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)**

# 2017 ANNUAL RESULTS

**FINANCIAL HIGHLIGHTS**

- In 2017, the Group's revenue was RMB124,026 million, representing an increase of RMB8,882 million or 7.71% as compared with last year. Among which, air traffic revenue was RMB115,380 million, representing an increase of RMB8,082 million or 7.53% as compared with last year; other operating revenue was RMB8,646 million, representing a year-on-year increase of RMB800 million or 10.19%.

- In 2017, the Group recorded a profit after tax of RMB8,641 million, representing a year-on-year increase of 11.38%.

- The Board recommends the payment of a cash dividend of RMB1.1497 (including tax) for every ten shares for the year 2017, totalling approximately RMB1,670 million based on the current total issued shares of 14,524,815,185 shares of the Company.

## 2017 ANNUAL RESULTS

The Board hereby announces the audited consolidated financial results of the Group for the year ended 31 December 2017 together with the corresponding comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*FOR THE YEAR ENDED 31 DECEMBER 2017*

| | NOTES | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | | | |
| Air traffic revenue | *4* | **115,379,925** | 107,297,920 |
| Other operating revenue | *5* | **8,646,277** | 7,846,772 |
| | | **124,026,202** | 115,144,692 |
| **Operating expenses** | | | |
| Jet fuel costs | | **(28,409,213)** | (21,981,934) |
| Employee compensation costs | | **(22,392,361)** | (20,075,602) |
| Depreciation and amortisation | | **(13,596,319)** | (13,473,720) |
| Take-off, landing and depot charges | | **(13,863,338)** | (12,774,220) |
| Aircraft and engine operating lease expenses | | **(7,310,649)** | (6,252,783) |
| Aircraft maintenance, repair and overhaul costs | | **(6,213,096)** | (4,654,964) |
| Air catering charges | | **(3,462,347)** | (3,270,726) |
| Other operating lease expenses | | **(1,078,057)** | (1,002,788) |
| Other flight operation expenses | | **(9,721,535)** | (8,830,233) |
| Selling and marketing expenses | | **(4,496,533)** | (3,893,265) |
| General and administrative expenses | | **(1,727,042)** | (1,401,882) |
| | | **(112,270,490)** | (97,612,117) |
| **Profit from operations** | *6* | **11,755,712** | 17,532,575 |
| Other income and gains | *7* | **3,161,847** | 127,077 |
| Finance costs | *8* | **(3,055,064)** | (7,468,985) |
| Share of results of associates | | **(604,671)** | (211,188) |
| Share of results of joint ventures | | **228,408** | 233,423 |
| **Profit before taxation** | | **11,486,232** | 10,212,902 |
| Income tax expense | *9* | **(2,844,783)** | (2,454,221) |
| **Profit for the year** | | **8,641,449** | 7,758,681 |
| **Attributable to:** | | | |
| – Equity shareholders of the Company | | **7,244,321** | 6,809,159 |
| – Non-controlling interests | | **1,397,128** | 949,522 |
| **Profit for the year** | | **8,641,449** | 7,758,681 |
| **Earnings per share** | | | |
| – Basic and diluted | *10* | **RMB53.79 cents** | **RMB55.38 cents** |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2017*

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Profit for the year** | **8,641,449** | 7,758,681 |
| **Other comprehensive (expense) income for the year (after tax adjustments)** | | |
| Items that will not be reclassified to profit or loss: | | |
| – Remeasurement of net defined benefit liability | **(13,301)** | 2,295 |
| – Share of other comprehensive income of associates and joint ventures | **180,538** | 162,682 |
| Items that may be reclassified subsequently to profit or loss: | | |
| – Share of other comprehensive income of associates and joint ventures | **1,561,413** | 2,171,389 |
| – Available-for-sale securities: net change in fair value | **127,474** | 39,457 |
| – Exchange realignment | **(1,454,550)** | 1,332,354 |
| – Income tax relating to items that may be reclassified subsequently to profit or loss | **(31,869)** | (9,864) |
| **Other comprehensive income for the year** | **369,705** | 3,698,313 |
| **Total comprehensive income for the year** | **9,011,154** | 11,456,994 |
| **Attributable to:** | | |
| – Equity shareholders of the Company | **7,613,176** | 10,453,622 |
| – Non-controlling interests | **1,397,978** | 1,003,372 |
| Total comprehensive income for the year | **9,011,154** | 11,456,994 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2017*

