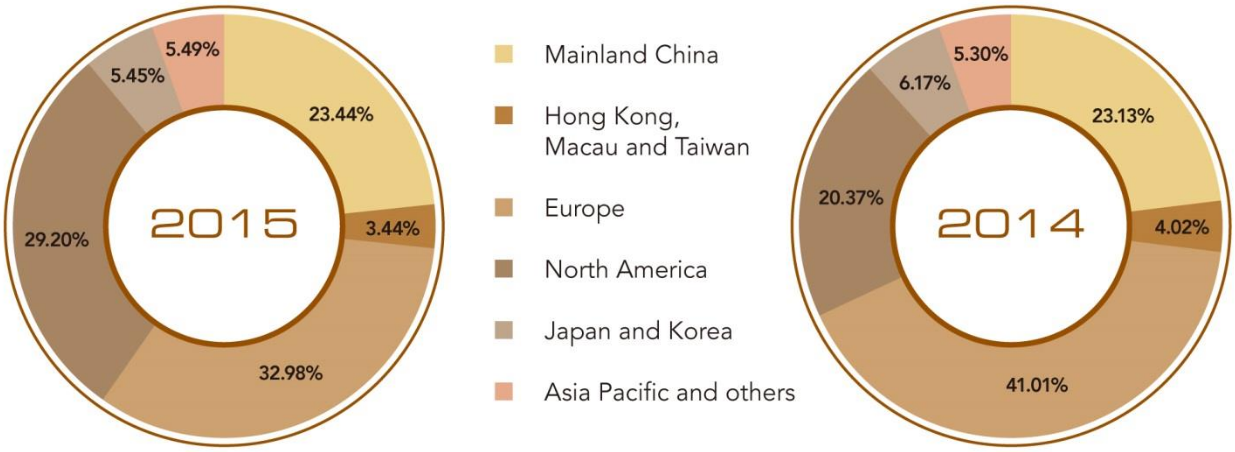
AIR CARGO REVENUE

In 2015, the Group's air cargo and mail revenue was RMB8,447 million, representing a decrease of RMB338 million as compared with last year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB1,588 million to the revenue, while the decreases of cargo and mail load factor and yield of cargo and mail resulted in decreases in revenue of RMB249 million and RMB1,677 million, respectively. The capacity, cargo and mail load factor and yield per RFTK in 2015 are as follows:

	2015	2014	Change
Available freight tonne kilometres (million)	**11,982.31**	10,147.93	18.08%
Cargo and mail load factor (%)	**54.73**	56.08	(1.35 ppts)
Yield per RFTK (RMB)	**1.2880**	1.5438	(16.57%)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2015		2014		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,980,773**	**23.44%**	2,032,015	23.13%	(2.52%)
Hong Kong, Macau and Taiwan	**290,240**	**3.44%**	353,618	4.02%	(17.92%)
Europe	**2,785,922**	**32.98%**	3,602,942	41.01%	(22.68%)
North America	**2,466,913**	**29.20%**	1,789,924	20.37%	37.82%
Japan and Korea	**460,065**	**5.45%**	541,965	6.17%	(15.11%)
Asia Pacific and others	**463,572**	**5.49%**	465,418	5.30%	(0.40%)
Total	**8,447,485**	**100.00%**	8,785,882	100.00%	(3.85%)



OPERATING EXPENSES

In 2015, the Group's operating expenses were RMB94,505 million, representing a decrease of 4.26% from RMB98,708 million in 2014. The breakdown of the operating expenses is set out below:

	2015		2014 (Restated)		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**24,042,614**	**25.44%**	34,542,440	34.99%	(30.40%)
Take-off, landing and depot charges	**11,643,166**	**12.32%**	10,566,490	10.70%	10.19%
Depreciation and amortisation	**13,010,761**	**13.77%**	11,393,429	11.55%	14.20%
Aircraft maintenance, repair and overhaul costs	**4,015,468**	**4.25%**	3,587,507	3.63%	11.93%
Employee compensation costs	**18,230,841**	**19.29%**	15,550,853	15.76%	17.23%
Air catering charges	**3,031,717**	**3.21%**	2,755,640	2.79%	10.02%
Selling and marketing expenses	**4,558,933**	**4.82%**	5,896,812	5.97%	(22.69%)
General and administrative expenses	**1,414,741**	**1.50%**	585,859	0.60%	141.48%
Others	**14,557,171**	**15.40%**	13,828,820	14.01%	5.27%
Total	**94,505,412**	**100.00%**	98,707,850	100.00%	(4.26%)

In particular:

- Jet fuel costs decreased by RMB10,500 million or 30.40% as compared to 2014, mainly due to the effect of the decrease in the price of jet fuel.

- Take-off, landing and depot charges increased by RMB1,077 million as compared to 2014, primarily due to an increase in the number of take-offs and landings.

- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft during 2015.

- Aircraft maintenance, repair and overhaul costs recorded an increase of RMB428 million or 11.93% as compared to 2014 due to fleet expansion.

- Employee compensation costs increased by RMB2,680 million, mainly due to the consolidation of AMECO as our subsidiary, as well as the increase in number of employees and the adjustment of employee compensation level.

- Air catering charges increased by RMB276 million, mainly due to the effect of the increase in number of passengers.

- Selling and marketing expenses decreased by RMB1,338 million as compared to 2014, mainly due to the increase in the proportion of direct sales and the consequent significant decrease in agency fee expenses.

- General and administrative expenses increased by RMB829 million, mainly due to the effect of a new subsidiary, AMECO, and the reversal of impairment on receivables for 2014.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items. Other operating expenses increased by 5.27% from the previous year, mainly due to the increases in the operating lease expenses of aircraft engines and buildings and contributions to the civil aviation development fund for 2015.

FINANCE INCOME AND FINANCE COSTS

In 2015, the Group recorded an interest income of RMB152 million, representing a decrease of 31.54% or RMB70 million as compared to 2014; and incurred an interest expense (excluding the capitalised portion) of RMB2,813 million, representing a decrease of RMB41 million.

In 2015, the Group recorded a net exchange loss of RMB5,156 million, representing an increase of 1,331.62% or RMB4,796 million as compared to 2014. The increase was primarily due to the impact of the appreciation of US dollars against the RMB during the reporting period.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES AND JOINT VENTURES

In 2015, the Group's share in the profits of its associates and joint ventures was RMB1,620 million, representing an increase of RMB761 million from that of 2014, mainly due to the increase in profits of Cathay Pacific, an associate of the Group, during the year, among which the Group's recognition of gains on investment in Cathay Pacific amounted to RMB1,009 million, representing a year-on-year increase of RMB419 million.

ANYALYSIS OF ASSETS STRUCTURE

As at 31 December 2015, the total assets of the Group amounted to RMB213,631 million, representing an increase of 0.93% from the previous year, among which current assets accounted for RMB20,211 million or 9.46% of the total assets, while non-current assets accounted for RMB193,420 million or 90.54% of the total assets.

Among the current assets, cash and cash equivalents were RMB7,138 million, accounting for 35.32% of the current assets and representing a decrease of 17.38% from the beginning of 2015. It was mainly due to the improvement of the utilisation efficiency of financial funds as the Group preferred to use its own funds.

Among the non-current assets, the net book value of property, plant and equipment amounted to RMB155,991 million, accounting for 80.65% of the non-current assets and representing an increase of 5.26% from the previous year, which was primarily due to the increase in the number of self-owned and financing leased aircraft.

ASSET MORTGAGE

As at 31 December 2015, 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 RMB106,171 million (approximately RMB98,674 million as at 31 December 2014) and land use rights with net book value of approximately RMB36 million (approximately RMB37 million as at 31 December 2014). At the same time, the Group had restricted bank deposits of approximately RMB655 million (approximately RMB705 million as at 31 December 2014), which were mainly reserves deposited in the People's Bank of China and the pledges for aircraft operating leases.

CAPITAL EXPENDITURE

In 2015, the Company's capital expenditure amounted to a total of RMB11,311 million, of which the total investment in aircraft and engines was RMB9,923 million.

Other capital expenditure amounted to RMB1,388 million which was mainly spent on high-cost rotables, aircraft modifications, flight simulators, infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2015, the Group's equity investment in its associates amounted to RMB11,553 million, representing a decrease of 1.34% from the beginning of 2015. The balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Company Limited and Shandong Airlines Company Limited amounted to RMB9,491 million, RMB1,104 million and RMB716 million, respectively, with such companies recording profits of RMB5,130 million, RMB610 million and RMB532 million, respectively.

As at 31 December 2015, the Group's equity investment in its joint ventures was RMB1,038 million, representing a decrease of 25.46% from the beginning of 2015, mainly due to the completion of consolidation of AMECO, upon which AMECO turned from a joint venture to a subsidiary of the Company.

DEBT STRUCTURE ANALYSIS

As at 31 December 2015, the Group's total liabilities were RMB147,108 million, representing a decrease of 3.09% from the previous year. Current liabilities amounted to RMB50,547 million, accounting for 34.36% of the total liabilities; and non-current liabilities amounted to RMB96,561 million, accounting for 65.64% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB17,266 million, representing a decrease of 47.15% from the beginning of 2015, mainly due to the increased repayment of short-term borrowings of the Group; other advances and payables amounted to RMB33,281 million, representing an increase of 11.85% from the previous year.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB86,791 million, representing an increase of 8.13% from the beginning of 2015.

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

	2015		2014 (Restated)		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
US dollars	**76,468,517**	**73.48%**	83,334,291	73.79%	(8.24%)
RMB	**24,471,165**	**23.52%**	28,638,637	25.36%	(14.55%)
Others	**3,117,052**	**3.00%**	959,705	0.85%	224.79%
Total	**104,056,734**	**100.00%**	112,932,633	100.00%	(7.86%)

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 8.33% from RMB104,516 million as at 31 December 2014 to RMB95,808 million as at 31 December 2015. The Group's commitments under operating leases, which mainly consisted of the payment in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB40,139 million as at 31 December 2015, representing an increase of 13.59% as compared to the previous year. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB58 million as at 31 December 2015, representing a decrease of RMB867 million from RMB925 million as at 31 December 2014.

Details of the contingent liabilities of the Group are set out in note 41 to the financial statements of the Group for 2015.

GEARING RATIO

As at 31 December 2015, the Group's gearing ratio (total liabilities divided by total assets) was 68.86%, representing a decrease of 2.85 percentage points from 71.71% as at 31 December 2014. It was mainly due to the increase in total equity resulted from sustainable profitability for the period as compared to that at the beginning of the year. As high gearing ratio is common among aviation enterprises, the Group continued to maintain a relatively reasonable gearing ratio. Taking into account of the Group's profitability and the market environment where it operates, its long-term insolvency risk is within control.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2015, the Group's net current liabilities (current liabilities minus current assets) were RMB30,336 million, representing a decrease of RMB9,167 million as compared to 2014. The decrease in net current liabilities was mainly due to the decrease in short-term interest-bearing bank loans and other loans. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.40, representing a slight increase from 0.37 as at 31 December 2014.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2015, the Group's net cash inflow from operating activities was RMB28,572 million, representing an increase of 110.67% from RMB13,562 million in 2014, mainly due to the increase in operating revenue for the year, and to the decrease in operating expenses resulting from the decrease in fuel costs. Net cash outflow from investment activities was RMB6,788 million, representing a decrease of 35.57% from RMB10,535 million in 2014, mainly due to the decrease in cash advances and final payments for aircraft during the reporting period. Net cash outflow from financing activities amounted to RMB23,381 million, representing an increase of approximately RMB15,445 million from RMB7,936 million in 2014, mainly due to the sufficient cash flow from operating activities and a substantial decrease in the amount of our financing as compared to the previous year. The Company has obtained bank facilities in a maximum amount of RMB144,433 million from a number of banks in the PRC, of which approximately RMB25,508 million has been utilised. Our demand on working capital and future capital commitments can be sufficiently met.

RISK FACTORS

Risks related to macro-economy conditions

Air transport industry is significantly influenced by domestic and international macro-economy conditions. The travel frequency and choices of transport vehicles of citizens are affected by their disposable income. The Chinese economy has entered into the "new normal" where the economy maintains a medium-to-high growth rate while undergoing a fundamental change in the development mode and economic structure with a focus on innovative development. However, structural factors coupled with cyclical factors contributes to a downturn in future economic development. If the economy experiences a further slowdown in its growth, it may adversely affect our financial position and operating results.

Risks related to regulatory policy

One of the major trends of the global air transport industry is relaxation of market access and traffic right, illustrated by a trend that areas such as market access, capacity coordination, slot allocation and air transport pricing are gradually decided and distributed by market rather than regulated by governments. The government is changing its air policy to make the industry more market-oriented and introducing more competition and low-cost airlines, which will further lower the industry concentration and disperse air resources. With excessive supply in the current market circumstances, the relaxation in the above policies may have an adverse effect on the profitability of airlines.

Risks related to market and operation

(1) Risks related to industry competition

The competition among domestic airline companies is intensifying against the backdrop of the relaxation of aviation market access and a more market-oriented operation mode of airline companies. Since 2013, a number of low-cost and regional airlines were approved and established, and many medium-size airline companies also sought to expand their operations. The Civil Aviation Administration of PRC encourages airline companies to implement a differentiated development strategy and provides support to low-cost and regional airlines, thus the domestic air industry being faced new competition pattern. Low-cost airlines in Southeast Asia, Japan and Korea are eager to launch new routes to China, competing for market with traditional airlines and reducing the latter's market share and ticket prices, which poses challenges on traditional airlines' profitability. At the same time, large-size international airlines speed up their penetration into China market, especially in second- and third-tier cities, therefore a more competitive situation is emerging for domestic airlines. Meanwhile, in the global market, a new competition pattern with European and American carriers playing the leading role and carriers in the Middle East pushing business in all directions.

(2) Risks related to the competition from high speed rail

High-speed rail is a vital part in building a transportation network, but it also brings competition to civil aviation. For domestic short-distance traveller, high frequency, punctuation, high-speed, convenience, comfort and lower price are the main factors for traveller's choice of high-speed rail as it is more time-effective and cost-effective for trips within 1,000 kilometres. As compared to our industry competitors, short- and medium-haul routes account for a lower proportion in our domestic routes. Our routes within 1,000 kilometres mileage mainly concentrate in the Southwest China areas surrounding our Chengdu hub and the Northern China and Northeast China areas surrounding our Beijing hub. Since these areas are relatively far away from the matrix network of the high speed rail which mainly concentrates in the central and Eastern China areas, the adverse impact from high speed rail on our business is substantially mitigated. In the long run, high-speed rail will be expanded to meet Chinese travellers' growing demands, and the high-speed rail with greater network coverage, sophisticated technology, improved management during the process of reforming and structural adjustment will inevitably have an impact on civil aviation. Passengers are not only diverted to newly launched high speed railway routes, but also to the existing railway routes with enhanced operation with greater network coverage, higher travelling speed, increased frequencies and extension of operating hours.

(3) Risks related to fluctuations in fuel prices

Jet fuel cost is one of the major costs for airline operation. In recent years, the oil prices have experienced significant fluctuations as a result of the changes in international crude oil prices. However, in the competitive aviation market, it’s difficult to transfer the risk associated with fuel price to ultimate passengers. In the global crude oil market, the oil price is commonly influenced by factors such as market demand and supply, US dollar exchange rate and political factors. The oil prices were relatively low during 2015. Any increase in the oil prices in the future will pose challenges on the Company’s operating cost, and could adversely affect the Company’s operating results.

FINANCIAL RISK

The company is exposed to financial risks as we have a substantial amount of liabilities and assets dominated in foreign currencies. When exchange rate fluctuates, gains and losses resulting from foreign exchanges could significantly affect the Company’s operating results. Exchange rate volatility also affects costs generated from overseas purchase of aircrafts, equipment, jet fuel and overseas expenses relating to take-off and landing, and it could also have an impact on the overseas travel demand of Chinese citizens, which ultimately affects the operating results of the Company. In addition, interest rate volatility could also affect the Company’s finance cost and operating results.

Details of the financial risk management objectives and policies of the Group are set out in note 43 to the financial statements of the Group for 2015.

CORPORATE GOVERNANCE REPORT

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. Except for the deviations disclosed in this report, 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 2015 and up to the Latest Practicable Date. The Company's corporate governance practices during the year of 2015 and as at the Latest Practicable Date are summarised and discussed below.

GOVERNANCE STRUCTURE

As at the Latest Practicable Date, the governance structure of the Company is set out as follows:

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

Independent non-executive Directors shall comprise one third of the Board.

- As at the Latest Practicable Date, the Board of the Company comprised 12 Directors, out of which four were independent non-executive Directors. The Directors of the Company 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, among whom Mr. Li Dajin has confirmed that he meets the independence guidelines as stipulated in Rule 3.13 of the Listing Rules notwithstanding the fact that he is a managing director partner of East & Concord Partners, which had been providing annual compliance legal services to AMECO, a joint venture between the Company and Lufthansa, principally engaging in the provision of aircraft and engine overhaul and maintenance services. Grounds for Mr. Li's confirmation are as follows (i) AMECO had not been consolidated in the financial information of the Company prior to June 2015 and is an insignificant subsidiary of the Company under Rule 14A.09 of the Listing Rules; (ii) Mr. Li is not the partner-in-charge on the annual legal compliance engagement with AMECO nor had been personally involved in the provision of legal services to AMECO; (iii) other than completing a pending litigation proceeding involving AMECO (which had been settled in March 2016), East & Concord Partners ceased to provide legal services to AMECO starting from 10 August 2015; and (iv) the Company considered that Mr. Li's relevant qualifications and experiences render him the most suitable candidate to serve as the independent non-executive Director of the Company.

- As at the Latest Practicable Date, the Company had already received from all independent non-executive Directors the annual statements (including Mr. Yang Yuzhong and Mr. Fu Yang, who resigned in 2015) 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 of the Company have extensive expertise and experience in the fields of aviation, finance and financial management and provide substantial support for the effective performance of the Board.

- The list of the Directors and their biographical details and respective roles on the Board and specialised committees under the Board are set out in this 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 granted by the shareholders' general meeting.

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

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

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

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

- Board meetings are held regularly throughout the year and generally include annual meetings, interim meetings and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and address to convene the Board meeting as well as financial reports to be considered at such regular meetings, and shall inform all Directors of such plans in the beginning of the year. Board meetings shall be convened by the Chairman and a 14-day notice shall be served to all Directors before each meeting. The Directors may attend live meetings or through or other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the Secretary to the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of such proposal, and the relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least 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 2015 is set out as follows:

No. of meetings	**11**
Non-executive Directors	
Cai Jianjiang *(Chairman)*	11/11
Wang Yinxiang	11/11
Cao Jianxiong	11/11
Feng Gang	10/11
John Robert Slosar	9/11
Ian Sai Cheung Shiu	11/11
Executive Directors	
Song Zhiyong *(President)*	10/11
Fan Cheng	9/11
Independent non-executive Directors	
Fu Yang *(resignation effective from 22 December 2015)*	9/11
Yang Yuzhong *(resignation effective from 22 May 2015)*	5/5
Pan Xiaojiang	11/11
Simon To Chi Keung	11/11
Stanley Hui Hon-chung *(appointment effective from 22 May 2015)*	6/6
Li Dajin *(appointment effective from 22 December 2015)*	–

Notes:

At the annual general meeting of the Company held on 22 May 2015, Mr. Stanley Hui Hon-chung was appointed as an independent non-executive Director of the fourth session of the Board while Mr. Yang Yuzhong resigned from the position of independent non-executive Director. During the reporting period, Mr. Stanley Hui Hon-chung should attend six Board meetings, and Mr. Yang Yuzhong should attend five Board meetings.

