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中國國際航空股份有限公司
AIR CHINA LIMITED

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

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board of directors (the “**Board**”) of Air China Limited (the “**Company**”) hereby announces that the Board has approved, among others, the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 at a meeting of the Board held on 30 August 2016.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board presents the unaudited interim results of the Group for the six months ended 30 June 2016, with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016-*unaudited*

(Prepared under International Financial Reporting Standards)

		For the six months ended	
	<i>Note</i>	30 June 2016	30 June 2015
		RMB'000	RMB'000
			(Restated)
Revenue			
Air traffic revenue	4	51,012,851	49,309,857
Other operating revenue	5	2,971,190	2,607,878
		53,984,041	51,917,735
Operating expenses			
Jet fuel costs		(9,727,175)	(12,059,145)
Take-off, landing and depot charges		(6,166,595)	(5,563,306)
Depreciation and amortisation		(6,672,674)	(6,267,264)
Aircraft maintenance, repair and overhaul costs		(2,514,900)	(1,935,921)
Employee compensation costs		(9,416,298)	(8,106,626)
Air catering charges		(1,563,934)	(1,452,676)
Aircraft and engine operating lease expenses		(3,013,776)	(2,528,364)
Other operating lease expenses		(489,470)	(441,293)
Other flight operation expenses		(3,833,879)	(3,893,741)
Selling and marketing expenses		(2,067,576)	(2,587,719)
General and administrative expenses		(520,892)	(445,095)
		(45,987,169)	(45,281,150)
Profit from operations	6	7,996,872	6,636,585
Finance income	7	64,738	70,264
Finance costs	7	(3,281,987)	(1,549,052)
Share of profits less losses of associates		161,897	429,350
Share of profits less losses of joint ventures		97,566	209,502
Profit before taxation		5,039,086	5,796,649
Taxation	8	(1,244,765)	(1,224,427)
Profit for the period		3,794,321	4,572,222
Attributable to:			
– Equity shareholders of the Company		3,468,241	4,202,571
– Non-controlling interests		326,080	369,651
Profit for the period		3,794,321	4,572,222
Earnings per share	10		
– Basic and diluted		RMB28.21 cents	RMB34.18 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016-unaudited

(Prepared under International Financial Reporting Standards)

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Profit for the period	<u>3,794,321</u>	<u>4,572,222</u>
Other comprehensive income for the period		
(after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	285	(211)
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of associates and joint ventures	927,788	675,303
– Available-for-sale securities:		
net change in fair value	5,726	43,180
– Exchange realignment	<u>386,232</u>	<u>(7,426)</u>
Other comprehensive income for the period	<u>1,320,031</u>	<u>710,846</u>
Total comprehensive income for the period	<u><u>5,114,352</u></u>	<u><u>5,283,068</u></u>
Attributable to:		
– Equity shareholders of the Company	4,776,170	4,893,458
– Non-controlling interests	<u>338,182</u>	<u>389,610</u>
Total comprehensive income for the period	<u><u>5,114,352</u></u>	<u><u>5,283,068</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016-unaudited

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	30 June 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment		157,230,503	155,990,977
Lease prepayments		3,014,261	3,034,209
Investment properties		709,336	722,663
Intangible assets		132,767	35,902
Goodwill		1,099,975	1,099,975
Interests in associates		12,555,753	11,552,825
Interests in joint ventures		997,135	1,038,118
Advance payments for aircraft and flight equipment		22,891,716	14,476,913
Deposits for aircraft under operating leases		608,747	597,920
Held-to-maturity securities		10,000	10,000
Available-for-sale securities		1,210,918	1,106,588
Deferred tax assets		3,738,590	3,753,729
Other non-current assets		296,399	—
		204,496,100	193,419,819
Current assets			
Aircraft and flight equipment held for sale		331,351	582,074
Inventories		1,995,273	1,730,742
Accounts receivable	<i>11</i>	3,509,519	3,252,205
Accounts receivable due from the ultimate holding company		259,616	409,149
Bills receivable		1,279	224
Prepayments, deposits and other receivables		3,908,821	3,635,925
Financial assets		598	995
Restricted bank deposits		534,125	654,946
Cash and cash equivalents		7,863,807	7,138,098
Other current assets		2,486,101	2,806,973
		20,890,490	20,211,331
Total assets		225,386,590	213,631,150