| | NOTES | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **168,536,471** | 158,012,922 |
| Lease prepayments | | **3,300,124** | 3,057,745 |
| Investment properties | | **674,738** | 695,518 |
| Intangible assets | | **76,021** | 113,367 |
| Goodwill | | **1,099,975** | 1,099,975 |
| Interests in associates | | **14,199,540** | 14,181,687 |
| Interests in joint ventures | | **1,239,396** | 1,126,992 |
| Advance payments for aircraft and flight equipment | | **20,480,204** | 20,662,867 |
| Deposits for aircraft under operating leases | | **567,889** | 649,343 |
| Held-to-maturity securities | | **–** | 10,000 |
| Available-for-sale securities | | **1,334,953** | 1,150,661 |
| Deferred tax assets | | **2,501,518** | 3,054,035 |
| Other non-current assets | | **873,813** | 249,502 |
| | | **214,884,642** | 204,064,614 |
| **Current assets** | | | |
| Non-current assets held for sale | | **284,169** | 913,129 |
| Inventories | | **1,535,769** | 1,680,633 |
| Accounts receivable | *12* | **3,490,427** | 3,286,091 |
| Bills receivable | | **348** | 837 |
| Prepayments, deposits and other receivables | | **5,122,517** | 3,729,699 |
| Financial assets | | **19,938** | 222 |
| Restricted bank deposits | | **697,167** | 474,338 |
| Cash and cash equivalents | | **5,562,907** | 6,848,018 |
| Held-to-maturity securities | | **10,000** | – |
| Other current assets | | **4,036,700** | 3,053,370 |
| | | **20,759,942** | 19,986,337 |
| **Total assets** | | **235,644,584** | 224,050,951 |

| | NOTES | **31 December 2017** **RMB'000** | 31 December 2016 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Air traffic liabilities | | **(7,405,757)** | (6,313,936) |
| Accounts payable | *13* | **(13,254,188)** | (10,832,292) |
| Other payables and accruals | | **(13,336,701)** | (13,094,920) |
| Current taxation | | **(1,825,063)** | (920,508) |
| Obligations under finance leases | | **(6,237,472)** | (6,099,453) |
| Interest-bearing bank loans and other borrowings | | **(28,654,599)** | (25,975,716) |
| Provision for major overhauls | | **(1,418,055)** | (943,609) |
| | | **(72,131,835)** | (64,180,434) |
| **Net current liabilities** | | **(51,371,893)** | (44,194,097) |
| **Total assets less current liabilities** | | **163,512,749** | 159,870,517 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | | **(37,798,582)** | (36,295,471) |
| Interest-bearing bank loans and other borrowings | | **(22,108,289)** | (37,833,246) |
| Provision for major overhauls | | **(3,586,943)** | (3,523,236) |
| Provision for early retirement benefit obligations | | **(4,869)** | (7,919) |
| Long-term payables | | **(193,712)** | (23,350) |
| Defined benefit obligations | | **(263,575)** | (269,742) |
| Deferred income | | **(3,568,127)** | (3,092,841) |
| Deferred tax liabilities | | **(1,130,054)** | (2,428,313) |
| | | **(68,654,151)** | (83,474,118) |
| **NET ASSETS** | | **94,858,598** | 76,396,399 |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | | **14,524,815** | 13,084,751 |
| Treasury shares | | **(3,047,564)** | (3,047,564) |
| Reserves | | **74,570,311** | 58,762,068 |
| **Total equity attributable to equity shareholders of the Company** | | **86,047,562** | 68,799,255 |
| **Non-controlling interests** | | **8,811,036** | 7,597,144 |
| **TOTAL EQUITY** | | **94,858,598** | 76,396,399 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2017*

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("Companies Ordinance").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB51,372 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 RMB148,563 million as at 31 December 2017, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2017. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

## 2. CHANGES IN ACCOUNTING POLICIES

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

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

## 3. SEGMENT INFORMATION

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

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

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

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

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

**Operating segments**

The following tables present the Group's consolidated revenue and profit before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2017 and 2016 and the reconciliations of reportable segment revenue and profit before taxation to the Group's consolidated amounts under IFRSs:

**Year ended 31 December 2017**

| | **Airline operations** *RMB'000* | **Other operations** *RMB'000* | **Elimination** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | **120,066,345** | **1,296,554** | **–** | **121,362,899** |
| Intersegment sales | **247,297** | **8,689,539** | **(8,936,836)** | **–** |
| Revenue for reportable segments under CASs | **120,313,642** | **9,986,093** | **(8,936,836)** | **121,362,899** |
| Other income not included in segment revenue | | | | **2,663,303** |
| Revenue for the year under IFRSs | | | | **124,026,202** |
| **Segment profit before taxation** | | | | |
| Profit before taxation for reportable segments under CASs | **11,077,352** | **453,377** | **(49,842)** | **11,480,887** |
| Effect of differences between IFRSs and CASs | | | | **5,345** |
| Profit before taxation for the year under IFRSs | | | | **11,486,232** |