At the first extraordinary general meeting of the Company held on 22 December 2015, Mr. Li Dajin was appointed as an independent non-executive Director of the fourth session of the Board while Mr. Fu Yang resigned from the position of non-executive Director. During the reporting period, Mr. Fu Yang should attend 11 Board meetings, and there was no Board meetings that Mr. Li Dajin should attend.

For the year ended 31 December 2015, the number of Board meetings held, the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

- All Directors have actively participated in the general meetings of the Company. Attendance of all Directors at general shareholders' meetings in 2015 is set out as follows:

No. of meetings	**2**
Non-executive Directors	
Cai Jianjiang *(Chairman)*	2/2
Wang Yinxiang	2/2
Cao Jianxiong	2/2
Feng Gang	2/2
John Robert Slosar	0/2
Ian Sai Cheung Shiu	1/2
Executive Directors	
Song Zhiyong *(President)*	1/2
Fan Cheng	2/2
Independent non-executive Directors	
Fu Yang *(resignation effective from 22 December 2015)*	1/2
Yang Yuzhong *(resignation effective from 22 May 2015)*	–
Pan Xiaojiang	2/2
Simon To Chi Keung	2/2
Stanley Hui Hon-chung *(appointment effective from 22 May 2015)*	1/1
Li Dajin *(appointment effective from 22 December 2015)*	–

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

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

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

- The Company also encourages its Directors to participate in seminars and courses conducted by recognised institutions so as to ensure that they 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.

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 2015.

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

Corporate Governance Functions

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

B. Remuneration of Directors and Senior Management

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

- The Company has established 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 of the Company. In addition, the Nomination and Remuneration Committee reviews the performance of and determines the compensation structure of the senior management of the Company.

- Mr. Fu Yang resigned from the position of non-executive Director of the Company in June 2015 and the resignation became effective from the date of the extraordinary general meeting of the Company held on 22 December 2015, where Mr. Li Dajin was appointed as an independent non-executive Director. After the resignation becomes effective, Mr. Fu Yang is no longer the chairman of the Nomination and Remuneration Committee. Therefore, the Company failed to meet the composition requirements of the Nomination and Remuneration Committee pursuant to Rule 3.25 of the Listing Rules which requires that the chairman of the remuneration committee should be chaired by an independent non-executive director and code provision A.5.1 of the Code which requires that the Company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. On 21 January 2016, the Company held a Board meeting on which Mr. Li Dajin was appointed as a member of the Nomination and Remuneration Committee. At the meeting of the Nomination and Remuneration Committee held on the same day, Mr. Li Dajin was elected as the chairman of the Nomination and Remuneration Committee to be responsible for the work of the Nomination and Remuneration Committee. The aforementioned requirements of the Listing Rules and the Code have been fulfilled since then.

- As at the Latest Practicable Date, the Nomination and Remuneration Committee comprised of two non-executive Directors, Mr. Cai Jianjiang and Ms. Wang Yinxiang 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 at the meetings of the nomination and remuneration committee in 2015 is set out as follows:

No. of meetings	**2**
Fu Yang *(Former Chairman)*	2/2
Cai Jianjiang	2/2
Wang Yinxiang	2/2
Pan Xiaojiang	2/2
Simon To Chi Keung	2/2

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

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

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

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

- A shareholder holding 3% or more of the total shares of the Company is entitled to nominate a Director 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 responsible for performing the following duties:

  - to review the nomination of Mr. Stanley Hui Hon-chung as an independent non-executive Director and to make appointment recommendation to the Board;

  - to review the nomination of Mr. Li Dajin as the candidate for the independent non-executive Director and to make appointment recommendation to the Board; and

  - 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.

  Details of the remuneration of the Directors and senior management are disclosed in notes 11 and 45 to the financial statements of this annual report. Mr. Pan Xiaojiang waived to receive his emolument of independent non-executive Director from the Company 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 results 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.

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

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

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

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

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

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

- As mentioned previously, Mr. Fu Yang ceased to be the member of the Audit and Risk Control Committee after his resignation became effective. Therefore, the Company failed to meet the composition requirement under Rule 3.21 of the Listing Rules which requires that the audit committee must comprise a minimum of three members. On 21 January 2016, the Company held a Board meeting where Mr. Li Dajin was appointed as a member of the Audit and Risk Control Committee. The aforementioned requirement of the Listing Rules has been fulfilled since then.

- As at the Latest Practicable Date, 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 at the meetings of the Audit and Risk Control Committee in 2015 is set out as follows:

No. of meetings	**8**
Pan Xiaojiang *(Chairman)*	8/8
Fu Yang *(Former member)*	8/8
Cao Jianxiong	8/8

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

  – to review the annual report and financial statements as well as profit distribution plan for the year 2014, 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 2015;

  – to review the financial plan, capital expenditure plan, fund raising and financing plans for the year 2015;

  – to review the accounting standards of the new "Financial Instruments: Presentation" implemented by the Company and the provisions for the impairment of the four aircrafts;

– to review 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 2015; and to review the appointment of KPMG Huazhen LLP as the internal control auditor of the Company for the year 2015;

– to review the entry into of the financial services framework agreements between the Company and CNAF and between CNAF and CNAHC, respectively;

– to review the signed 2016-2018 framework agreements of the continuing connected transactions with CNAHC and apply for the proposed annual caps for the relevant years;

– to review the "Future plan for return to the Shareholders for the coming three years (2015–2017) by Air China Limited", "Management Regulations on fuel hedging business of Air China Limited" and "Implementation Rules for fuel hedging business of Air China Limited"; and

– to review the resolutions in respect of the non-public issue of A shares and other matters in relation to the non-public issue of A shares after the adjustment.

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 2014 and internal audit plan for the year 2015; summary report on audit work for the year 2014 from KPMG and KPMG Huazhen LLP; self-assessment report on internal control of the Company for the year 2015 and the audit plan on internal control of KPMG Huazhen LLP and interim Cross-check Report of the Audit and Risk Control Committee 2015.

• The annual report of the Company for the year ended 31 December 2015 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 "lndependent 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 2015 is as follows:

RMB10.56 million (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2015 and for the audit of the Group's financial statements for the year ended 31 December 2015; an aggregate amount of RMB7.731 million (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 2015; and fees for other audit services amounted to RMB3.76 million (including value-added tax). An aggregate amount of approximately RMB29,000 (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 internal control system and risk control system, evaluate the effectiveness of the detailed management and control rules and the operational standards relating to risk investments (including but not limited to financial derivatives instruments), and consider the strategies and proposals of the Company's risk investment; to review the Company's relevant significant connected transactions; to receive reports from the Company relating to fraudulent acts and discovery and complaints; and to fulfill other duties authorised by the Board.

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

- The primary duties of the Strategy and Investment Committee are: to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; to make decisions on the establishment, merger and dissolution of branches of the Company; and to fulfill other duties authorised by the Board. As at the Latest Practicable Date, 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.

- The primary duties of the Aviation Safety Committee are: to receive the safety report of the Company on a regular basis and report to the Board; to study and deal with significant problems in relation to aviation safety work of the Company; to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, facilities and materials to fulfill the needs of safety operation of the Company; and to fulfill other duties authorised by the Board. As at the Latest Practicable Date, 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.

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

E. Communication with shareholders

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

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

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

- The annual general meetings represent an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective chairmen of the Audit and Risk Control Committee, Nomination and Remuneration Committee, Strategy and Investment Committee and Aviation Safety Committee will answer queries raised by shareholders at general meetings.

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

- Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions before the annual general meeting.

- Other than the annual general meeting, the Company would also hold 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, Airport Industrial Zone, Shunyi District, 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 2015, each joint company secretary attended 15 hours of professional training to update her skill and knowledge.

G. Amendments to the Articles of Association

The Articles of Association of the Company has been amended in 2015 and approved in the first extraordinary general meeting held on 22 December 2015. The amended Articles of Association will take effect upon receiving requisite approval.

REPORT OF THE DIRECTORS

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.

REVIEW OF BUSINESS

Details about the fair review of the Company's business, talents nurturing, customer service, suppliers management, environmental protection, social welfare, compliance operations, subsequent events and future prospects are set out in the section entitled "Business Overview" on pages 12 to 25.

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.

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 2015 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 86 to 185 of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and financial position prepared in accordance with IFRSs for the five years ended 31 December 2015 are summarised and set out on pages 4 and 5 of this annual report.

SHARE CAPITAL

As at 31 December 2015, the total share capital of the Company was RMB13,084,751,004, divided into 13,084,751,004 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2015:

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

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

As at 31 December 2015, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest and short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO are as follows:

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

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2015:

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

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 53.20% equity interest and 62.60% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2015, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 31 December 2015, to the knowledge of the Directors, Supervisors and chief executive of the

Company, no other person (other than a Director, Supervisor or chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO.

PUBLIC FLOAT

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

DIVIDEND

Based on the 2015 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 RMB1.0700 (including tax) for every ten shares for the year ended 31 December 2015, totalling approximately RMB1,400 million based on the current total issued shares of 13,084,751,004 shares of the Company.

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

The Company proposed to pay the aforesaid final dividends on 30 June 2016. 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 31 May 2016, and the register of H share members of the Company will be closed from 1 June 2016 to 6 June 2016. 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 29 June 2016, and the ex-dividend date of A shares is 30 June 2016.

TAXATION ON DIVIDEND

In accordance with the "Enterprise Income Tax Law of the People's Republic of China" and the "Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China", both implemented on 1 January 2008 and the "Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Enterprises to Offshore Non-resident Enterprise Holders of H Shares" (Guo Shui Han [2008] No. 897) promulgated on 6 November 2008, the Company is obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% from 2008 onwards when the Company distributes any dividends to non-resident enterprise shareholders whose names appear on the register of members of H shares of the Company. As such, any H shares of the Company which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from any dividends payable thereon. Non-resident enterprise shareholders may wish to apply for a tax refund (if any) in accordance with the relevant requirements, such as tax agreements (arrangements), upon receipt of any dividends.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994] No.020) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, as an interim measure, exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the final dividends for the year 2014 to individual shareholders whose names appear on the register of members of H shares of the Company.

Pursuant to the Circular on Tax Policies concerning the Pilot Programme of the Shanghai and Hong Kong Stock Market Trading Interconnection Mechanism promulgated on 17 November 2014 (Cai Shui Zi [2014] 81):

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 2015 final dividends to individual investors who invest in the Company's H shares via Shanghai-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 RRC personal income tax on behalf of Mainland securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect when the Company distributes the 2015 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 when the Company distributes the 2015 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 of the Company in the PRC and in Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF SHARES

Save as disclosed otherwise, for the year ended 31 December 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules), without taking into account any issuance of new securities.

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENT

Other than the new share subscription agreement entered into between CNAHC and the Company on 11 December 2015, the details of which are disclosed in the section headed "Non-public Issue of A Share" in this Report of the Directors, there is no equity-linked agreement of any form entered by the Company or its subsidiaries.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of appointment and if applicable, resignation as Director
Cai Jianjiang	52	Chairman and non-executive Director	Appointed as non-executive Director on 28 January 2014 and as Chairman on 21 February 2014
Wang Yinxiang	60	Vice Chairman and non-executive Director	Appointed on 9 October 2008 and re-appointed in 2010 and 2013
Cao Jianxiong	56	Non-executive Director	Appointed on 10 June 2009 and re-appointed in 2010 and 2013
Feng Gang	52	Non-executive Director	Appointed on 26 August 2014
John Robert Slosar	59	Non-executive Director	Appointed on 22 May 2014
Ian Sai Cheung Shiu	61	Non-executive Director	Appointed on 28 October 2010 and re-appointed in 2013
Song Zhiyong	50	Executive Director and president	Appointed on 22 May 2014
Fan Cheng	60	Executive Director and vice president	Appointed on 18 October 2004 and re-appointed in 2006, 2008, 2010 and 2013
Fu Yang	66	Independent non-executive Director	Appointed on 10 June 2009, re-appointed in 2010 and 2013 and resigned on 22 December 2015
Yang Yuzhong	71	Independent non-executive Director	Appointed on 26 May 2011, re-appointed in 2013 and resigned on 22 May 2015
Pan Xiaojiang	63	Independent non-executive Director	Appointed on 29 October 2013
Simon To Chi Keung	64	Independent non-executive Director	Appointed on 29 October 2013
Stanley Hui Hon-chung	65	Independent non-executive Director	Appointed on 22 May 2015
Li Dajin	57	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
Li Qinglin	61	Chairman of the Supervisory Committee	Appointed on 28 October 2010 and re-appointed in 2013
He Chaofan	53	Supervisor	Appointed on 22 December 2008 and re-appointed in 2010 and 2013
Zhou Feng	54	Supervisor	Appointed on 25 November 2011 and re-appointed in 2013
Xiao Yanjun	51	Supervisor	Appointed on 16 June 2011 and re-appointed in 2013
Shen Zhen	49	Supervisor	Appointed on 29 October 2013

Note:

1. Reference is made to the announcement of the Company dated 24 November 2014 in relation to the resignation of Mr. Yang Yuzhong as an independent non-executive Director of the Company for age reasons. The Company convened the 2014 annual general meeting on 22 May 2015, appointing Mr. Stanley Hui Hon-chung as independent non-executive Director and Mr. Yang Yuzhong ceased to act as an independent non-executive Director.

2. Reference is made to the announcement of the Company dated 16 June 2015 in relation to the resignation of Mr. Fu Yang as an independent non-executive Director of the Company for working reasons. The Company convened the EGM on 22 December 2015, appointing Mr. Li Dajin as independent non-executive Director, and Mr. Fu Yang ceased to act as an independent non-executive Director.

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

At no time during the year ended 31 December 2015 had the Company granted its Directors, Supervisors or their respective spouses or children under the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its other associated corporations, and no such rights for the subscription of shares or debentures were exercised by them.

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

As at 31 December 2015, the Company's Directors, Supervisors or chief executive had following interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which shall be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

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 2015
Cathay Pacific Airways Limited					
Ian Sai Cheung Shiu	1,000	–	–	1,000	0.00%
Air China Limited					
Zhou Feng	10,000 (A shares)	–	–	10,000 (A shares)	0.00%
Shen Zhen	33,200 (A shares)	–	–	33,200 (A shares)	0.00%

Save as disclosed above, as at 31 December 2015, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

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

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

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting as at 31 December 2015 and which is significant in relation to the business of the Group.

Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and concurrently a director of Cathay Pacific and Dragonair. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at 31 December 2015, which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, and it wholly owns Dragonair. During the year, Mr. Cai Jianjiang, Chairman and non-executive Director of the Company, executive Directors Mr. Song Zhiyong and Mr. Fan Cheng, non-executive Directors Mr. John Robert Slosar and Mr. Ian Sai Cheung Shiu, are concurrently directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

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 2015, the Company had 27,104 employees and its subsidiaries had 50,270 employees. The categories of employees of the Company are as follows:

Professional Categories	**As at 31 December 2015**	As at 31 December 2014	Increase/ (decrease)
Management	**6,467**	6,451	16
Marketing and Sales	**1,902**	1,922	(20)
Operation	**1,429**	1,435	(6)
Ground Handling	**2,080**	2,056	24
Cabin Service	**2,485**	2,274	211
Logistics and Support	**3,395**	3,239	156
Flight Crew	**4,713**	3,656	1,057
Engineering and Maintenance	**2,872**	2,878	(6)
Information Technology	**375**	377	(2)
Others	**1,386**	1,918	(532)
Total	**27,104**	26,206	898

A total of 359 employees of the Company retired in 2015.

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 improve the remuneration system and enhance the performance-based remuneration mechanism, the Company adjusted the standards of remuneration package for flight attendants (including personnel responsible for cabin security) and ground handling staff in 2015, representing a policy tilting towards the low-income and strengthening efforts in inspiring frontline staff and increasing the fluctuating income of flight attendants (including personnel responsible for cabin security).

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the staff pension scheme and other welfare are set out in note 7 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 5 December 2012, the SASAC issued the Reply to Air China Limited in Relation to Implementation of Proposal of Second Grant of the Stock Appreciation Rights (Guo Zi Fen Pei [2012] No. 1100), approving the proposal of second grant of the stock appreciation rights of the Company.

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

On 6 June 2013, the resolution regarding the Proposal of Second Grant of the Stock Appreciation Rights was passed at the 14th meeting of the Nomination and Remuneration Committee of the 3rd session of the Board of the Company to grant a total of 26.20 million shares under the second grant of stock appreciation rights to 160 incentive recipients and to confirm the grant date with respect to the second grant of stock appreciation rights (i.e. 6 June 2013) and the exercise price (i.e. grant price) with respect to the second grant of stock appreciation rights of HK$6.46. The grant of stock appreciation rights shall be valid for five years from the date of grant. As at 31 December 2015, the carrying amount of the liabilities related to the stock appreciation rights was RMB18.3520 million.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Company as at 31 December 2015 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 34 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2015 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 2015 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 2015, the Company made donations for charitable and other purposes amounting to RMB 0.943 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the purchases from the largest supplier accounted for 20.11% of the total purchases of the Group, while the purchases from the five largest suppliers accounted for 48.48%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

For the year ended 31 December 2015, 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 2015. To the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into a number of connected transaction agreements with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this Report of the Directors, hereinafter referred to as "CNAHC Group") and other connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

The Company expected certain continuing connected transactions expired on 31 December 2015 will continue to be conducted, therefore the Company has entered into new agreements for such continuing connected transactions under the Listing Rules. Explanation of the agreements of such continuing connected transactions (which were not exempted under Chapter 14A of the Listing Rules) are set out in the circular of the Company dated 7 November 2015 and the EGM of the Company held on 22 December 2015 had approved entering into new agreements for such continuing connected transactions.

I. Connected Transactions Between the Group and CNAHC Group

Continuing Connected Transactions

Transactions with CNAHC

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

a. Property Leasing

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

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

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

The Properties Leasing Agreement was expired on 31 December 2015.

The Company expected transactions contemplated under the Properties Leasing Agreement would continue to be conducted after 2015 and 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 with a term from 1 January 2016 to 31 December 2018.

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 agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012 (the "Sales Agency Services Agreement").

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

- procured purchasers for the Company's air tickets and cargo spaces on a commission basis; or

- purchased air tickets (other than domestic air tickets) and cargo spaces from the Company and resold such air tickets and cargo spaces to end customers.

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

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

The Sales Agency Services Agreement was expired on 31 December 2015.

The Company expected transactions contemplated under the Sales Agency Services Framework Agreement would continue to be conducted after 2015 and 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 with a term from 1 January 2016 to 31 December 2018.

c. Comprehensive Services

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

Pursuant to the Comprehensive Services Agreement:

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

  i. supply of various items for in-flight services;
  ii. manufacturing and repair of aviation-related ground equipment and vehicles;
  iii. cabin decoration and equipment;
  iv. properties management services;
  v. frequent-flyer cooperation programme;

vi. hotel accommodation and staff recuperation;
vii. aviation tourist services with special features;
viii. warehousing services;
ix. airline catering services; and
x. printing of air tickets and other publications.

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

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

The Comprehensive Services Agreement was expired on 31 December 2015.

The Company expected transactions contemplated under the Comprehensive Services Agreement would continue to be conducted after 2015 and 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 with a term from 1 January 2016 to 31 December 2018.

d. Subcontracting of Charter Flight Services

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

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

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

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

The Charter Flight Service Framework Agreement was expired on 31 December 2015.

The Company expected transactions contemplated under the Charter Flight Service Framework Agreement would continue to be conducted after 2015 and the Company (for itself and on behalf of its subsidiaries) entered into a government charter flight service framework agreement with CNAHC (on behalf of CNAHC Group) on 29 October 2015 with a term from 1 January 2016 to 31 December 2018.

Media and Advertising Services

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

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

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

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

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

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

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

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

As a consideration, CNAMC agreed to:

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

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

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

The Advertising Services Agreement was expired on 31 December 2015.