	<i>Note</i>	30 June 2016 RMB'000	31 December 2015 RMB'000
Current liabilities			
Air traffic liabilities		(5,731,685)	(5,759,233)
Accounts payable	12	(10,296,640)	(9,252,750)
Bills payable		–	(11,646)
Other payables and accruals		(10,593,619)	(11,290,303)
Amounts due to the ultimate holding company		(2,539,841)	(4,857,426)
Current taxation		(358,661)	(819,880)
Obligations under finance leases		(5,953,017)	(5,963,977)
Interest-bearing bank loans and other borrowings		(30,111,356)	(11,290,310)
Provision for major overhauls		(1,178,820)	(1,301,821)
		<u>(66,763,639)</u>	<u>(50,547,346)</u>
Net current liabilities		<u>(45,873,149)</u>	<u>(30,336,015)</u>
Total assets less current liabilities		<u>158,622,951</u>	<u>163,083,804</u>
Non-current liabilities			
Obligations under finance leases		(36,633,366)	(37,803,279)
Interest-bearing bank loans and other borrowings		(41,114,609)	(48,987,522)
Provision for major overhauls		(3,374,257)	(3,112,201)
Provision for early retirement benefit obligations		(10,336)	(13,465)
Long-term payables		(47,472)	(10,180)
Defined benefit obligations		(281,895)	(276,968)
Deferred income		(3,945,688)	(3,489,698)
Deferred tax liabilities		(3,086,895)	(2,867,738)
		<u>(88,494,518)</u>	<u>(96,561,051)</u>
NET ASSETS		<u>70,128,433</u>	<u>66,522,753</u>
CAPITAL AND RESERVES			
Issued capital		13,084,751	13,084,751
Treasury shares		(3,047,564)	(3,047,564)
Reserves		<u>53,086,926</u>	<u>49,710,824</u>
Total equity attributable to equity shareholders of the Company		63,124,113	59,748,011
Non-controlling interests		<u>7,004,320</u>	<u>6,774,742</u>
TOTAL EQUITY		<u>70,128,433</u>	<u>66,522,753</u>

NOTES:

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 (“**IAS 34**”) “*Interim Financial Reporting*”, issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 30 August 2016.

As at 30 June 2016, the Group’s current liabilities exceeded its current assets by approximately RMB45,873 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 RMB132,184 million as at 30 June 2016, the Directors of the Company believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements when preparing the interim financial report for the six months ended 30 June 2016. Accordingly, the interim financial report has been prepared on a basis that the Group will be able to continue as a going concern.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, “*Review of interim financial information performed by the independent auditor of the entity*”, issued by the HKICPA.

China National Aviation Finance Co., Ltd (“**CNAF**”) was acquired by the Company in September 2015. As CNAF and the Company had been under the common control of China National Aviation Holding Company before and after the acquisition, the acquisition was reflected in the consolidated financial statements of the Group using the principles of merger accounting. 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. As a result, the comparative figures of the interim financial report for consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement have been restated.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012 – 2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to IFRSs 2012 – 2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, Interim financial reporting, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to IAS 1, *Presentation of financial statements: Disclosure initiative*

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

3 SEGMENT INFORMATION

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

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

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

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

Operating segments

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the six months ended 30 June 2016 and 2015 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2016 (unaudited)

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

For the six months ended 30 June 2015 (unaudited) (restated)

	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue				
Sales to external customers	51,015,214	136,062	–	51,151,276
Intersegment sales	<u>–</u>	<u>1,605,262</u>	<u>(1,605,262)</u>	<u>–</u>
Revenue for reportable segments under CASs	<u>51,015,214</u>	<u>1,741,324</u>	<u>(1,605,262)</u>	51,151,276
Business tax and surcharges not included in segment revenue				(117,163)
Other income not included in segment revenue				854,070
Effect of other differences between IFRSs and CASs				<u>29,552</u>
Revenue for the period under IFRSs				<u>51,917,735</u>
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	<u>5,485,908</u>	<u>46,786</u>	<u>–</u>	5,532,694
Effect of differences between IFRSs and CASs				<u>263,955</u>
Profit before taxation for the period under IFRSs				<u>5,796,649</u>

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2016 and 31 December 2015 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets				
Total assets for reportable segments as at 30 June 2016 under CASs (unaudited)	<u>217,449,789</u>	<u>15,427,480</u>	<u>(7,428,914)</u>	<u>225,448,355</u>
Effect of differences between IFRSs and CASs				<u>(61,765)</u>
Total assets as at 30 June 2016 under IFRSs (unaudited)				<u>225,386,590</u>
Total assets for reportable segments as at 31 December 2015 under CASs	<u>206,654,516</u>	<u>15,615,623</u>	<u>(8,566,604)</u>	213,703,535
Effect of differences between IFRSs and CASs				<u>(72,385)</u>
Total assets as at 31 December 2015 under IFRSs				<u>213,631,150</u>

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2016 and 2015, respectively:

For the six months ended 30 June 2016 (unaudited)

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

For the six months ended 30 June 2015 (unaudited) (restated)

	Mainland China <i>RMB'000</i>	Hong Kong, Macau and Taiwan <i>RMB'000</i>	Europe <i>RMB'000</i>	North America <i>RMB'000</i>	Japan and Korea <i>RMB'000</i>	Asia Pacific and others <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers and total revenue	<u>33,629,335</u>	<u>2,856,164</u>	<u>4,674,442</u>	<u>4,629,832</u>	<u>3,319,508</u>	<u>2,808,454</u>	<u>51,917,735</u>

4 AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Passenger	47,263,059	44,988,775
Cargo and mail	<u>3,749,792</u>	<u>4,321,082</u>
	<u>51,012,851</u>	<u>49,309,857</u>