Year ended 31 December 2016

| | Airline operations *RMB'000* | Other operations *RMB'000* | Elimination *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 111,347,956 | 1,329,124 | – | 112,677,080 |
| Intersegment sales | 243,209 | 8,400,147 | (8,643,356) | – |
| Revenue for reportable segments under CASs | 111,591,165 | 9,729,271 | (8,643,356) | 112,677,080 |
| Other income not included in segment revenue | | | | 2,467,612 |
| Revenue for the year under IFRSs | | | | 115,144,692 |
| **Segment profit before taxation** | | | | |
| Profit before taxation for reportable segments under CASs | 10,011,057 | 328,378 | (120,059) | 10,219,376 |
| Effect of differences between IFRSs and CASs | | | | (6,474) |
| Profit before taxation for the year under IFRSs | | | | 10,212,902 |

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2017 and 2016 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 2017 under CASs | **228,104,759** | **19,166,617** | **(11,553,560)** | **235,717,816** |
| Effect of differences between IFRSs and CASs | | | | **(73,232)** |
| Total assets under IFRSs | | | | **235,644,584** |
| Total assets for reportable segments as at 31 December 2016 under CASs | 215,918,569 | 17,435,746 | (9,226,123) | 224,128,192 |
| Effect of differences between IFRSs and CASs | | | | (77,241) |
| Total assets under IFRSs | | | | 224,050,951 |

| | **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 2017 under CASs | **141,208,964** | **11,026,686** | **(11,449,664)** | **140,785,986** |
| Effect of differences between IFRSs and CASs | | | | **–** |
| Total liabilities under IFRSs | | | | **140,785,986** |
| Total liabilities for reportable segments as at 31 December 2016 under CASs | 147,086,337 | 9,662,575 | (9,094,360) | 147,654,552 |
| Effect of differences between IFRSs and CASs | | | | – |
| Total liabilities under IFRSs | | | | 147,654,552 |

**Year ended 31 December 2017**

| | **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 | **(651,618)** | **275,355** | **–** | **(376,263)** | **–** | **(376,263)** |
| Impairment losses and inventories provision recognised in profit or loss, net | **257,792** | **375,966** | **(37,750)** | **596,008** | **26,807** | **622,815** |
| Depreciation and amortisation | **13,346,813** | **287,822** | **(12,082)** | **13,622,553** | **(26,234)** | **13,596,319** |
| Other income and gains | **3,134,949** | **142,889** | **(115,991)** | **3,161,847** | **–** | **3,161,847** |
| Finance costs | **3,310,772** | **60,855** | **(156,602)** | **3,215,025** | **(159,961)** | **3,055,064** |
| Income tax expense | **2,751,642** | **109,390** | **(17,585)** | **2,843,447** | **1,336** | **2,844,783** |
| Interests in associates and joint ventures | **13,914,145** | **1,384,872** | **–** | **15,299,017** | **139,919** | **15,438,936** |
| Additions to non-current assets | **30,458,830** | **180,937** | **–** | **30,639,767** | **–** | **30,639,767** |

Year ended 31 December 2016

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

**Geographical information**

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2017 and 2016, respectively:

**Year ended 31 December 2017**

| | **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 | **80,800,286** | **5,710,565** | **12,187,864** | **10,576,506** | **6,108,205** | **8,642,776** | **124,026,202** |

Year ended 31 December 2016

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

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 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 2017 (2016: Nil).

## 4. AIR TRAFFIC REVENUE

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

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Passenger | **105,125,284** | 98,992,892 |
| Cargo and mail | **10,254,641** | 8,305,028 |
| | **115,379,925** | 107,297,920 |

## 5. OTHER OPERATING REVENUE

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Aircraft engineering income | **1,045,262** | 1,058,729 |
| Ground service income | **935,947** | 853,586 |
| Government grants: | | |
| – Recognition of deferred income | **36,177** | 61,107 |
| – Others | **2,479,288** | 2,226,052 |
| Service charges on return of unused flight tickets | **1,618,286** | 1,359,162 |
| Cargo handling service income | **407,481** | 174,251 |
| Training service income | **24,885** | 39,606 |
| Rental income | **149,937** | 145,077 |
| Sale of materials | **26,311** | 20,487 |
| Import and export service income | **74,827** | 46,670 |
| Others | **1,847,876** | 1,862,045 |
| | **8,646,277** | 7,846,772 |

*Note*: Certain air traffic revenue in the comparative figure was reclassified to other operating revenue to conform with the presentation in this year in respect of subsidies granted by various local governments controlled parties to encourage the Group to operate certain routes to cities where these governments are located.