The Company expected transactions contemplated under the Advertising Services Agreement will continue to be conducted after 2015 and had entered into a media services framework agreement with CNAMC on 29 October 2015 with a term from 1 January 2016 to 31 December 2018.

Financial Services

a. Financial Services Agreement prior to the completion of AIC Registration of CNAF

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

For details of acquisitions of equity interests in CNAF and capital injection into CNAF (the "Acquisition of CNAF"), please refer to the announcement of the Company dated 24 December 2014 and the Report of the Directors as included in 2014 Annual Report of the Company. The registration of changes with the State Administration for Industry & Commerce of the PRC in respect of the Acquisition of CNAF (the "AIC Registration of CNAF") was completed in 2015.

Prior to the completion of AIC Registration of CNAF, as CNAF is a 75.54% held subsidiary of CNAHC and CNAHC is a substantial shareholder of the Company, CNAF a connected person of the Company. Therefore, the transactions between CNAF and the Company constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are subject to the requirements under Chapter 14A of the Listing Rules.

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

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for bond issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;
- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- Other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

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

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

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

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

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

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

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

The unpaid services provided by CNAF to the Company and its subsidiaries include settlement services and financial information services ("Unpaid Services"). In addition to the specific services set out in the Financial Services Agreement, CNAF also explored and developed other licensed financial services and provided new financial services to other members of CNAHC Group ("New Financial Services").

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

Given that after the completion of AIC Registration of CNAF, CNAHC Group continues to hold 10% or more of the interest in the equity of CNAF, CNAF is a connected subsidiary of the Company (as defined in the Listing Rules). Under Chapter 14A of the Listing Rules, transactions contemplated under 2012 Financial Services Agreement will continue to constitute continuing connected transactions of the Company. Therefore, on 29 April 2015, the Company (for itself and on behalf of its subsidiaries) entered into Air China Financial Services Agreement with CNAF, pursuant to which, 2012 Financial Services Agreement will be superseded by Air China Financial Services Agreement since the date of completion of AIC Registration of CNAF. For details of Air China Financial Services Agreement, please refer to the section headed "II. Continuing Connected Transactions between the Group and CNAF" in this "Report of the Directors".

b. Financial Services Agreement with CNAHC Group after the completion of AIC Registration of CNAF

CNAF has been providing financial services to CNAHC Group. CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the financial services provided by CNAF to the CNAHC Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon completion of AIC Registration of CNAF. In light of this, on 29 April 2015, CNAF and CNAHC (for itself and on behalf of the CNAHC Group) entered into the CNAHC financial services agreement ("CNAHC Financial Services Agreement"), pursuant to which (a) CNAF shall provide a range of financial services to the CNAHC Group for a period from the completion of AIC Registration of CNAF to 31 December 2017 and (b) the proposed annual caps for the loans and other credit services to be provided to CNAHC Group by CNAF for each of the three years ending 31 December 2017 are set.

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

- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- guarantee services;
- trust loan and trust investment services;
- underwriting services for bond issuances;
- intermediary and consulting services;
- settlement services;
- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other businesses approved by the CBRC, the PBOC and the State Administration of Foreign Exchange of the PRC (the "SAFE") to be provided by CNAF.

In particular, to the CNAHC Financial Services Agreement, the fees charged by CNAF to the 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 in accordance with the relevant standards (if any) prescribed by the PBOC or the CBRC from time to time in respect of the same type of financial services. In addition, such fees shall be determined based on arm's length negotiation by the parties.

With respect to the deposit and loan services, CNAF and CNAHC agreed:

- 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 PBOC from time to time and published on the PBOC's website for the same type of deposits (PBOC will also notify all relevant institutions of any updates of such interest rate in writing).

- the interest rate applicable to loans (including other credit services) granted to CNAHC Group by CNAF shall be 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 (PBOC will also notify all relevant institutions of any updates of such interest rate in writing).

The unpaid services provided by CNAF to CNAHC Group include settlement services and financial information services ("Unpaid Services"). In addition to the specific services set out in the CNAHC Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to CNAHC as and when appropriate ("New Financial Services").

If CNAF charges fees for the Unpaid Services and the New Financial Services during the term of the CNAHC Financial Services Agreement, such fees charged by CNAF 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.

Pursuant to the CNAHC Financial Services Agreement, CNAF shall not carry out any business that is not permitted by the CBRC or any illegal activities.

The CNAHC Financial Services Agreement was approved by the Independent Shareholders at the annual general meeting (the "AGM") held on 22 May 2015, has taken effect since the date of completion of AIC Registration of CNAF and will expire on 31 December 2017.

Non-public Issue of A Shares

At the Board meeting of the Company held on 11 December 2015, the Board approved the issue of not more than 1,520,912,547 new A shares at the issue price to not more than 10 investors (including CNAHC). It is proposed that gross proceeds to be raised from the non-public A share issue will be not more than RMB12 billion. As at the same date, CNAHC and the Company entered into a new share subscription agreement, which supersede the share subscription agreement entered into between CNAHC and the Company on 27 July 2015. Pursuant to the new share subscription agreement, CNAHC will make a cash contribution of not more than RMB4 billion and subscribe for not more than 506,970,849 A shares to be issued under the proposed non-public A shares issue at the issue price. Details of which are set out in the circular of the Company dated 5 January 2016.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the A share subscription of CNAHC 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. The non-public issue of such A shares was approved by the independent shareholders at the EGM held on 26 January 2016. As of the Latest Practicable Date, such transaction has not been completed.

II. Continuing Connected Transactions between the Group and CNAF

Since the AIC Registration of CNAF was completed in 2015, CNAF became a non-wholly owned subsidiary of the Company. Since CNAHC continues to be interested in more than 10% of its equity interest, CNAF becomes a connected subsidiary of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the 2012 Financial Services Agreement will continue to constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that after the completion of AIC Registration of CNAF, the 2012 annual caps would not be sufficient to meet the demand of the expected increase in transaction amounts between the Group and CNAF. Accordingly, the Company (for itself and on behalf of its subsidiaries) entered into the Air China Financial Services Agreement with CNAF on 29 April 2015, pursuant to which (a) the 2012 Financial Services Agreement shall be replaced by the Air China Financial Services Agreement since the completion of AIC Registration of CNAF; (b) CNAF shall provide a range of financial services to the Group for a period from the completion of AIC Registration of CNAF to 31 December 2017; and (c) the annual caps in respect of the deposits to be placed by the Group with CNAF for the three years ending 31 December 2017 shall be revised to the new annual caps.

Pursuant to the Air China Financial Services Agreement, CNAF agreed to provide the following services to the Group:

- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- guarantee services;
- trust loan and trust investment services;
- underwriting services for bond issuances;
- intermediary and consulting services;
- settlement services;
- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other businesses approved by the CBRC, the PBOC and the SAFE to be provided by CNAF.

In particular, 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 in accordance with the relevant standards (if any) prescribed by the PBOC or the 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 major state-owned commercial banks and those charged by CNAF to members of the CNAHC Group for the same type of financial services.

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

- 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 PBOC's website for the same type of deposits (PBOC will also notify all relevant institutions of any updates of such interest rate in writing), 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 PBOC's website for the same type of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing), 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 or higher than those for the same type of loans granted by state-owned commercial banks to the Group.

The unpaid services provided by CNAF to the Group include settlement services and financial information services ("Unpaid Services"). In addition to the specific services set out in the Air China Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to the Group as and when appropriate ("New Financial Services").

If CNAF charges fees for the Unpaid Services and the 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.

Under the Air China Financial Services Agreement, the Company has agreed that it would accord priority to, and use the financial services provided by CNAF, if the terms and conditions offered by CNAF are similar to those offered by other service providers. CNAF has undertaken to provide financial services of the same kind to the Group under conditions no less favourable than those provided by CNAF to the members of CNAHC Group and those provided by other financial institutions to the Group.

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

The Air China Financial Services Agreement was approved by the independent shareholders at the AGM held on 22 May 2015, has taken effect since the date of completion of AIC Registration of CNAF and will expire on 31 December 2017.

III. Continuing Connected Transactions between the Group and CNACG

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

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

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

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

IV. Continuing Connected Transactions between the Group and Cathay Pacific

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

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

The Cathay Pacific Framework Agreement provides the framework under which relevant agreements (the "Cathay Pacific Relevant Agreements") between members of the Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. The transactions under the Cathay Pacific Relevant Agreements are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement.

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

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 "Cargo Framework Agreement"), which was renewed on 26 September 2013 with a term from 1 January 2014 to 31 December 2016.

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

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

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

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

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

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

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

VI. Transaction Caps and Actual Transaction Amounts in 2015

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2015 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2015	
		Cap (in millions)	Actual Amount (in millions)
Transactions with the CNAHC Group:			
Properties leasing	RMB	150	110
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	388.8	75
Comprehensive services	RMB	1,150	1,062
Subcontracting of charter flight services	RMB	900	417
Media and advertising services	RMB	167	133
Financial services			
From the completion of AIC Registration of CNAF to 31 December 2015:			
Maximum daily outstanding loans from CNAF to CNAHC Group	RMB	8,000	1,530
Transactions with the CNACG Group:			
Ground handling, engineering, management and other services	RMB	350	277
Transactions with Cathay Pacific Group:			
Amount paid by the Group to Cathay Pacific Group	HKD	900	254
Amount paid by Cathay Pacific Group to the Group	HKD	900	418
Transactions with Air China Cargo:			
Amount paid/payable by the Group to Air China Cargo	RMB	1,250	956
Amount paid/payable by Air China Cargo to the Group	RMB	7,110	4.585
Transactions with CNAF:			
From 1 January 2015 to the completion of AIC Registration of CNAF:			
Maximum daily outstanding deposits with CNAF	RMB	4,000	3,996
Maximum daily outstanding loans from CNAF	RMB	4,500	2,496
From the completion of AIC Registration of CNAF to 31 December 2015:			
Maximum daily outstanding deposits with CNAF	RMB	12,000	3,979

VII. Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2015 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 2015 in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported on the above connected transactions as follows:

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

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

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

4. with respect to the aggregate amount of the continuing connected transactions, nothing has come to its attention that causes it to believe that the 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 2015 are set out in note 45 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. None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

MANAGEMENT CONTRACT

Save for the service contracts entered into with the management of the Company, the Company has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Company.

AUDITOR

The appointment of KPMG as the international auditor of the Company for 2013 and KPMG Huazhen LLP as the domestic auditor of the Company for 2013 was approved at the 2012 annual general meeting of the Company. The resolutions regarding the re-appointment of KPMG as the international auditor and KPMG Huazhen LLP as the domestic auditor of the Company for the years ended 31 December 2014 and 2015 were considered and approved at the 2013 and 2014 annual general meeting of the Company. KPMG has audited the accompanying financial statements, which have been prepared in accordance with International Financial Reporting Standards.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. DIRECTORS

Cai Jianjiang, aged 52, is the Chairman and a non-executive Director of the Company. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the company and a member of the Communist Party Group of CNAHC from January 2007 to January 2014. He has been serving as the non-executive director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of Communist Party Group of CNAHC since January 2014. Mr. Cai has been serving as a Director of the Company since September 2004 and the Chairman of the Company since February 2014.

Wang Yinxiang, aged 60, 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 of CNAHC. Ms. Wang has been serving as the Vice Chairman of the Company since October 2008.

Cao Jianxiong, aged 56, is a non-executive Director of the Company. Mr. Cao holds a master degree in economics from the Eastern China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the President and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC. Mr. Cao has been serving as a non-executive Director of the Company since June 2009.

Feng Gang, aged 52, 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 of the Company since August 2014.

John Robert Slosar, aged 59, is a non-executive director of the Company. Mr. Slosar holds degrees in Economics from Columbia University and Cambridge University. He joined the Swire group in 1980 and worked with the group in Hong Kong, the United States and Thailand. Mr. Slosar has been a director of Cathay Pacific since July 2007 and served as Chief Operating Officer from July 2007 to March 2011 and as Chief Executive since March 2011, and has become Chairman of Cathay Pacific, John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited from March 2014. Mr. Slosar was appointed as non-executive director of the Company in May 2014.

lan Sai Cheung Shiu, aged 61, is a non-executive Director of the Company. Mr. Shiu holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from the University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He has been a director of Cathay Pacific and Hong Kong Dragon Airlines Limited since October 2008. He has also been a director of John Swire & Sons (H.K.) Limited since July 2010. He has been serving as a director of Swire Pacific Limited since August 2010. Mr. Shiu has been serving as a non-executive Director of the Company since October 2010.

Song Zhiyong, aged 50, is the President and an executive director of the Company. Mr. Song is a first class pilot. He graduated from the Second Flying Academy of China Air Force with a bachelor's degree in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Deputy Team Captain, Flight Director, and Deputy Group Captain of the Third Group of the Chief Flight Team, Deputy Captain of the Chief Flight Team and Director of the Training Department of Air China International Corporation. He served as Captain of the Chief Flight Team and Deputy Secretary of the Communist Party Committee of the Company from November 2002 to June 2008. Mr. Song held the post of Assistant to President from September 2004 to October 2006. He was the Vice President, a Member of the Communist Party Committee, and a Member of the Standing Committee of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of China National Aviation Holding Company from December 2010 to April 2014. He has been a Member of the Communist Party Group of 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 the CNAHC in February 2016.

Fan Cheng, aged 60, is the Vice President and an executive Director of the Company. Mr. Fan graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company from September 2004 to July 2014. Since October 2006, he has been serving as Vice President of the Company. From December 2009 to May 2010, he served as Secretary of the Communist Party Committee of Shenzhen Airlines. From March 2010 to April 2010, he served as President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. Since January 2011, he has been serving as Director and Chairman of Beijing Airlines Company Limited. Since February 2011, he has been serving as Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Party Committee. Since April 2011, he has been serving as Chairman of Air China Cargo Co., Ltd. Mr. Fan has been serving as an executive Director of the Company since October 2004 and a member of the Communist Party Group of CNAHC from April 2014 until February 2016.

Pan Xiaojiang, aged 63, is an independent non-executive Director of the Company. Mr. Pan holds a doctoral degree in Management from Tsinghua University and is a senior economist and China Certified Public Accountant. He served as Deputy Director of the Accounting Management Department of the Ministry of Finance ("MOF"); Deputy Director of Chinese Institute of Certified Public Accountants; Deputy Director, Director and Deputy Director-general of the World Bank Department of the MOF; and Deputy Director-general of the International Department of the MOF. Mr. Pan was appointed as full-time supervisor and deputy office director of the board of supervisors of Bank of China Limited in July 2000; full-time supervisor and office director of the board of supervisors of Bank of China Limited in November 2001; full-time supervisor and office director of the board of supervisors of Agricultural Bank of China Limited in July 2003; supervisor representing shareholders and office director of the board of supervisors of Agricultural Bank of China Limited from January 2009 to January 2012; leader of the fifth patrol team of the Communist Party Committee of Agricultural Bank of China Limited from March 2012 to January 2013. 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 64, is an independent non-executive Director of the Company. Mr. To holds a First Class Bachelor's Honours Degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of the Industrial Project Division and was appointed managing director in 1981. From 1999 to 2005, he served as an independent non-executive director of China Southern Airlines Company Limited. From 2000 to 2011, he served as a non-executive director of Shenzhen International Holdings Limited. He is currently the managing director of Hutchison Whampoa (China) Limited and chairman of Hutchison China MediTech Limited. He is concurrently the vice chairman of Guangzhou Aircraft Maintenance & Engineering Co. Ltd, director of China Aircraft Services Limited, chairman of Beijing Greatwall Hotel, chairman of Hutchison Whampoa (China) Commerce Limited, chairman of Guangzhou Hutchison Logistics Services Company Limited, chairman of Hutchison Whampoa 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 nonexecutive Director of the Company since October 2013.

Stanley Hui Hon-chung, aged 65, 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 Airways Limited in 1975 as a management trainee and had held a range of management positions in Hong Kong and overseas. In 1990, Mr. Hui was seconded to Dragonair as General Manager-Planning and International Affairs until 1992 and seconded to work in Beijing as the Chief Representative of John Swire & Sons (China) Limited in 1992. He later returned to Hong Kong in 1994 to assume the position of Chief Operating Officer of AHK Air Hong Kong Limited until 1997. Mr. Hui joined Hong Kong Dragon Airlines Limited as its Chief Executive Officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the Chief Executive Officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 12th National Committee of Chinese People's Political Consultative Conference 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.

Li Dajin, aged 57, 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 director 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 All China Lawyers Association, president of the 7th Beijing Lawyers Association, and committee member of the 13th Beijing Municipal People's Congress. Mr. Li currently also serves as deputy to the 12th 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 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

Li Qinglin, aged 61, is the chairman of the supervisory committee of the Company. Mr. Li graduated from Beijing Television University majoring in Chinese and Zhongnanhai Amateur University majoring in administrative management, and is a senior professional of political work. Mr. Li served various positions, including a Section Chief, Deputy director, director, Vice Director-General and Director-General, as well as the Chairman of the Labour Union, of the Government Office Administration of the State Council. From 1998 to 2000, he served as a Deputy director of the Hebei Leading Group Office of Poverty Alleviation and Development. Since 2000, he had served different positions, including a Deputy director of the Work Department under the Supervisory Committee of Central Enterprises Working Commission, Deputy director of the Office of Central Enterprises Working Commission, Deputy director and Inspector of the General Office of the SASAC and a director of the Office of the Stability Preservation Leading Team of the SASAC. He was appointed as the Head of the Disciplinary and Supervisory Committee from September 2008 to July 2015 and a member of the Communist Party Group of CNAHC from September 2008 to February 2016. Mr. Li has been serving as chairman of the Company since October 2010.

He Chaofan, aged 53, is a Supervisor of the Company. Mr. He graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of CAAC, and served various positions in Air China International Corporation, including the section chief, deputy head and head of the finance department and general manager of the revenue accounting center of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager of 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 a director and vice president of CNACG in May 2011, and has been concurrently served as the general manager, party committee member and deputy secretary to the party committee of Zhongyi Aviation Investment Co., Ltd. since July 2013. Mr. He has been serving as a Supervisor of the Company since October 2013.

Zhou Feng, aged 54, is a Supervisor of the Company. Mr. Zhou obtained a master's degree in economics from Shanghai University of Finance and Economics. He held various positions, including the Accountant, the Deputy Division Head, the Division Head of the finance division and the director of the finance and audit department of Zhejiang Administration of CAAC; the director, the Chief Accountant of finance department of CNAC Zhejiang Airlines; the Assistant General Manager of China National Aviation Corporation (Macau) Company Limited; the Deputy General Manager, the Chief Accountant and a member of the party committee of CNAF, the director, the Executive Vice President of Samsung Air China Life Insurance Co., Ltd. Mr. Zhou has been Secretary of the Communist Party Committee and the Deputy General Manager of CNAF since August 2010. He has also been the General Manager of the finance department of CNAHC since April 2011. Mr. Zhou has been serving as a Supervisor of the Company since November 2011.

Xiao Yanjun, aged 51, 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 Air China Limited from March 2008 to November 2012. She has been Director of the Labour Union of the Company since November 2012. Ms. Xiao has been serving as a Supervisor of the Company since June 2011.

Shen Zhen, aged 49, 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 50, graduated from Inner Mongolia University majoring in planning and statistics. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China, including Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia branch, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President of the Company as well as Chairman, President of Shandong Aviation Group Corporation and Vice Chairman of Shandong Airlines since April 2010 and is responsible for the comprehensive work of Shandong Aviation Group Corporation.

Xu Chuanyu, aged 51, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team and an Inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as Deputy Operation Executive Officer of the Company and General Manager of Operation Control Centre of the Company as well as a Member and Deputy Secretary of the Communist Party Committee from January 2009 to March 2011. He served as the Chief Pilot from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as the Chief Pilot of CNAHC and Chief Safety Officer of the Company since December 2012, who is responsible for supervising the safety and security work of the Company.