5 OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited) (Restated)
Aircraft engineering income	467,891	79,425
Ground service income	403,695	398,957
Government grants:		
– Recognition of deferred income	18,346	45,896
– Others	512,596	522,847
Service charges on return of unused flight tickets	671,473	517,192
Training service income	17,770	12,177
Rental income	70,955	75,033
Import and export service income	26,120	15,636
Others	<u>782,344</u>	<u>940,715</u>
	<u>2,971,190</u>	<u>2,607,878</u>

6 PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Depreciation of property, plant and equipment	6,606,986	6,223,173
Depreciation of investment properties	13,328	14,241
Amortisation of lease prepayments	32,986	29,850
Amortisation of intangible assets	19,374	–
(Reversal)/accrual of bad debt provision, net	(13,160)	5,130
Loss on disposal of property, plant and equipment, net	8,608	29,542
Minimum lease payments under operating leases:		
– Aircraft and related equipment	3,013,776	2,528,364
– Land and buildings	441,719	404,176

7 FINANCE INCOME AND FINANCE COSTS

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

	For the six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Finance income		
Interest income	64,738	70,264
Finance costs		
Interest on borrowings and finance leases	1,749,709	1,658,449
Exchange loss, net	1,697,710	122,922
	3,447,419	1,781,371
Less: Interest capitalised	(165,432)	(232,319)
	3,281,987	1,549,052

The interest capitalisation rates during the period ranges from 1.03% to 4.41% (six months ended 30 June 2015: 0.77% to 5.99%) per annum relating to the costs of related borrowings during the period.

8 TAXATION

	For the six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Current income tax:		
– Mainland China	1,003,557	923,758
– Hong Kong and Macau	8,179	17
Under-provision in respect of prior years	642	2,868
Deferred taxation	232,387	297,784
	<u>1,244,765</u>	<u>1,224,427</u>

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for one subsidiary and two branches which enjoy a preferential rate of 15% for the six months ended 30 June 2016 (six months ended 30 June 2015: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2015: 25%) during the period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2015: 16.5% and 12%), respectively.

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

9 DIVIDEND

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

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

The Board of Directors decided not to declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the interim period, of RMB0.10700 per share (including tax) (six months ended 30 June 2015: RMB0.05223 per share (including tax))	<u>1,400,068</u>	<u>683,417</u>

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2016 was based on the profit attributable to equity shareholders of the Company of RMB3.47 billion (six months ended 30 June 2015 (restated): RMB4.20 billion) and the weighted average of 12,294,896,740 ordinary shares (six months ended 30 June 2015: 12,294,896,740 shares) in issue during the period, 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 periods.

11 ACCOUNTS RECEIVABLE

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

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000
Within 30 days	2,161,666	2,419,604
31 to 60 days	469,997	328,902
61 to 90 days	174,211	166,916
Over 90 days	<u>703,645</u>	<u>336,783</u>
	<u>3,509,519</u>	<u>3,252,205</u>

12 ACCOUNTS PAYABLE

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

	30 June 2016 <i>RMB'000</i> (Unaudited)	31 December 2015 <i>RMB'000</i>
Within 30 days	4,575,802	4,548,654
31 to 60 days	1,618,771	1,373,626
61 to 90 days	1,348,539	1,086,846
Over 90 days	<u>2,753,528</u>	<u>2,243,624</u>
	<u>10,296,640</u>	<u>9,252,750</u>

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016-*unaudited*

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

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
		(Restated)
Revenue from operations	53,524,458	51,151,276
Less: Cost of operations	41,160,412	40,133,858
Business taxes and surcharges	137,426	117,163
Selling expenses	2,851,253	3,325,192
General and administrative expenses	1,896,031	1,720,532
Finance costs	3,290,815	1,535,907
Impairment (reversal)/losses	(8,160)	12,535
Add: (Losses)/Gains from movements in fair value	(110)	6,613
Investment income	292,576	659,984
Including: Share of profits less losses of associates and joint ventures	259,463	638,852
Profit from operations	4,489,147	4,972,686
Add: Non-operating income	565,014	624,624
Including: Gains on disposal of non-current assets	1,008	19,636
Less: Non-operating expenses	29,235	64,616
Including: Losses on disposal of non-current assets	6,892	41,180
Profit before taxation	5,024,926	5,532,694
Less: Taxation	1,241,225	1,213,772
Net profit	3,783,701	4,318,922
Including: net profit of the combined party before common control combinations		42,453
Net profit attributable to equity shareholders of the Company	3,457,621	3,949,271
Non-controlling interests	326,080	369,651
Earnings per share (RMB)		
Basic and diluted	0.28	0.32

For the six months ended	
30 June 2016	30 June 2015
<i>RMB'000</i>	<i>RMB'000</i>
	(Restated)

Other comprehensive income for the year

Other comprehensive income attributed to equity
shareholders of the Company after taxation

Item that will not be reclassified to profit or loss:

– Remeasurement of net defined benefit liability	214	(158)
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Items that may be reclassified to profit or loss:

– Share of other comprehensive income of the investees accounted by the equity method	928,326	676,279
– Exchange realignment	376,469	(7,256)
– Gains or losses arising from changes in fair value of available-for-sale financial assets	2,920	22,022

Other comprehensive income after taxation attributed to
non-controlling interests

12,102	19,959
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Total comprehensive income

5,103,732	5,029,768
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Attributable to:

Equity shareholders of the Company	4,765,550	4,640,158
Non-controlling interests	338,182	389,610

CONSOLIDATED BALANCE SHEET

At 30 June 2016-*unaudited*

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

30 June 2016 31 December 2015
RMB'000 *RMB'000*

ASSETS

Current assets

Cash and bank balances	8,397,932	7,793,044
Financial assets at fair value through profit or loss	598	995
Bills receivable	1,279	224
Accounts receivable	3,769,135	3,661,354
Other receivables	2,137,599	1,882,945
Prepayments	1,135,844	1,069,263
Inventories	1,995,273	1,730,742
Held-for-sale assets	331,351	582,074
Other current assets	2,486,101	2,806,973

Total current assets **20,255,112** 19,527,614

Non-current assets

Available-for-sale financial assets	1,212,961	1,108,631
Held-to-maturity investments	10,000	10,000
Long-term receivables	905,146	598,312
Long-term equity investments	13,412,969	12,451,024
Investment properties	345,614	353,511
Fixed assets	149,605,315	149,267,398
Construction in progress	30,045,533	20,747,815
Intangible assets	4,245,362	4,169,341
Goodwill	1,102,185	1,102,185
Long-term deferred expenses	635,378	683,325
Deferred tax assets	3,672,780	3,684,379

Total non-current assets **205,193,243** 194,175,921

Total assets

225,448,355 213,703,535

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Short-term loans	11,366,584	3,055,641
Short-term bonds payable	12,347,582	2,598,843
Bills payable	–	11,646
Accounts payable	12,186,362	11,747,465
Domestic air traffic liabilities	1,933,762	2,619,395
International air traffic liabilities	3,797,923	3,139,838
Receipts in advance	227,116	148,505
Employee compensations payable	1,959,622	1,933,927
Taxes payable	878,773	1,304,379
Interest payable	874,911	679,394
Other payables	7,920,913	10,574,693
Non-current liabilities repayable within one year	12,936,091	12,399,620

Total current liabilities	66,429,639	50,213,346
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Non-current liabilities

Long-term loans	22,920,069	30,794,484
Corporate bonds	18,194,540	18,193,038
Long-term payables	3,421,729	3,122,381
Obligations under finance leases	36,633,366	37,803,279
Defined benefit obligations	281,895	276,968
Accrued liabilities	344,336	347,465
Deferred income	3,945,688	3,489,698
Deferred tax liabilities	3,086,895	2,867,738

Total non-current liabilities	88,828,518	96,895,051
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Total liabilities	155,258,157	147,108,397
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	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Shareholders' equity		
Issued capital	13,084,751	13,084,751
Capital reserve	16,509,531	16,509,531
Other comprehensive income	(4,399,132)	(5,707,061)
Reserve funds	7,177,186	6,633,105
Retained earnings	30,758,591	29,245,119
General reserve	54,951	54,951
Equity attributable to shareholders of the Company	63,185,878	59,820,396
Non-controlling interests	7,004,320	6,774,742
Total shareholders' equity	70,190,198	66,595,138
Total liabilities and shareholders' equity	225,448,355	213,703,535

EFFECTS OF DIFFERENCES BETWEEN CASs AND IFRSs

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

For the six months ended
30 June 2016 30 June 2015
RMB'000 *RMB'000*
(Unaudited) (Unaudited)
 (Restated)

Net profit attributable to shareholders of the Company under CASs	3,457,621	3,949,271
Deferred taxation	(3,540)	(10,655)
Differences in value of fixed assets and other non-current assets	14,160	234,403
Government grants	<u>—</u>	<u>29,552</u>
Net profit attributable to shareholders of the Company under IFRSs	<u>3,468,241</u>	<u>4,202,571</u>

30 June 2016 31 December 2015
RMB'000 *RMB'000*
(Unaudited)

Equity attributable to shareholders of the Company under CASs	63,185,878	59,820,396
Deferred taxation	65,810	69,350
Differences in value of fixed assets and other non-current assets	(267,494)	(281,654)
Unrecognition profit of the disposal of Hong Kong Dragon Airlines	<u>139,919</u>	<u>139,919</u>
Equity attributable to shareholders of the Company under IFRSs	<u>63,124,113</u>	<u>59,748,011</u>

CHAIRMAN'S STATEMENT

In the first half of 2016, global economic recovery was slower than expected, the competition in the international passenger aviation market was intensified and the demand for cargo transport remained slack. The macro economy in China remained sound and healthy with consumption demand maintaining at a high growth rate. Amid the strong demand in the domestic aviation market, the Chinese aviation industry maintained a relatively faster pace of development. In our unwavering commitment to quality and operational excellence, the Group continues to be vigilant and responsive to market changes and remains steadfast in advancing the Company's strategies to maintain its industry leading profitability.