## 6. PROFIT FROM OPERATIONS

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment | **13,453,155** | 13,339,651 |
| Depreciation of investment properties | **32,518** | 27,145 |
| Amortisation of intangible assets | **38,835** | 38,747 |
| Amortisation of lease prepayments | **71,811** | 68,177 |
| Impairment/(reversal of impairment): | | |
| – Property, plant and equipment | **149,160** | – |
| – Non-current assets held for sale | **–** | 219,376 |
| – Accounts receivable | **90,100** | (9,031) |
| – Prepayments, deposits and other receivables | **525** | (3,537) |
| – Other current assets | **38,194** | 11,546 |
| – Other non-current assets | **3,034** | 2,516 |
| Provision for inventories | **341,802** | 71,570 |
| Losses on disposal of property, plant and equipment, net | **37,186** | 37,628 |
| (Gains)/losses on disposal of non-current assets held for sale | **(46,414)** | 4,659 |
| Minimum lease payments under operating leases: | | |
| – Aircraft and flight equipment | **7,310,649** | 6,252,783 |
| – Land and buildings and others | **1,078,057** | 1,002,788 |
| Auditors' remuneration: | | |
| – Audit related services | **17,438** | 20,080 |
| – Other services | **70** | 194 |

## 7. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains during the year was as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Exchange gains, net | **2,938,101** | – |
| Interest income | **223,746** | 127,077 |
| | **3,161,847** | 127,077 |

## 8. FINANCE COSTS

| | 2017<br>*RMB'000* | 2016<br>*RMB'000* |
|---|---|---|
| Interest on interest-bearing bank loans and other borrowings | **2,488,219** | 2,400,304 |
| Interest on finance leases | **1,032,137** | 1,058,107 |
| Imputed interest expenses on defined benefit obligations | **8,518** | 8,355 |
| Exchange loss, net | **–** | 4,233,668 |
| | **3,528,874** | 7,700,434 |
| Less: Interest capitalised | **(473,810)** | (231,449) |
| | **3,055,064** | 7,468,985 |

The interest capitalisation rates during the year ranged from 3.09% to 4.38% (2016: 1.03% – 4.62%) per annum relating to the costs of related borrowings during the year.

## 9. INCOME TAX EXPENSE

| | 2017<br>*RMB'000* | 2016<br>*RMB'000* |
|---|---|---|
| Current income tax: | | |
| – Mainland China | **3,615,672** | 2,200,163 |
| – Hong Kong and Macau | **11,939** | 4,969 |
| Over – provision in respect of prior years | **(5,217)** | (1,316) |
| Deferred tax | **(777,611)** | 250,405 |
| | **2,844,783** | 2,454,221 |

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

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

The taxation for the year can be reconciled to the profit before taxation per consolidated statement of profit or loss as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **11,486,232** | 10,212,902 |
| Tax at the applicable tax rate of 25% | **2,871,558** | 2,553,226 |
| Preferential tax rates on income of group entities | **(159,809)** | (126,637) |
| Tax effect of share of profits less losses of associates and joint ventures | **94,066** | (5,559) |
| Tax effect of non-deductible expenses | **43,055** | 46,800 |
| Tax effect of non-taxable income | **(10,850)** | (1,543) |
| Deductible temporary differences and tax losses not recognised | **11,530** | 105,783 |
| Utilisation of tax losses not recognised in prior years | **(274,684)** | (27,165) |
| Utilisation of deductible temporary differences not recognised in prior years | **(1,139)** | (89,368) |
| Over-provision in respect of prior years | **(5,217)** | (1,316) |
| Withholding tax on undistributed earnings of subsidiaries | **276,273** | – |
| Taxation for the year | **2,844,783** | 2,454,221 |

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purpose of basic and diluted earnings per share | **7,244,321** | 6,809,159 |

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | **13,466,675** | 12,294,897 |

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding.

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

## 11. DIVIDENDS

Dividends for the shareholders of ordinary shares of the Company recognised as distribution during the year:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved during the current year, of RMB1.0771 per ten shares (including tax) (2016: RMB1.0700 per ten shares (including tax)) | **1,564,468** | 1,400,068 |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of RMB1.1497 per ten ordinary share (approximately RMB1,670 million in aggregate for ordinary shares) has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

## 12. ACCOUNTS RECEIVABLE

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | **3,674,827** | 3,414,566 |
| Impairment | **(184,400)** | (128,475) |
| | **3,490,427** | 3,286,091 |

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relates 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 receivables are non-interest-bearing.