Wang Mingyuan, aged 50, 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, who is 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.

Zhao Xiaohang, aged 54, graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration of CAAC, Assistant, Section Chief and Deputy Division Chief of the Planning Department of Air China, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China. He served as director and Vice President of CNACG from September 2003 to May 2004, director, Vice President and Secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as director and General Manager of China National Aviation Company Limited in July 2005 and director and General Manager of China National Aviation Corporation (Macau) Company Limited in April 2007. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President of the Company since February 2011, who is accountable for administration, information management, centralized procurement, asset management, investment on the enterprises located in Hong Kong and Macau and logistics. He is also a director of Shandong Aviation Group Corporation since April 2011 and Chairman of Dalian Airlines since August 2011.

Feng Rune, aged 53, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an Instructor of Science & Education Division of Inner Mongolia Administration of CAAC, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Air China Inner Mongolia branch; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Air China Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Air China Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. From January 2009 to March 2011, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company since February 2011 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011 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 president of the Labour Union of the Company from June 2011 to October 2013.

Chai Weixi, aged 53, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including Engineer and Manager of airframe team of Engineering Department of Aircraft Maintenance and Engineering Corporation (AMECO), Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China, Manager of Aircraft Maintenance Subdivision and Manager of Aircraft Overhaul Division of AMECO, General Manager of Aircraft Engineering Department of Air China and Deputy General Manager of the Engineering Technology Branch of Air China. He served as General Manager, director, member of the Communist Party Committee of AMECO and a member of the Communist Party Committee of the Engineering Technology Branch of the Company in October 2005. In April 2009, he served as General Manager and Deputy Secretary of the Communist Party Committee of the Engineering Technology Branch of the Company and director of AMECO. Mr. Chai has been serving as Vice President of the Company since March 2012, who is accountable for integration of aircraft engineering and industrialization, as well as the Chief Executive of AMECO.

Chen Zhiyong, aged 52, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class Pilot. Mr. Chen started his career in October 1982 and served various positions, including pilot and squadron leader of the Third Squadron of the Seventh Flight Team of CAAC, squadron leader and head of Chengdu Flight Department of China Southwest Airlines and manager of Flight Technology Management Department of China Southwest Airlines, head of Chengdu Flight Department of Southwest Branch of Air China, and Deputy General Manager and Chief Pilot of Southwest Branch of Air China. He served as General Manager and Deputy Secretary of the Communist Party Committee of Southwest Branch of the Company from December 2009 to December 2012. Mr. Chen has been serving as Vice President of the Company since December 2012 till now. He has also been serving as Director and President of Shenzhen Airlines Company Limited since May 2014, who is responsible for Shenzhen Airlines.

Liu Tiexiang, aged 49, graduated from No.2 Aviation College of the PLA Air Force with the major 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 of the Company since August 2014, who is responsible for flight, operation control, safety and technology management, maintenance of normal flight schedule, mobilisation of the employees, cabin services, management of airport terminals and assisting the Chief Executive to manage private jets.

Wang Yantang, aged 59, graduated from Open College of Party School of the Central Committee of C.P.C. majoring in economic management. Mr. Wang is a first-class pilot. He started his career in October 1973 and served as squad leader, technician and Deputy Company Commander of Artillery Brigade 601 of the Beijing Military Region. He started his career in China's civil aviation industry from September 1986 and served various positions in Air China including Head of Integrated Business Section of the Passenger Department, Manager of Customer Service Office and Manager of International Passenger Office of the Ground Services Department as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee, Secretary of the Communist Party Committee and Deputy General Manager of the Ground Services Department. He served as Party General Branch Secretary and Deputy General Manager of the Aircraft Engineering Department of Air China from July 2003 to February 2004 as well as Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Committee and Chairman of the trade union of the Company's engineering branch from February 2004 to August 2007. He served as Member, Executive Member, Secretary and Deputy Commander of Chief Flight Team of the Company from August 2007 to July 2014. Mr. Wang has been serving as Chairman of the Company's trade union since October 2013 and is accountable for the labour union of the Company.

Xiao Feng, aged 47, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He started his career in July 1990, and served as an accountant of the Infrastructure Office, Deputy Section Chief and Section Chief of the Finance Office, Treasury Manager of the Finance Department and Deputy General Manager of the Finance Department of the Company and the Chief Financial Officer and Deputy General Manager of Shandong Airlines Company Limited. Mr. Xiao served as the General Manager of the Finance Department of the Company from December 2009 to July 2014. Mr. Xiao has been serving as the Chief Financial Officer of the Company since July 2014. He is responsible for financial management, ground services, product services (among which the safety work will be handled by our Vice President Mr. Liu Tiexiang) and the provision of assistance to our vice president Mr. Wang Mingyuan for the work in relation to the operation efficiency.

Meng Xianbin, aged 58, graduated from Airforce and Missile Institute majoring in management engineering and holds an undergraduate degree. Mr. Meng started his career in December 1974 and served as a machinist of the Mechanics Team of a certain division of the Air Force, an officer and the head of the Political Department of a certain force of the Air Force and the deputy head of the Political Department of the Air Force in Beijing. He joined the Company in July 2001. He worked as the Secretary of the Communist Party Committee of the Fifth Group of the Chief Flight Team, Deputy Director of the President Office and Deputy General Manager and General Manager of the Human Resource Department of the Company. Mr. Meng has been serving as the Secretary of the Communist Party Committee and Deputy General Manager of the Engineering Technology Branch of the Company since December 2009. Mr. Meng has been serving as the Chief Economic Officer of the Company since July 2014. 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 52, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting. A first-class pilot, Mr. Wang started his career in China’s civil aviation industry in August 1984 and has been engaged in work related to piloting. He was the Flying Corps deputy chief, member and standing member of the Communist Party Committee of the Company from August 2007 to April 2011. Mr. Wang served as the Flying Corps captain and Deputy Secretary of Communist Party Committee of the Company in April 2011. He has been serving as Chief Pilot of the Company since November 2014 and is accountable for the trainings of the pilots in the Company.

Rao Xinyu, aged 49, 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 44, 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.

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

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 86 to 185, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2015 RMB'000**	2014 RMB'000 (Restated)
Revenue			
Air traffic revenue	5	**104,368,230**	101,385,199
Other operating revenue	6	**5,688,804**	4,579,698
		110,057,034	105,964,897
Operating expenses			
Jet fuel costs		**(24,042,614)**	(34,542,440)
Take-off, landing and depot charges		**(11,643,166)**	(10,566,490)
Depreciation and amortisation		**(13,010,761)**	(11,393,429)
Aircraft maintenance, repair and overhaul costs		**(4,015,468)**	(3,587,507)
Employee compensation costs	7	**(18,230,841)**	(15,550,853)
Air catering charges		**(3,031,717)**	(2,755,640)
Aircraft and engine operating lease expenses		**(5,145,664)**	(4,536,641)
Other operating lease expenses		**(1,017,535)**	(944,024)
Other flight operation expenses		**(8,393,972)**	(8,348,155)
Selling and marketing expenses		**(4,558,933)**	(5,896,812)
General and administrative expenses		**(1,414,741)**	(585,859)
		(94,505,412)	(98,707,850)
Profit from operations	8	**15,551,622**	7,257,047
Finance income	9	**152,257**	233,265
Finance costs	9	**(7,968,825)**	(3,214,264)
Share of profits less losses of associates		**1,319,300**	738,627
Share of profits less losses of joint ventures		**300,897**	120,191
Profit before taxation		**9,355,251**	5,134,866
Taxation	10	**(1,845,764)**	(800,764)
Profit for the year		**7,509,487**	4,334,102
Attributable to:			
– Equity shareholders of the Company		**7,063,347**	3,852,492
– Non-controlling interests		**446,140**	481,610
Profit for the year		**7,509,487**	4,334,102
Earnings per share	13		
– Basic and diluted		**RMB57.45 cents**	RMB31.33 cents

The notes on pages 93 to 185 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 2015
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000 (Restated)
Profit for the year		**7,509,487**	4,334,102
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		**(21,054)**	–
– Share of other comprehensive income of associates and joint ventures		**(55,062)**	(75,943)
Items that may be reclassified subsequently to profit or loss:			
– Share of other comprehensive income of associates and joint ventures		**(1,639,957)**	(3,027,098)
– Available-for-sale securities: net change in fair value		**22,014**	36,399
– Exchange realignment		**1,095,705**	82,107
Other comprehensive income for the year	14	**(598,354)**	(2,984,535)
Total comprehensive income for the year		**6,911,133**	1,349,567
Attributable to:			
– Equity shareholders of the Company		**6,415,240**	850,909
– Non-controlling interests		**495,893**	498,658
Total comprehensive income for the year		**6,911,133**	1,349,567

The notes on pages 93 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**31 December 2015 RMB'000**	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	15	**155,990,977**	148,192,583	132,819,852
Lease prepayments	16	**3,034,209**	2,633,658	2,203,377
Investment properties	17	**722,663**	683,655	246,291
Intangible asset	18	**35,902**	36,859	54,524
Goodwill	19	**1,099,975**	1,099,975	1,099,975
Interests in associates	21	**11,552,825**	11,709,767	14,347,091
Interests in joint ventures	22	**1,038,118**	1,392,728	1,284,232
Advance payments for aircraft and flight equipment		**14,476,913**	18,148,989	23,261,879
Deposits for aircraft under operating leases		**597,920**	523,338	426,375
Held-to-maturity securities		**10,000**	30,000	70,011
Available-for-sale securities	23	**1,106,588**	713,668	385,755
Deferred tax assets	24	**3,753,729**	3,581,841	3,269,063
		193,419,819	188,747,061	179,468,425
Current assets				
Aircraft and flight equipment held for sale	25	**582,074**	460,028	997,666
Inventories	26	**1,730,742**	1,100,179	1,044,617
Accounts receivable	27	**3,252,205**	2,834,130	2,861,167
Accounts receivable due from the ultimate holding company		**409,149**	150,079	239,417
Bills receivable		**224**	155	131
Prepayments, deposits and other receivables	28	**3,635,925**	4,215,385	3,918,240
Financial assets	29	**995**	12,534	11,350
Restricted bank deposits	30	**654,946**	704,863	1,554,454
Cash and cash equivalents	30	**7,138,098**	8,639,687	13,541,814
Other current assets		**2,806,973**	4,805,593	2,557,423
		20,211,331	22,922,633	26,726,279
Total assets		**213,631,150**	211,669,694	206,194,704

The notes on pages 93 to 185 form part of these financial statements.

	Note	**31 December 2015 RMB'000**	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
Current liabilities				
Air traffic liabilities		**(5,759,233)**	(4,830,806)	(4,461,448)
Accounts payable	31	**(9,252,750)**	(9,788,921)	(10,349,535)
Bills payable		**(11,646)**	(150,000)	–
Other payables and accruals	32	**(11,290,303)**	(11,821,087)	(11,986,597)
Financial liabilities	29	**–**	(7,712)	(24,070)
Amounts due to the ultimate holding company		**(4,857,426)**	(1,843,997)	(1,701,871)
Current taxation		**(819,880)**	(607,354)	(355,617)
Obligations under finance leases	33	**(5,963,977)**	(4,751,714)	(3,859,317)
Interest-bearing bank loans and other borrowings	34	**(11,290,310)**	(27,767,425)	(37,094,216)
Provision for major overhauls	35	**(1,301,821)**	(856,789)	(699,378)
		(50,547,346)	(62,425,805)	(70,532,049)
Net current liabilities		**(30,336,015)**	(39,503,172)	(43,805,770)
Total assets less current liabilities		**163,083,804**	149,243,889	135,662,655
Non-current liabilities				
Obligations under finance leases	33	**(37,803,279)**	(31,240,298)	(25,972,715)
Interest-bearing bank loans and other borrowings	34	**(48,987,522)**	(49,023,196)	(42,176,406)
Provision for major overhauls	35	**(3,112,201)**	(3,363,176)	(3,283,480)
Provision for early retirement benefit obligations		**(13,465)**	(19,210)	(35,331)
Long-term payables	36	**(10,180)**	(45,855)	(97,072)
Defined benefit obligations	37	**(276,968)**	–	–
Deferred income	38	**(3,489,698)**	(3,336,106)	(3,797,501)
Deferred tax liabilities	24	**(2,867,738)**	(2,337,958)	(2,014,407)
		(96,561,051)	(89,365,799)	(77,376,912)
NET ASSETS		**66,522,753**	59,878,090	58,285,743

The notes on pages 93 to 185 form part of these financial statements.

	Note	**31 December 2015 RMB'000**	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
CAPITAL AND RESERVES				
Issued capital	39	**13,084,751**	13,084,751	13,084,751
Treasury shares	39	**(3,047,564)**	(3,047,564)	(3,047,564)
Reserves		**49,710,824**	44,236,578	43,979,906
Total equity attributable to equity shareholders of the Company		**59,748,011**	54,273,765	54,017,093
Non-controlling interests		**6,774,742**	5,604,325	4,268,650
TOTAL EQUITY		**66,522,753**	59,878,090	58,285,743

Approved and authorised for issue by the board of directors on 30 March 2016.

Cai Jianjiang	**Song Zhiyong**
Director	*Director*

The notes on pages 93 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015
(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 2014		13,084,751	(3,047,564)	20,754,776	5,233,245	–	(3,727,738)	21,459,915	53,757,385	3,788,803	57,546,188
Impact of acquisition		–	–	119,405	34,530	38,364	–	67,409	259,708	479,847	739,555
Restated balance as at 1 January 2014		13,084,751	(3,047,564)	20,874,181	5,267,775	38,364	(3,727,738)	21,527,324	54,017,093	4,268,650	58,285,743
Changes in equity for 2014											
Profit for the year (restated)		–	–	–	–	–	–	3,852,492	3,852,492	481,610	4,334,102
Other comprehensive income (restated)		–	–	(3,084,078)	–	–	82,495	–	(3,001,583)	17,048	(2,984,535)
Total comprehensive income (restated)		–	–	(3,084,078)	–	–	82,495	3,852,492	850,909	498,658	1,349,567
Capital contribution by non-controlling shareholders of a subsidiary		–	–	–	–	–	–	–	–	980,000	980,000
Appropriation of statutory reserve funds (restated)		–	–	–	287,033	–	–	(287,033)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	248,011	–	–	(249,378)	(1,367)	(1,274)	(2,641)
Dividends paid to non-controlling shareholders (restated)		–	–	–	–	–	–	–	–	(141,709)	(141,709)
Dividends declared in respect of the previous year	39(d)	–	–	–	–	–	–	(592,870)	(592,870)	–	(592,870)
As at 31 December 2014 and 1 January 2015 (restated)		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	42(a)	**–**	**–**	**26,198**	**–**	**–**	**–**	**–**	**26,198**	**514,629**	**540,827**
Acquisition of a subsidiary under common control	42(b)	**–**	**–**	**(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		**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**

The notes on pages 93 to 185 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2015** **RMB'000**	2014 RMB'000 (Restated)
Operating activities			
Cash generated from operations	30(b)	**33,147,993**	17,452,140
Income tax paid		**(1,395,286)**	(550,387)
Interest paid		**(3,181,177)**	(3,339,450)
Net cash generated from operating activities		**28,571,530**	13,562,303
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,824,751)**	(18,517,331)
Increase in lease prepayments		**(472,403)**	(429,315)
Decrease in advance payments for aircraft and flight equipment		**3,672,076**	5,112,890
Proceeds from sale of property, plant and equipment		**249,718**	281,917
Proceeds from sale of held-for-sale assets		**110,220**	865,518
Proceeds from sale of held-to-maturity securities		**20,000**	40,011
Decrease in intangible asset		**957**	17,665
Net settlements of financial liabilities		**–**	(10,342)
(Increase)/decrease in restricted bank deposits against aircraft operating lease and others	30(a)	**(202,503)**	672,172
Capital contribution by non-controlling shareholders of a subsidiary		**–**	980,000
Cash acquired through acquisition of a subsidiary	42(a)	**145,380**	–
Acquisition of non-controlling interests		**(4,654)**	–
Payment for the purchase of an associate and a joint venture		**(59,085)**	(400)
Payment for purchase of available-for-sale securities		**(363,567)**	(278,983)
Interest received		**159,445**	291,602
Dividends received from associates, joint ventures and available-for-sale securities		**781,082**	439,329
Net cash used in investing activities		**(6,788,085)**	(10,535,267)
Financing activities			
New bank loans and other loans		**15,740,698**	37,467,053
Proceeds from issuance of corporate bonds		**3,597,000**	1,834,120
Repayment of bank loans and other loans		**(32,485,785)**	(38,264,478)
Repayment of principal under finance lease obligations		**(5,797,142)**	(4,511,974)
Repayment of corporate bonds		**(3,640,000)**	(3,700,000)
Dividends paid		**(795,439)**	(760,443)
Net cash used in financing activities		**(23,380,668)**	(7,935,722)
Net decrease in cash and cash equivalents		**(1,597,223)**	(4,908,686)
Cash and cash equivalents at 1 January	30(a)	**8,639,687**	13,541,814
Effect of foreign exchange rate changes		**95,634**	6,559
Cash and cash equivalents at 31 December	30(a)	**7,138,098**	8,639,687

The notes on pages 93 to 185 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1 CORPORATE INFORMATION

Air China Limited (the “Company”) was established as a joint stock limited company in Beijing, the People’s Republic of China (the “PRC”), on 30 September 2004. The Company’s H shares are listed on the Hong Kong Stock Exchange (the “HKSE”) and the London Stock Exchange (the “LSE”) while the Company’s A shares are listed on the Shanghai Stock Exchange. In the opinion of the directors, the Company’s parent and ultimate holding company is China National Aviation Holding Company (“CNAHC”), a PRC state-owned enterprise under the supervision of the State Council, 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. A summary of the significant accounting policies adopted by the Group is set out below.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately RMB30,336 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 RMB118,925 million as at 31 December 2015, 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 2015. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2015 comprise the Group and the Group's interest in associates and joint ventures.

China National Aviation Finance Co., Ltd ("CNAF") was acquired by the Company in 2015 (see note 42(b)). As CNAF and the Company had been under the common control of CNAHC before and after the acquisition, the acquisition was reflected in the consolidated financial statements of the Group using the principles of merger accounting under Accounting Guideline 5, *Merger accounting for common control combinations*. Accordingly, the assets and liabilities of CNAF had been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisition had been restated to include the result of operations and assets and liabilities of CNAF on a combined basis. Respective notes to the consolidated financial statements have also been restated. All significant intra-group transactions, balances, income and expenses are eliminated on combination.

As a result of the acquisition, the relevant line items in the consolidated statement of profit or loss for the year ended 31 December 2014 and the consolidated statement of financial position at 31 December 2014 have been restated as follows:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	The Group RMB'000 (as previously reported)	**CNAF** RMB'000	**Elimination** RMB'000	**The Group** RMB'000 (Restated)
Consolidated statement of profit or loss for the year ended 31 December 2014:				
Revenue	105,884,322	173,908	(93,333)	105,964,897
Profit for the year	4,285,007	64,126	(15,031)	4,334,102
Consolidated statement of financial position as at 31 December 2014:				
Non-current assets	188,257,661	673,492	(184,092)	188,747,061
Current assets	21,053,036	5,623,957	(3,754,360)	22,922,633
Total assets	209,310,697	6,297,449	(3,938,452)	211,669,694
Current liabilities	(60,843,094)	(5,337,069)	3,754,358	(62,425,805)
Non-current liabilities	(89,357,703)	(8,096)	–	(89,365,799)
Total liabilities	(150,200,797)	(5,345,165)	3,754,358	(151,791,604)
Net assets	59,109,900	952,284	(184,094)	59,878,090
Equity attributable to equity shareholders of the Company	53,978,288	479,571	(184,094)	54,273,765
Non-controlling interests	5,131,612	472,713	–	5,604,325
Total equity	59,109,900	952,284	(184,094)	59,878,090

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 are stated at their fair value (see note 2(g)).