In the first half of 2016, the Group's fleet capacity measured in ATK reached 16,520 million and RTK reached 11,371 million, representing an increase of 9.40% and 8.57%, respectively, compared to the corresponding period last year. We carried 46,856.8 thousand passengers and 834.7 thousand tonnes of cargos and mails, representing an increase of 7.29% and 4.56%, respectively, compared to the corresponding period last year. Our revenue reached RMB53,984 million, representing an increase of 3.98% compared to the corresponding period last year. Our operating cost reached RMB45,987 million, representing an increase of 1.56% compared to the corresponding period last year, which was partially offset by a decrease of RMB2,332 million in fuel costs from the first six months in 2015. The Group achieved net profits attributable to equity shareholders of RMB3,468 million primarily due to the profitability in our main business, after being offset by a loss of RMB1,698 million arising from fluctuations in exchange rates.

Optimized capacity deployment and continuous yield enhancement. In the first half of 2016, the Group introduced 25 aircraft, including three 787-9 aircraft, and phased out 12 aircraft. The total fleet size was 603 aircraft with an average age of 6.26 years, and as a result, the alignment of our fleet and network was further improved. The Company closely followed the market changes to integrate new fleet structure and optimize fleet capacity deployment onto domestic and international routes. In response and in an effort to mitigate the impact from growing terrorism in Europe, we have reduced capacity in international low-yield long-haul routes in a timely manner and reallocated the deployment of wide-body aircraft to our primary domestic markets. We further improved yield management levels by aligning the passenger load factor with fare charges. As a result, we maintained our leading market share in the international aviation market and a stable pricing in the domestic market, which in turn, contributed to improvements in our yield.

Continuous advancement of hub network strategy and further optimization of global network structure. In the first half of 2016, the global network structure has further been enhanced with a 57% increase in international to international connecting passengers as our efforts in focussing on the hub network strategy and expansion of the route network have attended with pleasing results. To further strengthen the importance of the Beijing hub, we have increased the frequency of a number of international and domestic routes from Beijing to Manila, Bangkok, Fuzhou, Guiyang and other destinations, and commissioned “One Belt, One Road” routes from Beijing to Kumul, Turpan, Xichang and other destinations. We continued to build Shanghai into an international gateway through expansion of our domestic network connecting to Shanghai, and providing international connecting flights to passengers of our existing international routes. In our continuous efforts to develop Chengdu as a regional hub, we increased the frequency of a number of domestic routes to Ningbo, Korla and other destinations, thereby strengthening our competitive position in western region. To cater for the international travel demands of South China, the Company commissioned Shenzhen-Frankfurt and Shenzhen-Beijing-Los Angeles routes, which enabled the Company to further enhance its competitiveness in the region.

Acceleration of business model transformation and continuation of sales channel management optimization. The Company has a clear business model transformation centred around a frequent flyer program, ancillary revenue and e-commerce business, to build an aviation travel and life ecosystem. In the first half of 2016, the total number of “Phoenix Miles” member amounted to 40.45 million, whose revenue contribution increased by 7.6% compared to the corresponding period last year. We have completed the integration of our call centre and frequent flyer service centre, which improved our membership e-services and lays a solid foundation for tapping into the commercial value of high-net-worth customers. We have expanded our ancillary revenue service system and the revenue generated from products such as paid seat selection, pre-paid baggage and paid upgrade increased by 18%. The Company continued to optimize and regulate its sales channels, with a substantial improvement in the sales capability of its e-commerce platforms (primarily through mobile applications), and a significant increase in direct sales proportionate to 37.4% of overall revenue, representing an increase of 10.4 percentage points over the corresponding period last year.

Enrichment of customer experience and continued enhancement of service quality. The Group endeavoured to enhance the quality of the traveller’s full-trip service to improve the overall travel experience. In the first half of 2016, we focused on areas that mattered most to customers, such as improvements in handling luggage, irregular flights as well as ticket returns and refunds. We made further improvements in sending notifications and reminders to passengers before check-in so as to address the causes of the issues on number of irregular luggage. In addition, through strengthening flight operation controls and emergency management, large-scale flight delays were effectively controlled, with the ratio of on-schedule flights increased by 7.8 percentage points. Self-rescheduling and cancelling functions for irregular flights were added to the airport self check-in machines, website and mobile application, and ticket rescheduling and cancellation procedures were simplified. Ticket returns and refunds were more efficient with more than 85% direct sale tickets returned and refunded on the same day.

Improvement of resource deployment efficiency and management of financial risks. In the first half of 2016, the Company continuously deepened the joint application of crew resources and strengthened the pooling of MRO resources. The utilization efficiency of core resources was improved with an increase of 0.1 hours in aircraft utilisation over the corresponding period in 2015, which enabled the marginal contribution to be effectively increased. Due to fluctuations in the foreign exchange market, the Company further optimized aircraft introduction by moderately increasing the proportion of aircraft under operating leases, so as to slowdown the growth of US dollar long-term debt. Therefore, the scale of US dollar debt was controlled while residual value risk was avoided. We also enhanced the optimization and adjustment of our foreign debt structure. Our proportion of US dollar debt was reduced significantly so as to alleviate the pressure on foreign exchange losses.