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 30 days | **2,743,074** | 2,460,470 |
| 31 to 60 days | **463,564** | 407,875 |
| 61 to 90 days | **100,562** | 68,167 |
| Over 90 days | **183,227** | 349,579 |
| | **3,490,427** | 3,286,091 |

## 13. ACCOUNTS PAYABLE

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 30 days | **5,605,426** | 4,288,890 |
| 31 to 60 days | **1,880,067** | 1,692,454 |
| 61 to 90 days | **1,395,745** | 1,397,287 |
| Over 90 days | **4,372,950** | 3,453,661 |
| | **13,254,188** | 10,832,292 |

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

## CONSOLIDATED BALANCE SHEET

*At 31 December 2017*

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

| ASSETS | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|
| **Current assets** | | |
| Cash and bank | **6,260,074** | 7,322,356 |
| Financial assets at fair value through profit or loss | **19,938** | 222 |
| Bills receivable | **348** | 837 |
| Accounts receivable | **3,490,427** | 3,286,091 |
| Other receivables | **2,009,253** | 1,923,459 |
| Prepayments | **3,113,262** | 1,136,826 |
| Inventories | **1,535,769** | 1,680,633 |
| Held-for-sale assets | **283,562** | 918,587 |
| Other current assets | **4,036,700** | 3,053,370 |
| Non-current assets repayable within one year | **10,000** | – |
| **Total current assets** | **20,759,333** | 19,322,381 |
| **Non-current assets** | | |
| Available-for-sale financial asset | **1,336,996** | 1,152,704 |
| Held-to-maturity investments | **–** | 10,000 |
| Long-term receivables | **784,339** | 898,845 |
| Long-term equity investments | **15,299,017** | 15,168,760 |
| Investment properties | **330,768** | 337,551 |
| Fixed assets | **158,274,275** | 148,910,057 |
| Construction in progress | **30,340,891** | 29,320,914 |
| Intangible assets | **4,400,762** | 4,252,314 |
| Goodwill | **1,102,185** | 1,102,185 |
| Long-term deferred expenses | **657,364** | 669,414 |
| Deferred tax assets | **2,431,886** | 2,983,067 |
| **Total non-current assets** | **214,958,483** | 204,805,811 |
| **Total assets** | **235,717,816** | 224,128,192 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|
| **Current liabilities** | | |
| Short-term loans | **19,483,625** | 14,488,948 |
| Short-term bonds payable | **1,199,450** | 5,147,083 |
| Accounts payable | **14,672,242** | 11,775,901 |
| Domestic air traffic liabilities | **2,565,696** | 2,933,845 |
| International air traffic liabilities | **4,840,061** | 3,380,091 |
| Receipts in advance | **518,413** | 181,050 |
| Employee compensations payable | **2,533,032** | 2,191,248 |
| Taxes payable | **2,361,253** | 1,361,742 |
| Interest payable | **610,089** | 761,913 |
| Other payables | **7,971,574** | 8,480,453 |
| Non-current liabilities repayable within one year | **14,999,650** | 13,144,160 |
| **Total current liabilities** | **71,755,085** | 63,846,434 |
| **Non-current liabilities** | | |
| Long-term loans | **7,608,289** | 12,835,222 |
| Corporate bonds | **14,500,000** | 24,998,024 |
| Long-term payables | **3,669,405** | 3,546,586 |
| Obligations under finance leases | **37,798,582** | 36,295,471 |
| Defined benefit obligations | **263,575** | 269,742 |
| Accrued liabilities | **492,869** | 341,919 |
| Deferred income | **3,568,127** | 3,092,841 |
| Deferred tax liabilities | **1,130,054** | 2,428,313 |
| **Total non-current liabilities** | **69,030,901** | 83,808,118 |
| **Total liabilities** | **140,785,986** | 147,654,552 |
| **Shareholders' equity** | | |
| Issued capital | **14,524,815** | 13,084,751 |
| Capital reserve | **26,270,841** | 16,509,531 |
| Other comprehensive income | **(1,693,743)** | (2,062,598) |
| Reserve funds | **9,177,905** | 7,829,643 |
| Retained earnings | **37,771,234** | 33,448,460 |
| General reserve | **69,742** | 66,709 |
| Equity attributable to shareholders of the Company | **86,120,794** | 68,876,496 |
| Non-controlling interests | **8,811,036** | 7,597,144 |
| **Total shareholders' equity** | **94,931,830** | 76,473,640 |
| **Total liabilities and shareholders' equity** | **235,717,816** | 224,128,192 |