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)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

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

Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have significant impact on the financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (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 Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

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

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

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

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

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

Property, plant and equipment under finance leases 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 property

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment property (Continued)

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

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

(j) Intangible assets (other than goodwill)

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

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

(k) Leases

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

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

(k) Leases (Continued)

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

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

(l) Advance payments for aircraft and flight equipment

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

(m) Impairment of assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– advance payments for aircraft and flight equipment;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Treasury shares

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

(o) Inventories

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

(p) Trade and other 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(v) Income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Income tax (Continued)

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

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

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

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

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

  – the same taxable entity; or

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

(w) Revenue recognition

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

(i) Provision of airline and airline-related services

Passenger revenue is recognised either when transportation services are provided or when an unused ticket expires rather than when a ticket is sold. Ticket sales for transportation not yet provided are included in current liabilities as air traffic liabilities. In addition, the Group has code-sharing agreements with other airlines under which a carrier's flights can be marketed under the two-letter airline designator code of another carrier. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(ii) Sale of goods

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

(iii) Interest income

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

(iv) Dividend income

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

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

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

(x) Frequent-flyer programmes

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

(y) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to 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 costs of major overhauls for aircraft and engines under operating leases are accrued and charged to the profit or loss over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhauls comprise mainly labour and materials. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul.

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

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

(z) Government grants

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

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

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

(aa) Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of 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 Services"), Chengdu Falcon Aircraft Engineering Service Co., Ltd. ("Chengdu Falcon"), Aircraft Maintenance and Engineering Corporation Beijing ("AMECO") and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Employee benefits (Continued)

(ii) Termination and early retirement benefits

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

(iii) Housing benefits

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

(iv) Share-based payments

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

The cost of cash-settled transactions with employees is measured initially at fair value at the grant date. 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Employee benefits (Continued)

(v) Defined benefit retirement plan obligations (Continued)

Service cost and net interest expense (income) on the net defined benefit liability (asset) 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 (asset). 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)).

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(dd) Translation of foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity 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.

(ee) Related parties

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Related parties (Continued)

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

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

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

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

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

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

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

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

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

– Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB1,100 million (31 December 2014: 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.

– Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Group recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Group exercises judgements about the estimated timing and amount of future taxable profits, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

– Overhaul costs

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

– Deferred income

The amount of revenue attributable to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the fair value of the miles awarded and the expected redemption rate. The fair value of the miles awarded is estimated by reference to external sales. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed. 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 2015 and 2014 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

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)

Year ended 31 December 2014 (restated)

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	104,651,713	236,544	–	104,888,257
Intersegment sales	–	2,305,767	(2,305,767)	–
Revenue for reportable segments under CASs	104,651,713	2,542,311	(2,305,767)	104,888,257
Business tax and surcharges not included in segment revenue				(198,297)
Other income not included in segment revenue				1,186,280
Effect of other differences between IFRSs and CASs				88,657
Revenue for the year under IFRSs				105,964,897
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,940,011	148,080	–	5,088,091
Effect of differences between IFRSs and CASs				46,775
Profit before taxation for the year under IFRSs				5,134,866

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 2015 and 2014 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 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**
Total assets for reportable segments as at 31 December 2014 under CASs (restated)	206,322,496	10,331,222	(4,651,852)	212,001,866
Effect of differences between IFRSs and CASs				(332,172)
Total assets under IFRSs (restated)				211,669,694

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 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**
Total liabilities for reportable segments as at 31 December 2014 under CASs (restated)	150,552,686	5,861,218	(4,651,852)	151,762,052
Effect of differences between IFRSs and CASs				29,552
Total liabilities under IFRSs (restated)				151,791,604

4 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2015

	Airline operations RMB'000	Other operations RMB'000	Eliminatio n 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 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**

Year ended 31 December 2014 (restated)

	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	701,060	157,758	–	858,818	–	858,818
Impairment losses recognised in profit or loss, net	(131,591)	1,852	–	(129,739)	40,193	(89,546)
Depreciation and amortisation	11,596,312	20,445	–	11,616,757	(223,328)	11,393,429
Finance income	210,632	45,902	(34,147)	222,387	10,878	233,265
Finance costs	3,463,882	475	(90,320)	3,374,037	(159,773)	3,214,264
Taxation	751,416	37,654	–	789,070	11,694	800,764
Interests in associates and joint ventures	11,455,632	1,728,281	–	13,183,913	(81,418)	13,102,495
Additions to non-current assets	31,196,654	27,180	–	31,223,834	–	31,223,834

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 2015 and 2014, respectively:

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**

Year ended 31 December 2014 (restated)

	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	68,083,855	6,186,245	11,304,062	9,339,397	5,452,765	5,598,573	105,964,897

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 2015 (2014: 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:

	2015 RMB'000	2014 RMB'000
Passenger	**95,920,745**	92,599,317
Cargo and mail	**8,447,485**	8,785,882
	104,368,230	101,385,199

6 OTHER OPERATING REVENUE

	2015	2014
	RMB'000	RMB'000
		(Restated)
Aircraft engineering income	**747,651**	113,863
Ground service income	**810,176**	930,733
Government grants:		
– Recognition of deferred income	**79,658**	149,601
– Others	**889,166**	999,052
Service charges on return of unused flight tickets	**1,147,055**	871,254
Cargo handling service income	**138,677**	124,399
Training service income	**43,168**	40,429
Rental income	**194,356**	133,936
Sale of materials	**27,050**	11,780
Import and export service income	**35,521**	36,828
Others	**1,576,326**	1,167,823
	5,688,804	4,579,698

7 EMPLOYEE COMPENSATION COSTS

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

	2015	2014
	RMB'000	RMB'000
		(Restated)
Wages, salaries and other benefits	**16,325,780**	13,936,594
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**1,907,635**	1,616,416
– Early retirement benefits	**(1,664)**	(13,992)
Share-based benefits (note 40)	**(910)**	11,835
	18,230,841	15,550,853

8 PROFIT FROM OPERATIONS

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

	2015	2014
	RMB'000	RMB'000
		(Restated)
Depreciation of property, plant and equipment	**12,911,350**	11,327,044
Depreciation of investment properties	**27,559**	12,310
Amortisation of lease prepayments	**71,852**	54,075
Impairment/(reversal of impairment):		
– Property, plant and equipment	**–**	35,105
– Aircraft and flight equipment held for sale	**112,791**	361,892
– Accounts receivable	**49,167**	2,675
– Prepayments, deposits and other receivables	**268**	(490,958)
Provision for inventories	**12,831**	1,740
Losses on disposal of property, plant and equipment	**91,235**	38,409
Minimum lease payments under operating leases:		
– Aircraft and flight equipment	**5,145,664**	4,536,641
– Land and buildings	**924,430**	866,533
Auditors' remuneration		
– Audit related services	**22,051**	18,801
– Other services	**29**	527

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

	2015	2014
	RMB'000	RMB'000
		(Restated)
Interest income	**152,257**	222,387
Others	**–**	10,878
	152,257	233,265

9 FINANCE INCOME AND FINANCE COSTS (Continued)

Finance costs

	2015 RMB'000	2014 RMB'000 (Restated)
Interest on interest-bearing bank loans and other borrowings	**2,502,785**	2,816,186
Interest on finance leases	**677,976**	503,376
Losses on interest rate derivative contracts, net	**–**	371
Exchange losses, net	**5,156,039**	360,154
	8,336,800	3,680,087
Less: Interest capitalised	**(367,975)**	(465,823)
	7,968,825	3,214,264

The interest capitalisation rates during the year ranged from 0.77% to 6.55% (2014: 0.77% to 6.55%) per annum.

10 TAXATION

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

	2015 RMB'000	2014 RMB'000 (Restated)
Current income tax:		
– Mainland China	**1,555,160**	795,823
– Hong Kong and Macau	**8,224**	13,339
Under/(over)-provision in respect of prior years	**1,199**	(7,038)
Deferred tax (note 24)	**281,181**	(1,360)
	1,845,764	800,764

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% (2014: 15%) and a subsidiary which is exempted from the local income tax of the Inner Mongolia Autonomous Region from year 2013 to 2015, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2014: 25%) during the year. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (2014: 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:

	2015 **RMB'000**	2014 RMB'000 (Restated)
Profit before taxation	**9,355,251**	5,134,866
Notional tax on profit before taxation using the Company's domestic tax rate	**2,338,813**	1,283,716
Tax rate differential in foreign jurisdictions	**(96,023)**	(66,149)
Tax effect of share of profits less losses of associates and joint ventures	**(405,050)**	(214,704)
Tax effect of non-deductible expenses	**46,216**	23,460
Tax effect of non-taxable income	**(56,222)**	(83,825)
Deductible temporary differences and tax losses not recognised	**100,078**	64,296
Utilisation of tax losses not recognised in prior years	**(43,221)**	(3,156)
Utilisation of deductible temporary differences not recognised in prior years	**(40,026)**	(73,207)
Effect of the reversal of impairment of prepayments, deposits and other receivables that were recognised as permanent differences in previous years	**–**	(122,629)
Under/(over)-provision in prior years	**1,199**	(7,038)
Actual tax expense	**1,845,764**	800,764
Effective tax rate	**19.7%**	15.6%

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 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 [1]	–	**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	–	–	–	–	–	–
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						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	**377**	**129**	**65**	–	**571**
Li Qinglin	–	–	–	–	–	–
He Chaofan	–	–	–	–	–	–
Shen Zhen	–	**196**	**33**	**46**	–	**275**
	–	**573**	**162**	**111**	–	**846**
	455	**1,250**	**1,148**	**278**	–	**3,131**

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

For the year ended 31 December 2014 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 (Appointed on 22 May 2014) (1)	–	574	157	81	–	812
Fan Cheng	–	292	565	82	–	939
	–	866	722	163	–	1,751
Non-executive directors						
Cai Jianjiang (Appointed on 28 January 2014)	–	28	433	7	–	468
Wang Changshun (Resigned on 27 January 2014)	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Feng Gang (Appointed on 26 August 2014)	–	111	387	32	–	530
John Robert Slosar (Appointed on 22 May 2014)	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
Sun Yude (Resigned on 10 July 2014)	–	–	–	–	–	–
Christopher Dale Pratt (Resigned on 14 March 2014)	–	–	–	–	–	–
	–	139	820	39	–	998
Independent non-executive directors						
Fu Yang	131	–	–	–	–	131
Yang Yuzhong	131	–	–	–	–	131
Pan Xiaojiang	–	–	–	–	–	–
To Chi Keung, Simon	131	–	–	–	–	131
	393	–	–	–	–	393
Supervisors						
Li Qinglin	–	–	–	–	–	–
He Chaofan	–	–	–	–	–	–
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	359	118	59	–	536
Shen Zhen	–	183	33	43	–	259
	–	542	151	102	–	795
	393	1,547	1,693	304	–	3,937

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

(1) Song Zhiyong has been both a director and the chief executive of the Company for the year ended 31 December 2015.

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

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors (2014: none), whose emoluments are disclosed in the note 11, was among the five highest paid individuals in the Group for 2015. The aggregate emoluments in respect of the five (2014: five) individuals during the year is as follows:

	2015 **RMB'000**	2014 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	**8,924**	11,166
Discretionary bonuses	**492**	181
	9,416	11,347

The emoluments of the five (2014: five) individuals with the highest emoluments are within the following bands:

	2015 **Number of individuals**	2014 Number of individuals
HK$2,000,001 to HK$2,500,000	**5**	–
HK$2,500,001 to HK$3,000,000	**–**	5

Mr. Pan Xiaojiang had waived the remuneration for the year ended 31 December 2015, 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 (2014: Nil).

13 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2015 was based on the profit attributable to ordinary equity shareholders of the Company of RMB7,063 million (2014: RMB3,852 million) and the weighted average of 12,294,896,740 ordinary shares (2014: 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 2015 and 2014.

15 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2014 (restated)	175,375,138	7,469,110	3,470,540	2,102,427	1,573,524	8,510,729	198,501,468
Additions (restated)	5,059,235	1,913	264,227	39,270	44,780	22,582,188	27,991,613
Transfer from construction in progress (restated)	21,517,066	760,860	324,402	60,882	130,163	(22,793,373)	–
Reclassification to aircraft and flight equipment held for sale	(3,244,361)	–	–	–	–	–	(3,244,361)
Disposals (restated)	(4,915,679)	(64,092)	(25,632)	(46,571)	(33,522)	–	(5,085,496)
Exchange realignment	15,800	–	414	260	1,188	–	17,662
At 31 December 2014 and 1 January 2015 (restated)	193,807,199	8,167,791	4,033,951	2,156,268	1,716,133	8,299,544	218,180,886
Additions	**4,397,898**	**5,267**	**149,510**	**38,412**	**64,193**	**14,755,805**	**19,411,085**
Additions through business combination	**60,050**	**2,125,639**	**1,237,600**	**93,384**	**67,922**	**66,166**	**3,650,761**
Transfer from construction in progress	**15,358,527**	**939,364**	**304,948**	**57,117**	**190,657**	**(16,850,613)**	**–**
Reclassification to aircraft and flight equipment held for sale	**(3,050,637)**	**–**	**–**	**–**	**–**	**–**	**(3,050,637)**
Disposals	**(4,007,909)**	**(62,627)**	**(83,642)**	**(27,446)**	**(44,175)**	**–**	**(4,225,799)**
Exchange realignment	**44,075**	**–**	**1,073**	**783**	**3,196**	**–**	**49,127**
At 31 December 2015	**206,609,203**	**11,175,434**	**5,643,440**	**2,318,518**	**1,997,926**	**6,270,902**	**234,015,423**
Accumulated depreciation							
1 January 2014 (restated)	(57,800,886)	(2,375,522)	(1,420,867)	(1,313,661)	(1,107,323)	–	(64,018,259)
Reclassification to aircraft and flight equipment held for sale	2,397,931	–	–	–	–	–	2,397,931
Charge for the year (restated)	(10,406,010)	(259,195)	(309,160)	(173,648)	(179,031)	–	(11,327,044)
Written back on disposals (restated)	3,753,363	26,613	21,452	40,620	32,963	–	3,875,011
Exchange realignment	(8,389)	–	(395)	(160)	(803)	–	(9,747)
At 31 December 2014 and 1 January 2015 (restated)	(62,063,991)	(2,608,104)	(1,708,970)	(1,446,849)	(1,254,194)	–	(69,082,108)
Reclassification to aircraft and flight equipment held for sale	**2,430,990**	**–**	**–**	**–**	**–**	**–**	**2,430,990**
Charge for the year	**(11,748,512)**	**(367,488)**	**(417,602)**	**(173,473)**	**(204,275)**	**–**	**(12,911,350)**
Additions through business combination	**(25,954)**	**(635,593)**	**(779,539)**	**(63,633)**	**(9,173)**	**–**	**(1,513,892)**
Written back on disposals	**3,747,059**	**23,031**	**75,352**	**26,077**	**41,505**	**–**	**3,913,024**
Exchange realignment	**(24,577)**	**–**	**(1,029)**	**(508)**	**(2,177)**	**–**	**(28,291)**
At 31 December 2015	**(67,684,985)**	**(3,588,154)**	**(2,831,788)**	**(1,658,386)**	**(1,428,314)**	**–**	**(77,191,627)**
Impairment							
1 January 2014 (restated)	(1,656,238)	(7,119)	–	–	–	–	(1,663,357)
Reclassification to aircraft and flight equipment held for sale	151,085	–	–	–	–	–	151,085
Charge for the year	(35,105)	–	–	–	–	–	(35,105)
Written back on disposals	641,182	–	–	–	–	–	641,182
At 31 December 2014 and 1 January 2015 (restated)	(899,076)	(7,119)	–	–	–	–	(906,195)
Reclassification to aircraft and flight equipment held for sale	–	–	–	–	–	–	–
Charge for the year	–	–	–	–	–	–	–
Written back on disposals	**73,376**	–	–	–	–	–	**73,376**

At 31 December 2015	**(825,700)**	**(7,119)**	**–**	**–**	**–**	**–**	**(832,819)**
Net book value							
At 31 December 2015	**138,098,518**	**7,580,161**	**2,811,652**	**660,132**	**569,612**	**6,270,902**	**155,990,977**
At 31 December 2014 (restated)	130,844,132	5,552,568	2,324,981	709,419	461,939	8,299,544	148,192,583

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, no impairment loss relating to aircraft and flight equipment was recognised (2014: RMB35 million). The recoverable amounts of these 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 2015 and 2014. 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 2015, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB37,953 million (2014: RMB40,001 million) were pledged to secure certain bank loans of the Group (note 34(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB68,218 million (2014: RMB58,673 million) (note 33).

As at 31 December 2015, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,780 million (2014: RMB1,965 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 2015.

16 LEASE PREPAYMENTS

	2015 **RMB'000**	2014 RMB'000
Cost		
As at 1 January	**3,063,440**	2,611,034
Additions	**472,403**	484,499
Disposal	–	(32,093)
As at 31 December	**3,535,843**	3,063,440
Accumulated amortisation		
As at 1 January	**(429,782)**	(407,657)
Amortisation for the year	**(71,852)**	(54,075)
Disposal	–	31,950
As at 31 December	**(501,634)**	(429,782)
Net carrying amount		
As at 31 December	**3,034,209**	2,633,658

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 2015, the Group's land use rights with an aggregate net book value of approximately RMB36 million (2014: RMB37 million) were pledged to secure certain bank loans of the Group (note 34(a)).

As at 31 December 2015, 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 RMB536 million (2014: RMB604 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 2015.

17 INVESTMENT PROPERTIES

	2015 **RMB'000**	2014 RMB'000
Cost		
As at 1 January	**837,140**	387,466
Additions	**66,567**	449,674
As at 31 December	**903,707**	837,140
Accumulated depreciation		
As at 1 January	**(153,485)**	(141,175)
Depreciation for the year	**(27,559)**	(12,310)
As at 31 December	**(181,044)**	(153,485)
Net carrying amount		
As at 31 December	**722,663**	683,655

18 INTANGIBLE ASSET

	2015 **RMB'000**	2014 RMB'000
As at 1 January	**36,859**	54,524
Reduction upon admission of new Star Alliance members	**(957)**	(17,665)
As at 31 December	**35,902**	36,859

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

19 GOODWILL

	2015	2014
	RMB'000	RMB'000
As at 31 December:		
– Cost	**1,276,866**	1,276,866
– Impairment	**(176,891)**	(176,891)
Net carrying amount	**1,099,975**	1,099,975

Impairment testing of goodwill

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

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

Air China Cargo cash-generating unit

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. The discount rate applied to the cash flow projections is 10% (2014: 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 change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

20 INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2015 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 Aviation Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Golden Phoenix# (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau	Limited liability company	MOP442,042,000	–	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
Shenzhen Jinpeng Industrial & Trading Co., Ltd.# (深圳金鵬工貿有限責任公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	–	100	Tickets agent
Kunming Airlines Co., Ltd.# (昆明航空有限公司)	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator

Beijing Airlines# (北京航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	– Airline operator
Dalian Airlines (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	– Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	– Airline operator
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 2015 or formed a substantial portion of the net assets of the Group as at 31 December 2015. 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.