Cargo market remained gloomy with cargo business experiencing a loss. In the first half of 2016, due to the slowdown of the global economy and sluggish trade, air cargo prices experienced a continuous drop. Air China Cargo took active efforts to address the operational efficiency problem of long-distance air freighters, and optimized capacity deployment structure. We have strengthened the combined passenger and cargo services, established a passenger and cargo coordination network hub, promoted the sales of our cargo transition business and actively improved revenue increases in bellyhold space services. We have strengthened marketing management, focused on marketing upgraded products, and officially launched our line of new products. At the same time, we have accelerated the integration of logistics resources and the cargo terminal business to further advance the optimization of our cargo business model. We took various measures to mitigate against the unfavourable business environment, which in turn, effectively minimized the loss on our cargo business.

In the second half of 2016, the domestic air passenger market is expected to grow steadily with a continued high demand on outbound tourism. However, intensified industry competition and exchange rate fluctuations will remain. To adequately address the opportunities and challenges ahead, the Group will deepen reform with innovation, advance our strategic imperatives and transform our business model as we endeavour to achieve a greater performance.

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

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

Profit Analysis

For the six months ended 30 June 2016, the Group proactively reacted to the changes in the competitive landscape in the market and market demand by adopting measures including optimising production arrangement, enhancing marketing capabilities and resources utilization efficiencies as well as strengthening cost control. We recorded profits from operations of RMB7,997 million, representing an increase of 20.50% as compared to the same period last year. The Group recorded profit attributable to equity shareholders of the Company of RMB3,468 million, representing a year-on-year decrease of 17.47%.

Revenue

For the six months ended 30 June 2016, the Group's revenue was RMB53,984 million, representing an increase of RMB2,066 million, or 3.98%, as compared with that of the same period last year. Among the total revenue, revenue from our air traffic operations contributed RMB51,013 million, representing an increase of RMB1,703 million, or 3.45%, over the same period last year. Other operating revenue was RMB2,971 million, representing an increase of RMB363 million, or 13.93%, as compared with that of the same period last year.

Revenue Contribution by Geographical Segments

(in RMB'000)	For the six months ended 30 June				Change
	2016		2015 (Restated)		
	Amount	Percentage	Amount	Percentage	
International	15,816,461	29.30%	15,432,236	29.72%	2.49%
Domestic	35,306,967	65.40%	33,629,335	64.78%	4.99%
Hong Kong, Macau and Taiwan	2,860,613	5.30%	2,856,164	5.50%	0.16%
Total	53,984,041	100.00%	51,917,735	100.00%	3.98%

Air Passenger Revenue

For the six months ended 30 June 2016, the Group recorded an air passenger revenue of RMB47,263 million, representing an increase of RMB2,274 million, or 5.06%, over the same period of 2015. Among the Group's air passenger revenue, the increase in capacity contributed to an increase of RMB4,594 million, while the decrease in passenger load factor and passenger yield resulted in a decrease in revenue of RMB31 million and RMB2,289 million, respectively. The Group's capacity, load factor and passenger yield of our passenger operations for the six months ended 30 June 2016 are as follows:

	For the six months ended 30 June		
	2016	2015	Change
Available seat kilometres (<i>million</i>)	113,386.98	102,881.35	10.21%
Passenger load factor (%)	79.82	79.87	(0.05 ppt)
Yield per RPK (<i>RMB</i>)	0.5219	0.5471	(4.60%)

Air Passenger Revenue Contributed by Geographical Segment

(in RMB'000)	For the six months ended 30 June				Change
	2016		2015		
	Amount	Percentage	Amount	Percentage	
International	12,978,371	27.46%	12,295,384	27.33%	5.55%
Domestic	31,555,519	66.77%	29,986,433	66.65%	5.23%
Hong Kong, Macau and Taiwan	2,729,169	5.77%	2,706,958	6.02%	0.82%
Total	47,263,059	100.00%	44,988,775	100.00%	5.06%

Air Cargo Revenue

For the six months ended 30 June 2016, the Group's air cargo and mail revenue was RMB3,750 million, representing a decrease of RMB571 million, or 13.22%, from the same period in 2015. Among the Group's air cargo and mail revenue, the increase in capacity and decrease in cargo and mail load factor contributed to an increase in revenue of RMB350 million and a decrease of RMB133 million respectively, while the decrease in yield of cargo and mail resulted in a decrease in revenue of RMB788 million. The capacity, load factor and yield of our cargo and mail operations for the six months ended 30 June 2016 are as follows:

	For the six months ended 30 June		
	2016	2015	Change
Available freight tonne kilometres (<i>million</i>)	6,288.85	5,818.22	8.09%
Cargo and mail load factor (%)	52.86	54.41	(1.55 ppt)
Yield per RFTK (<i>RMB</i>)	1.1279	1.3649	(17.36%)

Air Cargo Revenue Contributed by Geographical Segment

(in RMB'000)	For the six months ended 30 June				Change
	2016		2015		
	Amount	Percentage	Amount	Percentage	
International	2,714,438	72.39%	3,029,893	70.12%	(10.41%)
Domestic	911,409	24.31%	1,144,181	26.48%	(20.34%)
Hong Kong, Macau and Taiwan	123,945	3.30%	147,008	3.40%	(15.69%)
Total	3,749,792	100.00%	4,321,082	100.00%	(13.22%)