## EFFECTS OF DIFFERENCES BETWEEN IFRSS AND CASS

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net profit attributable to shareholders of the Company under CASs | **7,240,312** | 6,814,015 |
| Deferred taxation | **(1,336)** | 1,618 |
| Differences in value of fixed assets and other non-current assets | **5,345** | (6,474) |
| Net profit attributable to shareholders of the Company under IFRSs | **7,244,321** | 6,809,159 |

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Equity attributable to shareholders of the Company under CASs | **86,120,794** | 68,876,496 |
| Deferred taxation | **69,632** | 70,968 |
| Differences in value of fixed assets and other non-current assets | **(282,783)** | (288,128) |
| Unrealised profit of the disposal of Hong Kong Dragon Airlines | **139,919** | 139,919 |
| Equity attributable to shareholders of the Company under IFRSs | **86,047,562** | 68,799,255 |

## 2017 REVIEW

2017 is an important year when the 19th National Congress of the Communist Party of China was successfully held, and the comprehensive implementation of the 13th Five-year Plan has entered a crucial stage. Air China studied and implemented Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and strived to guide its reform and development with new ideas, new thinking and new strategies, forge ahead and work in a down-to-earth way. The Group also spared no effort in safety management and strove to economic benefit, actively improved the service quality. We continuously pushed forward the deepening of reform, intensified the Party building, focused on the strategic target of becoming a top-tier aviation group in the world with global competitiveness, and achieved positive and stable progress in all aspects.

During the reporting period, the Group adhered to the general keynote of making progress while maintaining stability and quality and profit were improved significantly. In 2017, we recorded a profit before tax of RMB11,486 million, with a year-on-year increase of 12.47%. The net profit attributable to equity shareholders of the Company was RMB7,244 million, representing a year-on-year increase of 6.39%. We recorded 2.117 million accident-free flight hours, with a year-on-year increase of 4.2%; traffic measured by RTK reached 25,385 million tonne kilometres, with a year-on-year increase of 7.12%; 102 million passengers were carried, with a year-on-year increase of 5.15%; the passenger load factor was 81.14%, up by 0.46 percentage point year on year.

**Continue to expand our route network and enhance airport hub construction.** In view of the national development strategies including the Belt and Road Initiative and the coordinated development of the Beijing-Tianjin-Hebei region, 49 domestic routes such as Beijing-Maotai and 12 international and regional routes such as Beijing-Astana were newly launched in 2017. We have also made efforts to accelerate the consolidation of layout of the global route network covering six continents, which is connected by the nodes of Beijing, Chengdu, Shanghai and Shenzhen. The flight bank structure has been under continuous optimization and the number of O&D connected reached 5,918; the transfer capacity and quality continuously increased. The interlining service revenue reached RMB5.51 billion, representing a year-on-year increase of 15.3%. Luggage checking through service is now provided to all flights from Europe, North America and Australia transferring to domestic routes via Beijing and the competitiveness of our hubs were strengthened.

**Steadily improve marketing capability and accelerate business model transformation.** As at the end of the reporting period, the number of our frequent flyer member exceeded 50 million contributing 43.7% of our total revenue, representing a year-on-year increase of 3.8%. Due to the continuous efforts devoted to improving our mobile application platform, a turnover of RMB5.02 billion was recorded, representing a year-on-year increase of 39.4%. We conducted in-depth studies on passenger demands, and this has helped us to increase the revenue contributed by first class and business class service to RMB13.11 billion, representing a year-on-year increase of 12.7%. The revenue generated from ancillary services such as paid seat selection, prepaid luggage and boarding gate upgrade recorded a year-on-year increase of 32%. Air China Cargo has achieved positive operating results through exploring new business model, optimizing the arrangement of its routes and the structure of cargo sources, as well as focusing on the development and sale of high value-added services such as cold-chain logistics.

**Promote premium brand strategy and improve service quality.** Focusing on the concept of "Internet plus convenient transportation", we promoted products such as self-service check-in, self-service ticket endorsement, self-print itinerary and self-service luggage check-in on all routes and established the whole-process convenient travel service mode. We continuously improved our service hardware such as infrastructure and service software such as operating codes to improve service quality. We have also made efforts to promote the application of big data and the construction of "mobile cabin" to realize the timely transmission of operation related information and connect the whole service information chain. As the exclusive official partner of air passenger transport for the Beijing 2022 Winter Olympic and Paralympic Winter Games and the International Horticultural Exhibition 2019 Beijing China, the Group took such opportunity to promote its brand in a more innovative way and to build its brand image characterized by "the leader of civil aviation industry in China" and "international network coverage".