	2015		2014	
	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	**2,822,886**	**2,441,221**	3,242,187	2,158,168
Non-current assets	**43,281,129**	**12,239,974**	40,722,584	10,936,980
Current liabilities	**(16,548,558)**	**(2,866,494)**	(18,126,461)	(3,565,665)
Non-current liabilities	**(24,492,300)**	**(8,985,997)**	(21,338,885)	(6,709,104)
Net assets	**5,063,157**	**2,828,704**	4,499,425	2,820,379
– Equity contributed to equity shareholder of the subsidiary	**5,004,435**	**2,828,704**	4,457,500	2,820,379
– Equity contributed to the NCI at the subsidiary level	**58,722**	**–**	41,925	–
Carrying amount of NCI	**2,510,895**	**1,386,065**	2,226,100	1,381,986
Revenue	**24,244,072**	**9,131,736**	22,891,427	9,263,321
Profit for the year	**725,742**	**6,992**	747,810	67,789
Total comprehensive income	**738,432**	**8,325**	779,220	67,906
Total comprehensive income allocated to NCI	**370,398**	**4,079**	381,818	33,274
Capital contribution by NCI	**–**	**–**	–	980,000
Dividend paid to NCI	**(85,603)**	**–**	(115,738)	–
Cash flows generated from/(used in) operating activities	**6,188,398**	**1,158,564**	3,540,033	(1,083,733)
Cash flows (used in)/generated from investing activities	**(1,228,977)**	**675,921**	(1,532,503)	(960,831)
Cash flows (used in)/generated from financing activities	**(5,046,709)**	**(1,870,127)**	(2,011,338)	1,962,257

21 INTERESTS IN ASSOCIATES

	2015	2014
	RMB'000	RMB'000
		(Restated)
Share of net assets		
– Listed shares in the PRC	**648,878**	542,058
– Listed shares in Hong Kong	**6,789,902**	7,186,996
– Unlisted investments	**1,246,535**	1,113,203
Goodwill	**2,914,352**	2,914,352
	11,599,667	11,756,609
Less: impairment	**(46,842)**	(46,842)
As at 31 December	**11,552,825**	11,709,767
Market value of listed shares	**15,172,661**	16,858,414

Particulars of the principal associates as at 31 December 2015 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	Provision of aircraft overhaul and maintenance services
CAAC Cares Chongqing Co., Ltd.# (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB14,800,000	24.5	Provision of airline-related information system services

Chengdu CAAC Southwest Cares Co., Ltd.# (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
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 2015 or formed a substantial portion of the net assets of the Group as at 31 December 2015. 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	
	2015	2014
	RMB'000	RMB'000
Gross amounts of the associate's		
Current assets	**27,835,241**	26,401,111
Non-current assets	**116,955,764**	109,264,017
Current liabilities	**(41,702,175)**	(36,099,479)
Non-current liabilities	**(62,819,258)**	(58,660,373)
Equity	**40,269,572**	40,905,276
– Equity contributed to equity shareholders of the associate	**40,152,282**	40,801,934
– Equity contributed to NCI of the associate	**117,290**	103,342
Revenue	**83,237,307**	83,473,212
Profit for the year	**5,130,454**	2,717,048
Other comprehensive income	**(6,302,455)**	(10,471,265)
Total comprehensive income	**(1,172,001)**	(7,754,217)
Dividend received from the associate	**513,958**	241,976
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**40,152,282**	40,801,934
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**12,041,669**	12,236,500
Elimination of reciprocal shareholding	**(5,251,767)**	(5,049,504)
Goodwill	**2,701,567**	2,701,567
Carrying amount in the consolidated financial statements	**9,491,469**	9,888,563

Aggregate information of associates that are not individually material:

	2015	2014
	RMB'000	RMB'000
		(Restated)
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**2,061,356**	1,821,204
Aggregate amounts of the Group's share of those associates'		
– Profit from continuing operations	**310,689**	149,076
– Other comprehensive income	**17,526**	25,364
Total comprehensive income	**328,215**	174,440

22 INTERESTS IN JOINT VENTURES

	2015 **RMB'000**	2014 RMB'000
Share of net assets	**1,031,623**	1,386,218
Goodwill	**6,495**	6,510
	1,038,118	1,392,728

Particulars of the joint ventures of the Group at 31 December 2015 are as follows:

			Percentage of			
Company name	**Place of incorporation/ registration and operations**	**Issued capital**	**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
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo carriage services
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.

22 INTERESTS IN JOINT VENTURES (Continued)

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

	2015 **RMB'000**	2014 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**1,038,118**	1,392,728
Aggregate amounts of the Group's share of those joint ventures'		
– Profit from continuing operations	**300,897**	120,191
– Other comprehensive income	**1,347**	118
Total comprehensive income	**302,244**	120,309

23 AVAILABLE-FOR-SALE SECURITIES

	2015 **RMB'000**	2014 RMB'000 (Restated)
Available-for-sale debt securities	**996,044**	619,489
Available-for-sale equity securities		
– Unlisted	**42,725**	42,725
– Listed	**67,819**	51,454
	1,106,588	713,668

24 DEFERRED TAX ASSETS AND LIABILITIES

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

	2015 RMB'000	2014 RMB'000 (Restated)
Deferred tax assets:		
As at 1 January	**3,581,841**	3,269,063
Additions through business combinations	**56,334**	–
Charge to profit or loss (note 10)	**115,554**	313,351
Recognised in other comprehensive income	**–**	(573)
Gross deferred tax assets as at 31 December	**3,753,729**	3,581,841
Deferred tax liabilities:		
As at 1 January	**2,337,958**	2,014,407
Additions through business combinations	**125,707**	–
Charge to profit or loss (note 10)	**396,735**	311,991
Recognised in other comprehensive income	**7,338**	11,560
Gross deferred tax liabilities as at 31 December	**2,867,738**	2,337,958
Net deferred tax assets as at 31 December	**885,991**	1,243,883

24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	2015 RMB'000	2014 RMB'000 (Restated)
Deferred tax assets:		
Differences in value of property, plant and equipment	**69,350**	84,629
Provisions and accruals	**2,514,787**	2,542,263
Unrealised profit of intra-group transactions	**67,680**	41,658
Impairment	**423,241**	516,758
Deductible tax losses	**678,671**	389,145
Government grants and subsidies	**–**	7,388
Gross deferred tax assets	**3,753,729**	3,581,841
Deferred tax liabilities:		
Unrealised exchange gain	**(14,247)**	(29,591)
Changes in fair value of available-for-sale financial assets	**(18,898)**	(11,560)
Depreciation allowances in excess of the related depreciation	**(2,627,729)**	(2,111,098)
Others	**(206,864)**	(185,709)
Gross deferred tax liabilities	**(2,867,738)**	(2,337,958)
Net deferred tax assets	**885,991**	1,243,883

Deferred tax assets not recognised for the following temporary differences:

	2015 RMB'000	2014 RMB'000
Tax losses	**2,186,235**	2,268,480
Other deductible temporary differences	**773,845**	624,277
	2,960,080	2,892,757

The Group has no tax losses arising from operations outside Mainland China (2014: Nil). The Group has tax losses and other deductible temporary differences arising from the operation in Mainland China of RMB2,960,080,000 (2014: RMB2,892,757,000) that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

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

25 AIRCRAFT AND FLIGHT EQUIPMENT HELD FOR SALE

Aircraft and flight equipment held for sale 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.

	2015 **RMB'000**	2014 RMB'000
Aircraft and flight equipment held for sale	**582,074**	460,028

An impairment loss charged of approximately RMB112,791,000 for the Group, was made against these aircraft and flight equipment for the year ended 31 December 2015 (2014: RMB361,892,000). 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 2015. The fair value on which the recoverable amount is based on is catergorised as a Level 2 measurement.

26 INVENTORIES

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

	2015 **RMB'000**	2014 RMB'000
Spare parts of flight equipment	**1,215,004**	901,512
Catering supplies	**111,524**	100,665
Ordinary equipment	**17,356**	22,354
Others	**386,858**	75,648
	1,730,742	1,100,179

27 ACCOUNTS RECEIVABLE

	2015 **RMB'000**	2014 RMB'000
Accounts receivable	**3,407,367**	2,903,464
Impairment	**(155,162)**	(69,334)
	3,252,205	2,834,130

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.

27 ACCOUNTS RECEIVABLE (Continued)

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

	2015 **RMB'000**	2014 RMB'000
Within 30 days	**2,419,604**	2,262,237
31 to 60 days	**328,902**	263,514
61 to 90 days	**166,916**	110,406
Over 90 days	**336,783**	197,973
	3,252,205	2,834,130

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

	2015 **RMB'000**	2014 RMB'000
As at 1 January	**69,334**	74,671
Impairment losses recognised	**49,273**	5,892
Additions through business combination	**38,399**	–
Amount reversed	**(106)**	(3,217)
Amount written off	**(1,830)**	(8,031)
Exchange realignment	**92**	19
As at 31 December	**155,162**	69,334

At 31 December 2015, the Group's accounts receivable of RMB148,180,000 (2014: RMB61,905,000) 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 remote.

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

	2015 **RMB'000**	2014 RMB'000
Neither past due nor impaired	**2,252,597**	2,154,027
Less than 3 moths past due	**455,368**	315,703
More than 3 months past due	**305,421**	154,506
	3,013,386	2,624,236

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.

27 ACCOUNTS RECEIVABLE (Continued)

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:

	2015 RMB'000	2014 RMB'000 (Restated)
Prepayments		
Advances and others	**561,758**	394,389
Manufacturers' credits	**882,801**	1,375,606
Prepaid aircraft operating lease rentals	**507,505**	449,412
	1,952,064	2,219,407
Deposits and other receivables	**1,683,861**	1,995,978
	3,635,925	4,215,385

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

	2015 RMB'000	2014 RMB'000 (Restated)
As at 1 January	**2,410,655**	2,902,420
Impairment losses recognised	**324**	285
Amount reversed	**(56)**	(491,243)
Amount written off	**(290)**	(822)
Exchange realignment	**39**	15
As at 31 December	**2,410,672**	2,410,655

28 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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 remote, full impairment will be provided. Should further information obtained in subsequent periods indicate the receivables could be collected partially or entirely, the provision would be partially or entirely reversed accordingly.

As at 31 December 2015, 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 2015, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property") and its subsidiaries was RMB 649,486,000 (31 December 2014: RMB650,819,000), for which full provision had been provided.

29 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2015		2014	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Interest rate swaps	**967**	**–**	1,761	7,712
Listed equity securities	**28**	**–**	10,773	–
	995	**–**	12,534	7,712

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

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the 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	**2015 RMB'000**	2014 RMB'000 (Restated)
Time deposits with banks and other financial institution		**1,940,479**	5,092,264
Less: Restricted bank deposits	(i)	**(654,946)**	(704,863)
Non-restricted deposits		**1,285,533**	4,387,401
Cash and bank		**5,852,565**	4,252,286
Cash and cash equivalents		**7,138,098**	8,639,687

Note:

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

	2015 RMB'000	2014 RMB'000 (Restated)
Deposits with the central bank by CNAF	**377,873**	630,293
Restricted bank deposits against aircraft operating leases and others	**277,073**	74,570
	654,946	704,863

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

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

	2015 RMB'000	2014 RMB'000 (Restated)
Cash flows from operating activities		
Profit before taxation	**9,355,251**	5,134,866
Adjustments for:		
Share of profits less losses of associates and joint ventures	**(1,620,197)**	(858,818)
Exchange losses, net	**5,156,039**	360,154
Interest income	**(152,257)**	(222,387)
Finance costs	**2,812,786**	2,853,739
Changes of fair value on financial assets and financial liabilities, net	**–**	371
Depreciation of property, plant and equipment	**12,911,350**	11,327,044
Impairment of property, plant and equipment	**–**	35,105
(Gains)/losses on disposal of property, plant and equipment, net	**(10,319)**	32,836
Losses on disposal of aircraft and flight held for sale	**101,554**	5,573
Amortisation of lease prepayments	**71,852**	54,075
Depreciation of investment properties	**27,559**	12,310
Impairment of aircraft held for sale	**112,791**	361,892
Provision for inventories	**12,831**	1,740
Impairment of accounts receivable	**49,167**	2,675
Impairment/(reversal of impairment) of prepayments, deposits and other receivables	**268**	(490,958)
Increase in deposits for aircraft under operating leases	**(74,582)**	(96,963)
Increase in inventories	**(643,394)**	(57,302)
(Increase)/decrease in accounts receivable	**(467,242)**	24,362
Increase in bills receivable	**(69)**	(24)
Decrease in prepayments, deposits and other receivables	**579,192**	193,813
(Increase)/decrease in accounts receivable due from the ultimate holding company	**(259,070)**	89,338
Decrease/(increase) in other current assets	**1,998,620**	(2,248,170)
Increase in air traffic liabilities	**928,427**	369,358
(Decrease)/increase in accounts payable	**(393,084)**	732,521
(Decrease)/increase in bills payable	**(138,354)**	150,000
Decrease in other payables and accruals	**(530,784)**	(165,510)
Increase in amounts due to the ultimate holding company	**3,013,429**	142,126
Increase in provision for major overhauls	**194,057**	237,107
Decrease in provision for early retirement benefit obligations	**(5,745)**	(16,121)
Increase/(decrease) in deferred income	**153,592**	(461,395)
Decrease in long-term payables	**(35,675)**	(51,217)
Cash generated from operations	**33,147,993**	17,452,140

30 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (Continued)

(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 RMB11,112 million (2014: RMB10,676 million).

31 ACCOUNTS PAYABLE

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

	2015	2014
	RMB'000	RMB'000
Within 30 days	**4,548,654**	5,507,172
31 to 60 days	**1,373,626**	789,788
61 to 90 days	**1,086,846**	1,366,348
Over 90 days	**2,243,624**	2,125,613
	9,252,750	9,788,921

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

32 OTHER PAYABLES AND ACCRUALS

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

	2015	2014
	RMB'000	RMB'000
		(Restated)
Accrued salaries, wages and benefits	**1,933,927**	1,814,902
Receipts in advance for employee residence	**308,377**	1,874,773
Accrued operating expenses	**1,727,321**	1,308,280
Business tax, customs duties and levies tax payable	**484,499**	370,410
Deposits received from sales agents	**850,339**	664,490
Due to a non-controlling shareholder of a subsidiary	**100,000**	100,000
Interest payable	**673,595**	664,773
Current portion of deferred income related to the frequent-flyer programme (note 38(a))	**711,345**	890,322
Current portion of deferred income related to government grants (note 38(b))	**47,807**	76,588
Current portion of long-term payables (note 36)	**40,665**	55,414
Provision for staff housing benefits	**109,264**	88,062
Deposits received by CNAF from related parties	**1,305,324**	1,269,911
Others	**2,997,840**	2,643,162
	11,290,303	11,821,087

33 OBLIGATIONS UNDER FINANCE LEASES

The Group have obligations under finance lease agreements expiring during the years from 2016 to 2027 (2014: 2016 to 2026) 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 2015 RMB'000	**Present values of minimum lease payments 2015 RMB'000**	Minimum lease payments 2014 RMB'000	Present values of minimum lease payments 2014 RMB'000
Amounts repayable:				
– Within 1 year	**6,683,391**	**5,963,977**	5,311,426	4,751,714
– After 1 year but within 2 years	**6,261,603**	**5,592,839**	5,304,020	4,803,263
– After 2 years but within 5 years	**15,293,774**	**13,828,594**	13,108,105	11,971,446
– After 5 years	**19,367,819**	**18,381,846**	15,200,907	14,465,589
Total minimum finance lease payments	**47,606,587**	**43,767,256**	38,924,458	35,992,012
Less: Amounts representing finance charges	**(3,839,331)**		(2,932,446)	
Present value of minimum lease payments	**43,767,256**		35,992,012	
Less: Portion classified as current liabilities	**(5,963,977)**		(4,751,714)	
Non-current portion	**37,803,279**		31,240,298	

The Group's finance leases were secured by the Group's aircraft with net carrying amount of approximately RMB68,218 million (2014: RMB58,673 million) (note 15).

As at 31 December 2015, the obligations under finance leases of the Group with an aggregate amount of US$331.32 million (equivalent to RMB2,151.46 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.

34 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2015	2014
	RMB'000	RMB'000
		(Restated)
Bank loans:		
– Secured, pledged or guaranteed	**30,785,825**	31,468,087
– Unsecured	**8,700,126**	24,488,414
	39,485,951	55,956,501
Corporate bonds – unsecured	**20,791,881**	20,834,120
	60,277,832	76,790,621

	2015	2014
	RMB'000	RMB'000
		(Restated)
Bank loans repayable:		
– Within 1 year	**8,691,467**	24,127,425
– After 1 year but within 2 years	**7,347,641**	5,997,305
– After 2 years but within 5 years	**13,993,366**	14,427,453
– After 5 years	**9,453,477**	11,404,318
	39,485,951	55,956,501
Corporate bonds:		
– Within 1 year	**2,598,843**	3,640,000
– After 1 year but within 2 years	**1,195,982**	–
– After 2 years but within 5 years	**10,497,056**	10,694,120
– After 5 years	**6,500,000**	6,500,000
	20,791,881	20,834,120
Total interest-bearing bank loans and other borrowings	**60,277,832**	76,790,621
Less: Portion classified as current liabilities	**(11,290,310)**	(27,767,425)
Non-current portion	**48,987,522**	49,023,196

34 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:

	2015 **RMB'000**	2014 RMB'000 (Restated)
Bank loans		
RMB denominated loans:		
Fixed interest rate ranging from 2.00% to 6.80% (2014: 0.00% to 7.20%) per annum, with final maturities through to 2019	**1,750,839**	4,395,294
Floating interest rate ranging from 4.86% to 5.40% (2014: 5.04% to 6.55%) per annum, with final maturities through to 2023	**1,445,779**	2,371,594
Total RMB denominated loans	**3,196,618**	6,766,888
US$ denominated loans:		
Fixed interest rate ranging from 2.70% to 3.80% (2014: 2.40% to 4.96%) per annum, with final maturities through to 2019	**890,612**	2,221,482
Floating interest rate ranging from 0.93% to 6.40% (2014: 0.77% to 6.09%) per annum, with final maturities through to 2025	**33,547,598**	46,822,254
Total US$ denominated loans	**34,438,210**	49,043,736
Euros denominated loans:		
Fixed interest rate at 4.38% (2014: 4.38%) per annum, with final maturities through to 2047	**112,261**	145,877
Floating interest rate at 1.35% per annum, with final maturities through to 2016	**1,489,992**	–
Total Euros denominated loans	**1,602,253**	145,877
MOP denominated loans:		
Floating interest rate at 2.44% per annum, with final maturities through to 2020	**248,870**	–
Total bank loans	**39,485,951**	55,956,501
Corporate bonds		
RMB denominated loans:		
Fixed interest rate ranging from 2.91% to 5.60% (2014: 3.48% to 5.60%) per annum, with final maturities through to 2023	**20,791,881**	20,834,120
Total interest-bearing bank loans and other borrowings	**60,277,832**	76,790,621

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

The Group's bank loans and other loans of approximately RMB30,786 million as at 31 December 2015 (2014: RMB31,468 million) were secured, pledged or guaranteed by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB37,953 million as at 31 December 2015 (2014: RMB40,001 million) (note 15); and land use rights with an aggregate carrying amount of approximately RMB36 million as at 31 December 2015 (2014: RMB37 million) (note 16); and

(b) As at 31 December 2015, bank loans of the Group with an aggregate amount of US$237 million (equivalent to RMB1,541 million) were guaranteed by an associate of the Group (31 December 2014: US$255 million (equivalent to RMB1,560 million)).