Operating Expenses

For the six months ended 30 June 2016, the Group's operating expenses were RMB45,987 million, representing an increase of 1.56% as compared to RMB45,281 million recorded in the same period of 2015. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2016		2015 (Restated)		Change
(in RMB'000)	Amount	Percentage	Amount	Percentage	
Jet fuel costs	9,727,175	21.15%	12,059,145	26.63%	(19.34%)
Take-off, landing and depot charges	6,166,595	13.41%	5,563,306	12.29%	10.84%
Depreciation and amortisation	6,672,674	14.51%	6,267,264	13.84%	6.47%
Aircraft maintenance, repair and overhaul costs	2,514,900	5.47%	1,935,921	4.28%	29.91%
Employee compensation costs	9,416,298	20.48%	8,106,626	17.90%	16.16%
Air catering charges	1,563,934	3.40%	1,452,676	3.21%	7.66%
Selling and marketing expenses	2,067,576	4.50%	2,587,719	5.71%	(20.10%)
General and administrative expenses	520,892	1.13%	445,095	0.98%	17.03%
Others	7,337,125	15.95%	6,863,398	15.16%	6.90%
Total	45,987,169	100.00%	45,281,150	100.00%	1.56%

In particular:

- Jet fuel costs decreased by RMB2,332 million, or 19.34%, from the corresponding period in the previous year, mainly due to the decrease in jet fuel price.

- Take-off, landing and depot charges increased by RMB603 million over the same period of 2015, primarily due to an increase in the number of take-offs and landings.
- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft during the reporting period.
- Aircraft maintenance, repair and overhaul costs increased by RMB579 million, or 29.91% over the same period last year, due to the expansion of fleet.
- Employee compensation costs increased by RMB1,310 million, mainly due to the consolidation of AMECO on 31 May 2015, as well as an increase in the number of employees and the adjustment of employee compensation standard.
- Air catering charges increased by RMB111 million, mainly due to the increase in the number of passengers.
- Sales and marketing expenses decreased by RMB520 million as compared to the same period last year, mainly due to the Group's efforts in actively raising the proportion of direct sales and vigorously lowering agency fee expenses.
- General and administrative expenses increased by RMB76 million as compared to the same period last year, mainly due to the consolidation of AMECO on 31 May 2015.
- 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 6.90% as compared to the same period last year, mainly due to a year-on-year increase in the operating lease expenses of aircraft engines and buildings and contributions to the civil aviation development fund for the reporting period.

Finance Income and Finance Costs

For the six months ended 30 June 2016, the Group recorded a net exchange loss of RMB1,698 million, representing an increase of RMB1,575 million as compared to the same period in 2015, which was mainly due to the larger appreciation in the exchange rate of U.S. dollars against RMB during the reporting period as compared to the same period last year. The Group incurred interest expenses (excluding the capitalised portion) of RMB1,584 million during the period, representing an increase of RMB158 million from the same period last year, which was mainly due to the year-on-year growth in interest-bearing liabilities of the Group during the reporting period.

Share of Profits of Associates and Joint Ventures

For the six months ended 30 June 2016, the Group's share in the profits of its associates was RMB162 million, representing a decrease of RMB267 million as compared to the share in the profits of associates of RMB429 million for the same period of 2015, mainly due to the decrease in the profits of Cathay Pacific, an associate of the Group, during the reporting period. As a result, we recorded a loss on investment of Cathay Pacific of RMB70 million, as compared to a gain on investment of RMB300 million in the same period last year.

For the six months ended 30 June 2016, the Company's share in the profits of its joint ventures was RMB98 million, as compared to a share in the profits of joint ventures of RMB210 million for the same period of 2015, representing a year-on-year decrease of RMB112 million. This was mainly due to the cessation in recognition of gains on investment in AMECO, originally a joint venture of the Company, which became a controlled subsidiary of the Company, whilst a gain on investment of RMB113 million in AMECO was recognized for the same period last year.

Analysis of Assets Structure

As at 30 June 2016, the total assets of the Group amounted to RMB225,387 million, representing an increase of 5.50% as compared with 31 December 2015, among which current assets accounted for RMB20,891 million, or 9.27%, of the total assets, while non-current assets accounted for RMB204,496 million, or 90.73%, of the total assets.

Among the current assets, cash and cash equivalents were RMB7,864 million, representing an increase of 10.17% from 31 December 2015. Accounts receivable amounted to RMB3,510 million, representing an increase of 7.91% as compared with 31 December 2015. Among the non-current assets, the net book value of property, plant and equipment as at 30 June 2016 was RMB157,231 million, representing an increase of 0.79% from 31 December 2015.

Assets Mortgage

As at 30 June 2016, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB98,525 million (approximately RMB106,171 million as at 31 December 2015) and land use rights with a net book value of approximately RMB35 million (approximately RMB36 million as at 31 December 2015). At the same time, the Group had approximately RMB534 million (approximately RMB655 million as at 31 December 2015) in bank deposits with title being restricted, of which approximately RMB431 million were deposited as reserves at the People's Bank of China, approximately RMB103 million of bank deposits were pledged for certain bank loans, operating leases and other security of the Group.