**Strive to enhance cost control and maintain cost advantage.** We devoted great energy to streamline and strengthen our management, and to improve the quality and efficiency of our services. We focused on the optimization of the operation of wide-body aircraft to improve our cost management system, strengthen cost process management and improve our performance. We actively carried out the policy of "Lower Leverage, Reduce Liability and Control Risk". As a result, as at 31 December 2017, the gearing ratio of the Group decreased by 6.15 percentage points to 59.75% compared with last year, which is at a relatively superior level in the industry. We promoted special projects such as "increase direct sales and reduce distribution costs", "reduce trade receivables and inventories" and "streamline management structure". Since 2014, the percentage of the Group's passenger transport direct sales has increased from 26% to 50.9%, and the percentage of agency commission expense of the marketing revenue has decreased from 4.2% to 1.5%. Therefore, our cost competitiveness was continuously improved.

2018 marks the 40th anniversary of the Reform and Opening of China, and also the first year to implement the guiding principles of the 19th National Congress of the Communist Party of China. The Group will fully implement the guiding principles of the 19th National Congress. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, adhering to the development principles of "Innovation, Coordination, Green, Openness and Sharing", we will focus on the reform on quality, efficiency and growth driver, carry out our work in a down-to-earth manner, prevent and mitigate risks and strengthen Party building, and will take a solid step towards the strategic goal of building a world-class aviation group by achieving further spectacular performance in safety, results, service and reform.

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

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

### Profit Analysis

In 2017, the Group proactively grasped market opportunities, and further strengthened the advantages of our core air traffic business by adopting measures such as expanding the scale of production, optimising operational arrangement, stabilising the yield level and refining cost control. During the reporting period, despite of influences of unfavorable factors such as the oil price rebound, the Group still achieved satisfactory results. During the reporting period, the Group recorded a profit after tax of RMB8,641 million, representing a year-on-year increase of 11.38%.

### Revenue

In 2017, the Group's revenue was RMB124,026 million, representing an increase of RMB8,882 million or 7.71% as compared with last year. Among which, air traffic revenue was RMB115,380 million, representing an increase of RMB8,082 million or 7.53% as compared with last year; other operating revenue was RMB8,646 million, representing a year-on-year increase of RMB800 million or 10.19%.

### Revenue Contribution by Geographical Segments

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| *(in RMB'000)* | **Amount** | **Percentage** | Amount | Percentage | Change |
| Mainland China | **80,800,286** | **65.15%** | 74,968,688 | 65.11% | 7.78% |
| Hong Kong, Macau and Taiwan | **5,710,565** | **4.60%** | 5,460,001 | 4.74% | 4.59% |
| Europe | **12,187,864** | **9.83%** | 10,015,695 | 8.70% | 21.69% |
| North America | **10,576,506** | **8.53%** | 10,294,873 | 8.94% | 2.74% |
| Japan and Korea | **6,108,205** | **4.92%** | 6,800,675 | 5.91% | (10.18%) |
| Asia Pacific and others | **8,642,776** | **6.97%** | 7,604,760 | 6.60% | 13.65% |
| Total | **124,026,202** | **100.00%** | 115,144,692 | 100.00% | 7.71% |

**Air Passenger Revenue**

In 2017, the Group recorded an air passenger revenue of RMB105,125 million, representing an increase of RMB6,132 million over that of 2016. Among the air passenger revenue, the increase of capacity contributed an increase of RMB6,195 million to the revenue, and the increase of passenger load factor brought an increase of RMB602 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB665 million.

The Group's capacity, passenger load factor and yield per RPK in 2017 are as follows:

| | **2017** | 2016 | Change |
|---|---|---|---|
| Available seat kilometres *(million)* | **247,815.03** | 233,218.05 | 6.26% |
| Passenger load factor *(%)* | **81.14** | 80.68 | 0.46 ppts |
| Yield per RPK *(RMB)* | **0.5227** | 0.5259 | (0.61%) |

**Air Passenger Revenue Contributed by Geographical Segments**

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| *(in RMB'000)* | **Amount** | **Percentage** | Amount | Percentage | Change |
| Mainland China | **70,953,284** | **67.50%** | 65,815,143 | 66.49% | 7.81% |
| Hong Kong, Macau and Taiwan | **5,280,870** | **5.02%** | 5,151,510 | 5.20% | 2.51% |
| Europe | **8,218,696** | **7.82%** | 7,031,555 | 7.10% | 16.88% |
| North America | **7,350,972** | **6.99%** | 7,740,515 | 7.82% | (5.03%) |
| Japan and Korea | **5,428,488** | **5.16%** | 6,269,045 | 6.33% | (13.41%) |
| Asia Pacific and others | **7,892,974** | **7.51%** | 6,985,124 | 7.06% | 13.00% |
| Total | **105,125,284** | **100.00%** | 98,992,892 | 100.00% | 6.19% |

**Air Cargo and Mail Revenue**

In 2017, the Group's air cargo and mail revenue was RMB10,255 million, representing an increase of RMB1,950 million as compared with last year. Among the air cargo and mail revenue, the increase of capacity contributed an increase of RMB380 million to the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB282 million, and the increase of yield of cargo and mail resulted in an increase of RMB1,288 million to the revenue.