35 PROVISION FOR MAJOR OVERHAULS

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

	2015	2014
	RMB'000	RMB'000
As at 1 January	**4,219,965**	3,982,858
Provision for the year	**1,918,121**	1,306,053
Utilisation during the year	**(1,724,064)**	(1,068,946)
As at 31 December	**4,414,022**	4,219,965
Less: Portion classified as current liabilities	**(1,301,821)**	(856,789)
Non-current portion	**3,112,201**	3,363,176

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

36 LONG-TERM PAYABLES

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

	2015 **RMB'000**	2014 RMB'000 (Restated)
Non-voting redeemable preference shares of a subsidiary	**40,665**	77,710
Others	**10,180**	23,559
	50,845	101,269
Less: Portion classified as current liabilities	**(40,665)**	(55,414)
Non-current portion	**10,180**	45,855

37 DEFINED BENEFIT OBLIGATIONS

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

	2015 **RMB'000**	2014 RMB'000
Post-retirement benefit obligations	**304,613**	–
Less: current portion	**(27,645)**	–
Long-term portion	**276,968**	–

AMECO, a newly acquired subsidiary of the Company in 2015 (Note 42), 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:

	2015 RMB'000
At 1 January	–
Acquired through business combination	294,109
Remeasurements	21,054
Payments	(16,458)
Interest expense	5,908
At 31 December	304,613
Less: current portion	(27,645)
Long-term portion	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:

	2015 RMB'000
Interest expense	5,908
Actuarial losses recognised in other comprehensive income	21,054
Total defined benefit costs	26,962

(c) The net interest on net defined benefit liability are recognised in the following line item in the consolidated statement of profit or loss:

	2015 RMB'000
Finance costs	5,908

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

	2015 RMB'000
Discount rate	2.8%
Annual growth rate	0%
Average expected remaining life of eligible employees	14.0

38 DEFERRED INCOME

	2015 **RMB'000**	2014 RMB'000
Frequent-flyer programme (a)	**2,815,760**	2,635,316
Government grants (b)	**617,605**	631,798
Gain on sale and lease back arrangements	**46,428**	55,666
Operating lease rebates	**9,905**	13,326
	3,489,698	3,336,106

38 DEFERRED INCOME (Continued)

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

	2015 **RMB'000**	2014 RMB'000
As at 1 January	**3,525,638**	3,591,739
Additions during the year	**2,140,031**	2,041,335
Recognised as air traffic revenue during the year	**(2,138,564)**	(2,107,436)
As at 31 December	**3,527,105**	3,525,638
Less: Portion classified as current liabilities	**(711,345)**	(890,322)
Non-current portion	**2,815,760**	2,635,316

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

	2015 **RMB'000**	2014 RMB'000
As at 1 January	**708,386**	827,784
Additions	**32,362**	30,203
Additions through business combination	**4,322**	–
Recognised in profit or loss	**(79,658)**	(149,601)
As at 31 December	**665,412**	708,386
Less: Portion classified as current liabilities	**(47,807)**	(76,588)
Non-current portion	**617,605**	631,798

39 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Issued capital RMB'000	**Capital reserve** RMB'000	**Reserve funds** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
As at 1 January 2014	13,084,751	17,654,960	5,233,245	12,069,890	48,042,846
Total comprehensive income for the year	–	–	–	2,848,769	2,848,769
Dividends declared in respect of the previous year	–	–	–	(592,870)	(592,870)
Appropriation of statutory reserve funds	–	–	285,331	(285,331)	–
Appropriation of discretionary reserve fund	–	–	248,011	(248,011)	–
As at 31 December 2014 and 1 January 2015	13,084,751	17,654,960	5,766,587	13,792,447	50,298,745
Total comprehensive income for the year	**–**	**–**	**–**	**5,088,242**	**5,088,242**
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	**13,084,751**	**17,689,097**	**6,595,999**	**17,367,860**	**54,737,707**

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 2015, in accordance with the PRC Company Law, an amount of approximately RMB20,857 million (2014: RMB20,823 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB6,596 million (2014: RMB5,767 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 RMB17,789 million available for distribution as at 31 December 2015 (2014: RMB13,861 million).

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2015 and 31 December 2014 are as follows:

	Number of shares 2015	**Nominal value 2015 RMB'000**	Number of shares 2014	Nominal value 2014 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
Tradable	**8,329,271,309**	**8,329,272**	8,329,271,309	8,329,272
Trade-restricted*	**192,796,331**	**192,796**	192,796,331	192,796
	13,084,751,004	**13,084,751**	13,084,751,004	13,084,751

* The trade-restricted shares of 192,796,331 shares as at 31 December 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.

39 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Treasury shares

As at 31 December 2015, the Group owned 29.99% equity interest in Cathay Pacific (2014: 29.99%), which in turn owned 20.13% equity interest in the Company (2014: 20.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

(d) Dividends

	2015 **RMB'000**	2014 RMB'000
Final dividend proposed after the end of the reporting period	**1,400,068**	683,417
Final dividend in respect of the previous financial year, declared and paid during the year	**683,417**	592,870

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

Pursuant to the shareholders' approval at the Annual General Meeting on 22 May 2015, a final dividend of RMB0.5223 (including tax) per ten shares totalling RMB683 million in respect of the year ended 31 December 2014 was paid out in 2015.

Pursuant to a resolution passed at the Directors' Meeting on 30 March 2016, a final dividend in respect of the year ended 31 December 2015 of RMB1.0700 (including tax) per ten shares totalling RMB1,400 million was proposed for shareholders' approval at the Annual General Meeting. As the final dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 31 December 2015.

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 2015 and 31 December 2014.

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:

	2015 **RMB'000**	2014 RMB'000 (Restated)
Total liabilities	**147,108,397**	151,791,604
Total assets	**213,631,150**	211,669,694
Gearing ratio	**68.86%**	71.71%

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 2015 was RMB18,352,000 (2014: RMB19,262,000).

41 CONTINGENT LIABILITIES

As at 31 December 2015, 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 ("the settlement amount") to settle the lawsuit, which has been paid out in March 2016. The Company and CNAHC has signed an agreement to bear the settlement amount and the related settlement costs by proportionally based on the relevant air cargo operation revenue during the Period responsible by the Company and CNAHC respectively. The amount responsible by the Company has been recognised as general and administrative expenses in profit or loss for year 2015.

(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 2015, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB357,010,000 (31 December 2014: RMB412,301,000) and for pilot trainees' tuition loans amounting to RMB1,108,000 (31 December 2014: RMB225,988,000).

42 ACQUISITION

(a) AMECO

AMECO was established by the Company and Deutsche Lufthansa Aktiengesellschaft in 1989 and registered in Beijing, the PRC. Its principal activities are aircrafts and engines maintenance and repair service.

During the year, the Company injected the business in its maintenance and technology branch ("the injected business", including related fixed assets, inventories, cash and staffs) into AMECO to subscribe for the increased registered capital of AMECO. The fair value of the injected business was RMB804 million. After the completion of the capital injection, the Company's interests in AMECO increased from 60% to 75% and AMECO became a subsidiary of the Company. As the Company's interests in the injected business decreased from 100% to 75%, the 25% interests given up in the injected business was treated as part of the consideration of this acquisition. The acquisition date is 31 May 2015 when the Company acquired control of AMECO.

Total consideration and goodwill arising from the acquisition is as below:

	Carrying amount RMB'000	**Fair value** RMB'000
25% interests in the injected business	174,854	201,052
Equity interests in AMECO before acquisition (60%)	595,677	815,459
Total consideration		1,016,511
Less: 75% share of fair value of net identifiable assets		(1,019,324)
Net identifiable assets exceeded the total consideration		(2,813)

42 ACQUISITION (Continued)

(a) AMECO (Continued)

The fair value of net identifiable assets of AMECO is determined based on the valuation carried out by a qualified independent valuer. The valuation model used for measuring the fair value of property, plant and equipment acquired considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Summary of the information on the AMECO's assets and liabilities as of the acquisition date is as follows:

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised value on acquisition** RMB'000
Property, plant and equipment	1,634,041	502,828	2,136,869
Deferred tax assets	52,729	3,605	56,334
Inventories	601,117	(14,021)	587,096
Trade and other receivables	983,301	(402)	982,899
Cash and cash equivalents	145,380	–	145,380
Trade and other payables	(1,268,119)	–	(1,268,119)
Interest-bearing borrowings	(857,222)	–	(857,222)
Defined benefit obligations	(294,109)	–	(294,109)
Other long-term payables	(4,322)	–	(4,322)
Deferred tax liabilities	–	(125,707)	(125,707)
Net identifiable assets			1,359,099
Less: Non-controlling interests			(339,775)
75% of net assets acquired			1,019,324

After the injection, the Company gives up 25% interests in the injected business which results in the addition of non-controlling interests of RMB174,854,000 in consolidated financial statements. The difference of RMB26,198,000 between the addition of non-controlling interests and the transaction consideration of 25% interests in the injected business was recognised as capital reserve.

For the seven months ended 31 December 2015, AMECO contributed revenue of RMB579,785,000. If the acquisition had occurred on 1 January 2015, management estimates that consolidated revenue would have been RMB110,550,262,000, and consolidated profit for the year would not have material change. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

42 ACQUISITION (Continued)

(b) CNAF

CNAF, established in May 1994 and registered in Beijing, the PRC, mainly provides financial services to CNAHC and its subsidiaries. Before the acquisition, CNAF, the ultimate holding company of which is CNAHC, was an associate of the Group and measured at equity method.

According to the capital injection agreement, the Company should inject capital of RMB571,819,000 into CNAF. Upon completion of the capital injection, the Company and CNAHC will have 51% and 49% interest in the total enlarged registered capital of CNAF, respectively.

The acquisition was completed on 1 September 2015 and CNAF became a non-wholly owned subsidiary of the Company. Considering both CNAF and the Company are controlled by CNAHC before and after the acquisition and the control is not temporary, the acquisition is regarded as business combination under common control.

Total consideration arising from the acquisition is as below:

	RMB'000
Carrying amount of investment in CNAF before acquisition	200,292
Consideration paid by the Company	571,819
Total consideration	772,111
Less: 51% share of net assets of CNAF acquired on the acquisition date	(808,945)
Net assets acquired exceeded the total consideration	(36,834)

The difference of RMB36,834,000 between the total consideration and the 51% share of net assets of CNAF acquired was recognised as capital reserve.

42 ACQUISITION (Continued)

(b) CNAF (Continued)

Summary of the information on the CNAF's assets and liabilities on the acquisition date is as follows:

	CNAF Acquisition Date RMB'000	31 December 2014 RMB'000
Property, plant and equipment	10,025	12,756
Held-to-maturity securities	10,000	30,000
Available-for-sale securities	594,938	625,489
Financial assets	8,889	–
Trade and other receivables	3,016,405	4,038,463
Deferred tax assets	5,247	5,247
Restricted bank deposits	665,182	630,293
Cash and cash equivalents	4,468,226	955,201
Other payables and accruals	(7,180,363)	(5,147,069)
Interest-bearing borrowings	–	(190,000)
Long-term payables	(10,000)	(7,000)
Deferred tax liabilities	(2,382)	(1,096)
Net assets	1,586,167	952,284
Less: Non-controlling interests	(777,222)	
Net assets acquired	808,945	

43 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.

43 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk

The following table sets forth the maximum credit exposure of the Group, within which loans and receivables granted and deposits are placed at carrying amount, net of any impairment losses. For financial guarantees (note 41), the maximum exposure represents the maximum amount the Group could be required to pay without consideration of the probability of the actual outcome.

	31 December 2015 RMB'000	31 December 2014 RMB'000 (Restated)
Cash and cash equivalents	**7,138,098**	8,639,687
Restricted bank deposits	**654,946**	704,863
Accounts receivable due from the ultimate holding company	**409,149**	150,079
Financial assets	**995**	12,534
Accounts receivable	**3,252,205**	2,834,130
Bills receivable	**224**	155
Other receivables	**3,028,337**	5,107,453
Deposits for aircraft under operating leases	**597,920**	523,338
	15,081,874	17,972,239

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 27 to the financial statements.

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 RMB 990 million or 30% of accounts receivable as at 31 December 2015 (2014: RMB901 million or 32% of accounts receivable).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

43 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk

The Group's net current liabilities amounted to approximately RMB 30,336 million as at 31 December 2015 (2014: RMB39,503 million). The Group recorded a net cash inflow from operating activities of approximately RMB28,572 million for the year ended 31 December 2015 (2014: RMB13,562 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB6,788 million (2014: RMB10,535 million). The Group also recorded a net cash outflow from financing activities of approximately RMB23,381 million for the year ended 31 December 2015 (2014: RMB7,936 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB1,597 million for the year ended 31 December 2015 and an decrease of approximately RMB4,909 million for the year ended 31 December 2014, 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 RMB144,433 million as at 31 December 2015 (2014: RMB110,396 million), of which an amount of approximately RMB25,508 million was utilised (2014: RMB32,355 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 2016. 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.

43 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:

	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	**9,252,750**	**–**	**–**	**–**	**9,252,750**	**9,252,750**
Bills payable	**11,646**	**–**	**–**	**–**	**11,646**	**11,646**
Amounts due to the ultimate holding company	**4,857,426**	**–**	**–**	**–**	**4,857,426**	**4,857,426**
Financial liabilities included in other payables and accruals	**8,348,707**	**–**	**–**	**–**	**8,348,707**	**8,348,707**
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**

	2014 Contractual undiscounted cash outflow (restated)					
	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 (Restated) RMB'000
Accounts payable	9,788,921	–	–	–	9,788,921	9,788,921
Bills payable	150,000	–	–	–	150,000	150,000
Amounts due to the ultimate holding company	1,843,997	–	–	–	1,843,997	1,843,997
Financial liabilities included in other payables and accruals	9,219,515	–	–	–	9,219,515	9,219,515
Financial liabilities	7,712	–	–	–	7,712	7,712
Obligations under finance leases	5,311,426	5,304,020	13,108,105	15,200,907	38,924,458	35,992,012
Interest-bearing bank loans and other borrowings	29,062,824	7,507,563	27,662,675	21,292,128	85,525,190	76,790,621
Provision for major overhauls	856,789	112,830	2,295,097	955,249	4,219,965	4,219,965

Long-term payables	55,414	7,381	38,855	–	101,650	101,269
	56,296,598	12,931,794	43,104,732	37,448,284	149,781,408	138,114,012

43 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:

	2015		2014 (Restated)	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate:				
Other payables and long-term payables	**1.35%-4.13%**	**1,926,660**	0.35%-3.71%	1,579,260
Obligations under finance leases	**1.61%-4.86%**	**13,807,055**	1.61%-6.55%	11,767,285
Interest-bearing bank loans and other borrowings	**2.00%-6.80%**	**23,545,593**	0.00%-7.20%	27,596,773
Time deposits	**1.35%-3.08%**	**(1,940,479)**	1.35%-3.08%	(5,092,264)
Other current assets	**3.5%**	**(1,000,000)**	–	–
		36,338,829		35,851,054
Floating interest rate:				
Other payables and accruals	**0.35%**	**1,499,110**	0.35%	1,515,936
Obligations under finance leases	**(1.46%)-3.39%**	**29,960,201**	(1.60%)-3.22%	24,224,727
Interest-bearing bank loans and other borrowings	**0.93%-6.40%**	**36,732,239**	0.77%-6.55%	49,193,848
Time deposits	**0.35%**	**(5,771,243)**	0.35%	(4,191,733)
Other current assets	**3.92%-5.25%**	**(145,000)**	3.29%-6.15%	(2,304,595)
		62,275,307		68,438,183
Total net borrowings		**98,614,136**		104,289,237
Net fixed rate borrowings as a percentage of total net borrowings		**37%**		34%

43 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	**Equity** RMB'000
31 December 2015		
If interest rate increases by 50 basis points	**(233,532)**	**(233,532)**
31 December 2014 (restated)		
If interest rate increases by 50 basis points	(256,643)	(256,643)

(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.

43 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

	Exposure to foreign currencies (expressed in RMB)					
	2015			2014 (restated)		
	US$	**EURO**	**HK$**	US$	EURO	HK$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Accounts receivable	**393,681**	**156,038**	**50,192**	241,878	181,686	7,198
Other receivables	**1,022,794**	**16,652**	**13,279**	1,680,418	59,824	2,412
Cash and cash equivalents	**1,559,863**	**914,604**	**347,796**	1,411,428	90,126	1,009,647
Accounts payable	**(1,246,193)**	**(443,415)**	**(116,769)**	(770,792)	(346,723)	(168,778)
Other payables and accruals	**(83,280)**	**–**	**–**	(61,483)	–	–
Obligations under finance leases	**(42,030,307)**	**–**	**–**	(34,290,555)	–	–
Interest-bearing bank loans and other borrowings	**(34,438,210)**	**(1,602,253)**	**–**	(49,043,736)	(145,877)	–
Net exposure arising from recognised assets and liabilities	**(74,821,652)**	**(958,374)**	**294,498**	(80,832,842)	(160,964)	850,479

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 2015	**Profit for the year RMB'000**	**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**

31 December 2014 (restated)	Profit for the year RMB'000	Equity RMB'000
If RMB appreciates against following currencies by 1%		
United States Dollars	466,226	466,226
Euros	1,207	1,207
Hong Kong Dollars	(6,379)	(6,379)
	461,054	461,054

43 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	**Equity** RMB'000
31 December 2015		
If jet fuel price increases by 5%	**(1,202,131)**	**(1,202,131)**
31 December 2014		
If jet fuel price increases by 5%	(1,727,122)	(1,727,122)

43 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	as at 31 December 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**	**–**

	as at 31 December 2014 (restated)			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets				
– Interest rate swaps	1,761	–	1,761	–
– Listed equity securities	10,773	10,773	–	–
Available-for-sale equity securities				
– Listed	51,454	–	51,454	–
Available-for-sale debt securities	619,489	239,096	380,393	–
Total financial assets at fair value	683,477	249,869	433,608	–
Financial liabilities				
– Interest rate swaps	7,712	–	7,712	–

43 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(f) Fair value measurement (Continued)

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

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2014: 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 2015, 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 2015 and 2014.

44 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:

	2015	2014
	RMB'000	RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**94,397,176**	102,643,481
– Buildings	**369,638**	910,042
– Others	**28,282**	221,815
	94,795,096	103,775,338
Authorised, but not contracted for:		
– Buildings	**1,012,813**	688,957
– Others	**333**	51,292
	1,013,146	740,249
Total capital commitments	**95,808,242**	104,515,587

44 COMMITMENTS (Continued)

(b) Investment commitments

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

	2015 **RMB'000**	2014 RMB'000 (Restated)
Contracted, but not provided for:		
– Associates and joint ventures	**57,728**	862,953
Authorised, but not contracted for:		
– Associates and joint ventures	**–**	62,251
	57,728	925,204

(c) Operating lease commitments

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

At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 **RMB'000**	2014 RMB'000 (Restated)
Within 1 year	**5,969,033**	5,237,587
After 1 year but within 5 years	**17,124,487**	15,120,778
Over 5 years	**17,045,029**	14,976,871
	40,138,549	35,335,236

45 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

	2015	2014
	RMB'000	RMB'000
		(Restated)
Service provided to the CNAHC Group		
Sales commission income	**9,082**	14,364
Sale of cargo space	**74,679**	71,585
Government charter flights	**417,077**	420,731
Ground services income	**3,280**	2,883
Air catering income	**17,596**	13,573
Income from advertising media business	**28,775**	28,591
Aircraft and flight equipment leasing income	**185**	246
Others	**10,716**	1,783
	561,390	553,756
Service provided by the CNAHC Group		
Sales commission expenses	**1,371**	3,642
Air catering charges	**913,250**	779,819
Airport ground services, take-off, landing and depot expenses	**780,761**	764,308
Repair and maintenance costs	**5,580**	11,951
Management fees	**117,578**	108,977
Lease charges for land and buildings	**155,337**	130,232
Other procurement and maintenance	**61,417**	56,855
Aviation communication expenses	**487,436**	423,829
Interest expenses	**15,935**	–
Media advertisement expenses	**133,481**	109,082
Construction management expenses	**4,414**	–
Others	**576**	694
	2,677,136	2,389,389

45 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)

	2015 RMB'000	2014 RMB'000 (Restated)
Loans to the CNAHC Group by CNAF:		
(Net repayment)/net granting of loans	**(759,000)**	1,064,000
Interest income	**48,843**	34,709
	(710,157)	1,098,709
Deposits from the CNAHC Group received by CNAF:		
Increase in deposits received	**256,377**	223,854
Interest expenses	**43,313**	39,256
	299,690	263,110
Service provided to joint ventures and associates		
Sales commission income	**17,851**	14,471
Sale of cargo space	**–**	12,220
Ground services income	**119,528**	104,663
Aircraft maintenance income	**60,987**	57,070
Air catering income	**4,792**	7,004
Frequent-flyer programme income	**26,422**	21,376
Lease income for land and buildings	**7,749**	18,597
Airline joint venture income	**16,799**	21,767
Aircraft and flight equipment leasing income	**1,256**	5,773
Others	**5,894**	5,301
	261,278	268,242

45 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)

	2015 RMB'000	2014 RMB'000 (Restated)
Service provided by joint ventures and associates		
Sales commission expenses	**53,486**	34,830
Air catering charges	**21,998**	21,381
Airport ground services, take-off, landing and depot expenses	**427,725**	355,875
Repair and maintenance costs	**2,074,002**	2,433,997
Aircraft and flight equipment leasing fees	**349,725**	535,473
Lease charges for land and buildings	**4,785**	877
Other procurement and maintenance	**4,514**	12,044
Aviation communication expenses	**32,558**	29,865
Interest expenses	**15,408**	–
Frequent-flyer programme expenses	**4,345**	4,348
Airline joint venture expenses	**28,384**	–
Others	**–**	1,652
	3,016,930	3,430,342
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	–	(80,000)
Interest income	–	22,784
	–	(57,216)
Deposits from joint ventures and associates received by to CNAF:		
Increase in deposits received	**94,516**	19,299
Interest expenses	**234**	7
	94,750	19,306

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.