Capital Expenditure

For the six months ended 30 June 2016, the Company's capital expenditure amounted to RMB13,163 million, of which the total investment in aircraft and engines was RMB12,926 million. Other capital expenditure amounted to RMB237 million, which was mainly spent on infrastructures construction, procurement of equipment and facilities, flight simulators, IT system construction, as well as routine protective investments.

Equity Investment

As at 30 June 2016, the Group's equity investment in its associates was RMB12,556 million, representing an increase of 8.68% from 31 December 2015, of which the equity investment in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines Co., Ltd. was RMB10,341 million, RMB1,147 million and RMB747 million, respectively. Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines Co., Ltd. recorded a profit of RMB426 million, RMB369 million and RMB284 million, respectively, for the six months ended 30 June 2016.

As at 30 June 2016, the Group's equity investment in its joint ventures was RMB997 million, representing a decrease of 3.95% from 31 December 2015.

Debt Structure Analysis

As at 30 June 2016, the total liabilities of the Group amounted to RMB155,258 million, representing an increase of 5.54% from 31 December 2015, among which current liabilities were RMB66,764 million and non-current liabilities were RMB88,494 million, representing 43.00% and 57.00% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, and obligations under finance leases) amounted to RMB36,064 million, representing an increase of 108.88% from 31 December 2015. Other payables and accruals amounted to RMB30,699 million, representing a decrease of 7.76% from 31 December 2015.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, and obligations under finance leases) amounted to RMB77,748 million, representing a decrease of 10.42% from 31 December 2015.

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

<i>(in RMB'000)</i>	30 June 2016		31 December 2015		Change
	Amount	Percentage	Amount	Percentage	
US dollars	66,790,927	58.69%	76,468,517	73.48%	(12.66%)
RMB	45,231,564	39.74%	24,471,165	23.52%	84.84%
Others	<u>1,789,857</u>	<u>1.57%</u>	<u>3,117,052</u>	<u>3.00%</u>	(42.58%)
Total	<u>113,812,348</u>	<u>100.00%</u>	<u>104,056,734</u>	<u>100.00%</u>	9.38%

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitment of the Group are mainly for the purchase of certain aircraft and related equipment payable in the next few years. As at 30 June 2016, capital commitments of the Group amounted to RMB93,565 million, a decrease of 2.34% compared to RMB95,808 million as at 31 December 2015. The Group had operating lease commitments of RMB43,621 million as at 30 June 2016, an increase of 8.68% as compared to 31 December 2015, which was primarily used in leasing certain aircraft, office premises and related equipment. Investment commitments of the Group was RMB58 million as at 30 June 2016, almost the same as the amount as at 31 December 2015, which was primarily used for the signed investment agreements.

GEARING RATIO

As at 30 June 2016, the Group's gearing ratio (total liabilities divided by total assets) was 68.89%, which remained generally unchanged from 68.86% as at 31 December 2015. Given that high gearing ratios are common among aviation enterprises, the Group continued to maintain a reasonable gearing ratio and the long-term insolvency risks are under control.

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2016, the Group's net current liabilities (current liabilities minus current assets) were RMB45,873 million, an increase of RMB15,537 million from 31 December 2015, which was mainly attributable to the increase in short-term loans. The Group's current ratio (current assets divided by current liabilities) was 0.31, a fall of 0.09 from 0.40 as at 31 December 2015.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In the first half of 2016, the Group's net cash inflow generated from operating activities was RMB11,285 million, almost the same as RMB11,594 million over the same period in 2015. Net cash outflow from investment activities was RMB14,669 million, an increase of RMB10,368 million from RMB4,301 million over the same period of 2015, primarily due to a year-on-year increase in the amount paid for aircraft procurement. The Group recorded a net cash inflow from financing activities of RMB4,035 million, as compared to a net cash outflow from financing activities of RMB8,357 million during the same period of 2015. The change was primarily due to the significant increase in cash inflow generated from borrowings and the issuance of short term financing bonds during the period.

The Company has obtained bank facilities with a maximum amount of RMB160,022 million from a number of banks in the PRC, of which approximately RMB27,838 million has been utilised, sufficient to meet our demands for working capital and commitments on capital expenditures in future.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

During the first half of 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company (the term "securities" has the meaning ascribed to it under paragraph 1 of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")).

INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2016.

CORPORATE GOVERNANCE

1. Compliance with the Code Provisions of the Corporate Governance Code

For the six months ended 30 June 2016, the Company complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Company has adopted the revised "Working Rules of the Audit and Risk Management Committee of the Board" on 21 March 2016, to comply with the amendments to the Corporate Governance Code.

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

The Company has adopted and formulated a code of conduct on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code and the Company’s code of conduct throughout the six months ended 30 June 2016.

DISCLOSURE REQUIRED BY THE LISTING RULES

In compliance with paragraph 46 of Appendix 16 to the Listing Rules, the Company confirms that in relation to those matters set out in paragraph 46(3) of Appendix 16 to the Listing Rules, save as disclosed herein, there has been no material change in the Company’s existing information from the relevant disclosure in the 2015 Annual Report of the Company.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company’s interim report for the six months ended 30 June 2016, the Company’s unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

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

Beijing, the PRC, 30 August 2016

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

* *Independent non-executive director of the Company*