45 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) Balances with related parties

	2015 **RMB'000**	2014 RMB'000 (Restated)
Outstanding balances with related parties:		
Amounts due from the ultimate holding company	**409,149**	150,079
Amounts due from associates	**150,253**	121,138
Amounts due from joint ventures	**3,041**	106,120
Amounts due from other related companies	**8,655**	61,377
Amounts due to the ultimate holding company	**2,739,181**	21,377
Amounts due to associates	**351,608**	270,905
Amounts due to joint ventures	**50,439**	465,466
Amounts due to other related companies	**937,133**	777,068

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

	2015 **RMB'000**	2014 RMB'000 (Restated)
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**1,000,000**	1,624,000
Deposits received	**2,112,446**	1,818,285
Interest payable to related parties	**5,799**	4,335
(2) Outstanding balances between CNAF and related parties other than CNAHC Group		
Loans granted	**145,000**	680,595
Deposits received, current and non-current portion	**1,313,324**	1,276,911
Interest payable to related parties	**6,780**	6,867

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.

45 RELATED PARTY TRANSACTIONS (Continued)

(b) Guarantee with related parties

Name of guarantor	Name of guarantee	Amount of guaranty USD'000	Inception date of guaranty	Maturity date of guaranty
Long-term loans:				
Cathay Pacific	Air China Cargo	75,671	16/12/2013	15/12/2023
Cathay Pacific	Air China Cargo	80,805	12/03/2014	11/03/2024
Cathay Pacific	Air China Cargo	80,806	31/03/2014	30/03/2024
Obligations under finance leases				
Cathay Pacific	Air China Cargo	61,608	30/06/2014	30/06/2026
Cathay Pacific	Air China Cargo	63,104	29/08/2014	29/08/2026
Cathay Pacific	Air China Cargo	66,712	27/02/2015	27/02/2027
Cathay Pacific	Air China Cargo	69,957	13/07/2015	13/07/2027
Cathay Pacific	Air China Cargo	69,942	31/08/2015	30/08/2027

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

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**15,150**	12,828
Post-employment benefits	**1,337**	1,145
Emoluments for key management personnel	**16,487**	13,973
Expenses for SARs (note 40)	**105**	2,444
	16,592	16,417

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

	2015 RMB'000	2014 RMB'000
Directors and supervisors	**3,131**	3,937
Senior management	**13,356**	10,036
	16,487	13,973

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

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

The emoluments of senior management were within the following bands:

	2015 Number of individuals	2014 Number of individuals
Nil to HK$1,000,000	**4**	7
HK$1,000,001 to HK$1,500,000	**6**	5
HK$1,500,001 to HK$2,000,000	**4**	2
	14	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 2015 and 2014.

(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; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; the media and advertising service arrangement to China National Aviation Media Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance by China Aircraft Services Limited.

(f) Commitments

(i) Investment commitments

Pursuant to 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 2015, 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 2015, US$1,500,000 had been paid and the outstanding commitment balance is US$3,500,000.

45 RELATED PARTY TRANSACTIONS (Continued)

(f) Commitments (Continued)

(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.

	2015	2014
	RMB'000	RMB'000
		(Restated)
Operating lease commitments to associates	**306,230**	459,346
Operating lease commitments to other related parties	**26,565**	29,177
	332,795	488,523

(iii) Capital commitments

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

	2015	2014
	RMB'000	RMB'000
Contracted, but not provided for:		
– Capital commitments to other related parties	**11,585**	43,576
Authorised, but not contracted for:		
– Capital commitments to other related parties	**578,439**	493,118

46 OTHER EVENTS

On 7 January 2016, the Company and AIE entered into an agreement with the Boeing Company, pursuant to which the Company has agreed to purchase six Boeing B777-300ER aircraft from the Boeing Company, at a basic price of approximately US$2,051 million (equivalent to RMB 13,318 million). On 19 February 2016, the Company and AIE entered into an agreement with the Airbus Company, pursuant to which the Company has agreed to purchase twelve Airbus A330-300 aircraft from the Airbus Company, at a basic price of approximately US$2,927 million (equivalent to RMB 19,007 million). The purchase will be funded through cash generated from the Group's business operations, commercial bank loans and other financing instruments of the Group.

As announced on 25 January 2016, the CNAHC has received the "Approval on Relevant Matters for the Non-Public Issuance of A Shares by Air China Limited" (Guo Zi Chan Quan [2016] No. 53) issued by State-owned Assets Supervision and Administration Commission of the State Council, approving in principle the plan for non-public issuance of A shares by the Company and the CNAHC's subscription by RMB4 billion in cash, including RMB1 billion of state-owned capital operating budget funds. Up to the date of issuance of the financial statements, the non-public issuance is not yet completed.

47 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2015 RMB'000	31 December 2014 RMB'000
Non-current assets		
Property, plant and equipment	**103,512,118**	102,138,037
Lease prepayments	**1,994,237**	1,576,050
Intangible asset	**11,885**	12,842
Interests in subsidiaries	**21,476,446**	19,643,911
Interests in associates	**687,209**	766,148
Interests in joint ventures	**707,678**	951,879
Advance payments for aircraft and flight equipment	**10,623,845**	13,275,785
Deposits for aircraft under operating leases	**412,808**	349,500
Entrust loans	**1,020,000**	1,020,000
Available-for-sale securities	**22,110**	22,110
Deferred tax assets	**1,982,846**	2,101,472
	142,451,182	141,857,734
Current assets		
Aircraft and flight equipment held for sale	**582,074**	460,028
Inventories	**243,332**	633,178
Accounts receivable	**2,319,310**	1,883,131
Accounts receivable due from the ultimate holding company	**237,088**	150,079
Prepayments, deposits and other receivables	**2,805,266**	3,514,733
Cash and cash equivalents	**3,223,977**	3,258,265
Other current assets	**1,341,946**	1,895,153
	10,752,993	11,794,567
Total assets	**153,204,175**	153,652,301

47 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	31 December 2015 RMB'000	31 December 2014 RMB'000
Current liabilities		
Air traffic liabilities	**(4,587,000)**	(3,917,724)
Accounts payable	**(7,582,070)**	(7,189,711)
Other payables and accruals	**(8,828,380)**	(6,515,213)
Amounts due to the ultimate holding company	**(2,739,181)**	(21,377)
Tax payable	**(778,149)**	(574,177)
Obligations under finance leases	**(4,636,614)**	(3,972,048)
Interest-bearing bank loans and other borrowings	**(5,318,956)**	(18,542,372)
Provision for major overhauls	**(531,797)**	(407,775)
	(35,002,147)	(41,140,397)
Net current liabilities	**(24,249,154)**	(29,345,830)
Total assets less current liabilities	**118,202,028**	112,511,904
Non-current liabilities		
Obligations under finance leases	**(25,446,576)**	(23,895,151)
Interest-bearing bank loans and other borrowings	**(33,156,055)**	(33,612,658)
Provision for major overhauls	**(1,768,166)**	(1,757,510)
Provision for early retirement benefit obligations	**(13,206)**	(18,751)
Deferred income	**(2,963,675)**	(2,798,912)
Deferred tax liabilities	**(116,643)**	(130,177)
	(63,464,321)	(62,213,159)
NET ASSETS	**54,737,707**	50,298,745
CAPITAL AND RESERVES		
Issued capital	**13,084,751**	13,084,751
Reserves	**41,652,956**	37,213,994
TOTAL EQUITY	**54,737,707**	50,298,745

Approved and authorised for issue by the board of directors on 30 March 2016.

Cai Jianjiang
Director

Song Zhiyong
Director

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 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
Annual improvement to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group will adopt the relevant amendments and new standards in the subsequent periods as required. The Group is in the process of making an assessment of what the impact of these amendments and new standards are expected to be in the period of initial application.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	2015 RMB'000	2014 RMB'000 (Restated)
Revenue from operations	**108,929,114**	104,888,257
Less: Cost of operations	**83,694,898**	87,877,826
Business taxes and surcharges	**274,190**	198,297
Selling expenses	**6,147,913**	7,428,499
General and administrative expenses	**4,023,522**	3,273,131
Finance costs	**7,948,531**	3,151,650
Impairment losses recognised/(reversed)	**181,885**	(129,739)
Add: Gains from movements in fair value	**5,634**	7,200
Investment income	**1,675,988**	889,412
Including: Share of profits less losses of associates and joint ventures	**1,620,197**	858,818
Profit from operations	**8,339,797**	3,985,205
Add: Non-operating income	**1,159,756**	1,267,611
Including: Gains on disposal of non-current assets	**69,960**	108,620
Less: Non-operating expenses	**456,308**	164,725
Including: Losses on disposal of non-current assets	**172,920**	129,980
Profit before taxation	**9,043,245**	5,088,091
Less: Taxation	**1,823,097**	789,070
Net profit	**7,220,148**	4,299,021
Net profit attributable to equity shareholders of the Company	**6,774,008**	3,817,411
Non-controlling interests	**446,140**	481,610
Earnings per share (RMB)		
Basic and diluted	**0.55**	0.31

	2015 **RMB'000**	2014 RMB'000 (Restated)
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	**(15,790)**	–
– Share of other comprehensive income of the investees accounted by the equity method	**(55,062)**	(75,943)
Items that may be reclassified to profit or loss:		
– Share of other comprehensive income of the investees accounted by the equity method	**(1,640,609)**	(3,026,667)
– Exchange realignment	**1,052,127**	82,495
– Gains or losses arising from changes in fair value of available-for-sale financial assets	**11,227**	18,532
Other comprehensive income after taxation attributed to non-controlling interests	**49,753**	17,048
Total comprehensive income	**6,621,794**	1,314,486
Attributable to:		
Equity shareholders of the Company	**6,125,901**	815,828
Non-controlling interests	**495,893**	498,658

CONSOLIDATED BALANCE SHEET

At 31 December 2015
(Prepared under the Accounting Standards for Business Enterprises of the PRC)

	31 December 2015 RMB'000	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
ASSETS			
Current assets			
Cash and bank balances	**7,793,044**	9,344,550	15,096,268
Financial assets at fair value through profit or loss	**995**	12,534	11,350
Bills receivable	**224**	155	131
Accounts receivable	**3,661,354**	2,984,209	3,100,584
Other receivables	**1,882,945**	2,801,012	2,849,712
Prepayments	**1,069,263**	843,801	679,962
Inventories	**1,730,742**	1,100,179	1,044,617
Held-for-sale assets	**582,074**	457,623	994,413
Other current assets	**2,806,973**	4,805,593	2,557,423
Total current assets	**19,527,614**	22,349,656	26,334,460
Non-current assets			
Available-for-sale financial assets	**1,108,631**	715,711	387,798
Held-to-maturity investments	**10,000**	30,000	70,011
Long-term receivables	**598,312**	535,184	451,404
Long-term equity investments	**12,451,024**	13,183,913	15,712,742
Investment properties	**353,511**	347,992	246,291
Fixed assets	**149,267,398**	139,619,667	124,000,811
Construction in progress	**20,747,815**	26,448,536	31,772,611
Intangible assets	**4,169,341**	3,620,472	2,866,099
Goodwill	**1,102,185**	1,102,185	1,102,185
Long-term deferred expenses	**683,325**	558,726	363,536
Deferred tax assets	**3,684,379**	3,489,824	3,165,352
Total non-current assets	**194,175,921**	189,652,210	180,138,840
Total assets	**213,703,535**	212,001,866	206,473,300

	31 December 2015 RMB'000	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	**3,055,641**	19,146,494	20,413,013
Short-term bonds	**2,598,843**	640,000	700,000
Financial liabilities at fair value through profit or loss	**–**	7,712	24,070
Bills payable	**11,646**	150,000	–
Accounts payable	**11,747,465**	11,757,797	11,828,973
Domestic air traffic liabilities	**2,619,395**	2,103,215	1,785,306
International air traffic liabilities	**3,139,838**	2,727,591	2,676,142
Receipts in advance	**148,505**	141,037	133,112
Employee compensations payable	**1,933,927**	1,663,888	2,240,124
Taxes payable	**1,304,379**	977,764	715,455
Interest payable	**679,394**	669,108	720,390
Other payables	**10,574,693**	8,344,959	8,358,303
Non-current liabilities repayable within one year	**12,399,620**	13,725,417	20,507,235
Total current liabilities	**50,213,346**	62,054,982	70,102,123
Non-current liabilities			
Long-term loans	**30,794,484**	31,829,076	23,176,406
Corporate bonds	**18,193,038**	17,194,120	19,000,000
Long-term payables	**3,122,381**	3,409,031	3,380,552
Obligations under finance leases	**37,803,279**	31,240,298	25,972,715
Defined benefit obligations	**276,968**	–	–
Accrued liabilities	**347,465**	360,481	376,601
Deferred income	**3,489,698**	3,336,106	3,767,948
Deferred tax liabilities	**2,867,738**	2,337,958	2,014,407
Total non-current liabilities	**96,895,051**	89,707,070	77,688,629
Total liabilities	**147,108,397**	151,762,052	147,790,752

	31 December 2015 RMB'000	31 December 2014 RMB'000 (Restated)	1 January 2014 RMB'000 (Restated)
Shareholders' equity			
Issued capital	**13,084,751**	13,084,751	13,084,751
Capital reserve	**16,509,531**	16,767,627	16,767,627
Other comprehensive income	**(5,707,061)**	(5,058,975)	(2,057,392)
Reserve funds	**6,633,105**	5,802,819	5,267,775
Retained earnings	**29,245,119**	24,000,903	21,312,773
General reserve	**54,951**	38,364	38,364
Equity attributable to shareholders of the Company	**59,820,396**	54,635,489	54,413,898
Non-controlling interests	**6,774,742**	5,604,325	4,268,650
Total shareholders' equity	**66,595,138**	60,239,814	58,682,548
Total liabilities and shareholders' equity	**213,703,535**	212,001,866	206,473,300

SUPPLEMENTARY INFORMATION

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

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

	Note	**2015** **RMB'000**	2014 RMB'000 (Restated)
Net profit attributable to shareholders of the Company under CASs		**6,774,008**	3,817,411
Deferred taxation	(i)	**(22,667)**	(11,694)
Differences in value of fixed assets and other non-current assets	(ii)	**282,454**	(41,882)
Government grants	(iii)	**29,552**	88,657
Net profit attributable to shareholders of the Company under IFRSs		**7,063,347**	3,852,492

	Note	**2015** **RMB'000**	2014 RMB'000 (Restated)
Equity attributable to shareholders of the Company under CASs		**59,820,396**	54,635,489
Deferred taxation	(i)	**69,350**	92,017
Differences in value of fixed assets and other non-current assets	(ii)	**(281,654)**	(564,108)
Government grants	(iii)	**–**	(29,552)
Unrealised profit of the disposal of Hong Kong Dragon Airlines	(iv)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**59,748,011**	54,273,765

Notes:

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

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

(iii) Under both CASs and IFRSs, government grants or government subsidies should be debited as government grants/subsidies receivable or the relevant assets and credited as deferred income, which will then be charged to the profit or loss on a straight-line basis over the useful lives of the relevant assets. As the accounting for government grants or government subsidies have had no significant impact on the Group's financial statements, no adjustment has been made to unify the accounting treatments of government grants or government subsidies received before the Group adopted CASs. Therefore, in the Group's financial statements prepared in accordance with CASs, these government grants received were debited as the relevant assets and credited as capital reserve; and government subsidies were debited as cash and bank balances and credited as subsidy income in the profit or loss. Such differences are eliminated during the year.

(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 seat kilometres
"overall load factor"	RTKs expressed as a percentage of available tonne kilometres

UTILISATION

"block hour(s)"	each whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

DEFINITIONS

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd.
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd.
"Air Macau"	Air Macau Company Limited
"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
"Cathay Pacific"	Cathay Pacific Airways Limited
"CASs"	China Accounting Standards for Business Enterprises
"Cathay Pacific China Cargo Holdings"	Cathay Pacific China Cargo Holdings 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 (excluding the Group)
"CNAMC"	China National Aviation Media Co., Ltd
"Company", "the Company" or "Air China"	Air China Limited
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Dragonair"	Hong Kong Dragon Airlines Limited
"Fine Star"	Fine Star Enterprises Corporation
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Kunming Airlines"	Kunming Airlines Company Limited
"Latest Practicable Date"	11 April 2016, being the latest practicable date prior to the printing of this annual report
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"PRC"	the People's Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) of Hong Kong, as amended from time to time
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"Supervisors(s)"	The supervisor(s) 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
满洲里Manzhouli
海拉尔Hailar
齐齐哈尔Qiqihar
佳木斯Jiamusi
大庆Daqing
哈尔滨Harbin
乌兰浩特Ulanhot
长春Changchun
延吉Yanji
锡林浩特Xilinhot
通辽Tongliao
丹东Dandong
大连Dalian
威海Weihai
青岛Qingdao
伊宁Yining
乌鲁木齐Urumqi
哈密Hami
喀什Kashi
阿克苏Aksu
库尔勒Korla
和田Hetian
敦煌Dunhuang
巴彦淖尔Bayan Nur
呼和浩特Hohhot
包头Baotou
乌海Wuhai
银川Yinchuan
榆林Yulin
西宁Xining
兰州Lanzhou
拉萨Lhasa
昌都Changdu
林芝Linzhi
成都Chengdu
稻城Daocheng
西昌Xichang
丽江Lijiang
大理Dali
昆明Kunming
贵阳Guiyang
遵义Zunyi
宜宾Yibin
泸州Luzhou
柳州Liuzhou
南宁Nanning
北海Beihai
湛江Zhanjiang
海口Haikou
三亚Sanya
广州Guangzhou
珠海Zhuhai
澳门Macau
香港Hong Kong
深圳Shenzhen
汕头Shantou
厦门Xiamen
福州Fuzhou
台北Taipei
台中Taizhong
温州Wenzhou
台州Taizhou
义乌Yiwu
宁波Ningbo
上海Shanghai
南海诸岛
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.