The capacity, cargo and mail load factor and yield per RFTK in 2017 are as follows:

| | **2017** | 2016 | Change |
|---|---|---|---|
| Available freight tonne kilometres *(million)* | **13,319.36** | 12,736.96 | 4.57% |
| Cargo and mail load factor *(%)* | **56.70** | 54.92 | 1.78 ppts |
| Yield per RFTK *(RMB)* | **1.3578** | 1.1873 | 14.36% |

### Air Cargo and Mail Revenue Contributed by Geographical Segments

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| *(in RMB'000)* | **Amount** | **Percentage** | Amount | Percentage | Change |
| Mainland China | **1,926,312** | **18.78%** | 1,920,904 | 23.14% | 0.28% |
| Hong Kong, Macau and Taiwan | **373,174** | **3.64%** | 262,788 | 3.16% | 42.01% |
| Europe | **3,767,678** | **36.74%** | 2,832,908 | 34.11% | 33.00% |
| North America | **3,045,317** | **29.70%** | 2,387,878 | 28.75% | 27.53% |
| Japan and Korea | **563,990** | **5.50%** | 416,940 | 5.02% | 35.27% |
| Asia Pacific and others | **578,170** | **5.64%** | 483,610 | 5.82% | 19.55% |
| Total | **10,254,641** | **100.00%** | 8,305,028 | 100.00% | 23.48% |

### Operating Expenses

In 2017, the Group's operating expenses were RMB112,270 million, representing an increase of 15.02% from RMB97,612 million in 2016. The breakdown of the operating expenses is set out below:

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| *(in RMB'000)* | **Amount** | **Percentage** | Amount | Percentage | Change |
| Jet fuel costs | **28,409,213** | **25.30%** | 21,981,934 | 22.52% | 29.24% |
| Take-off, landing and depot charges | **13,863,338** | **12.35%** | 12,774,220 | 13.09% | 8.53% |
| Depreciation and amortisation | **13,596,319** | **12.11%** | 13,473,720 | 13.80% | 0.91% |
| Aircraft maintenance, repair and overhaul costs | **6,213,096** | **5.53%** | 4,654,964 | 4.77% | 33.47% |
| Employee compensation costs | **22,392,361** | **19.95%** | 20,075,602 | 20.57% | 11.54% |
| Air catering charges | **3,462,347** | **3.08%** | 3,270,726 | 3.35% | 5.86% |
| Selling and marketing expenses | **4,496,533** | **4.01%** | 3,893,265 | 3.99% | 15.50% |
| General and administrative expenses | **1,727,042** | **1.54%** | 1,401,882 | 1.44% | 23.19% |
| Others | **18,110,241** | **16.13%** | 16,085,804 | 16.47% | 12.59% |
| Total | **112,270,490** | **100.00%** | 97,612,117 | 100.00% | 15.02% |

- Jet fuel costs increased by RMB6,427 million or 29.24% on a year-on-year basis, mainly due to the increase in the consumption and the prices of jet fuel.

- Take-off, landing and depot charges increased by RMB1,089 million on a year-on-year basis, primarily due to an increase in the number of take-offs and landings.

- Aircraft maintenance, repair and overhaul costs increased by RMB1,558 million on a year-on-year basis, mainly due to the expansion of fleet size.

- Employee compensation costs increased by RMB2,317 million, mainly due to the increase in number of employees and the impact of the adjustment of employee compensation level.

- Air catering charges increased by RMB192 million, mainly due to the increase in the number of passengers.

- Sales and marketing expenses increased by RMB603 million on a year-on-year basis, mainly due to the increase in agency fees and fees charged for computer reservation services.

- General and administrative expenses increased by RMB325 million on a year-on-year basis, mainly due to the increase in provision for impairment of accounts receivable.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from our core air traffic business. Other operating expenses increased by 12.59% as compared to the previous year, mainly due to, among others, the year-on-year increase in the operating lease expenses of aircraft, engines and premises, etc. and the increase in the contributions to the civil aviation development fund during the year.

**Other Income and Gains and Finance Costs**

In 2017, the Group recorded an interest income of RMB224 million, representing a year-on-year increase of RMB97 million or 76.07%; and incurred an interest expense (excluding the capitalised portion) of RMB3,055 million, representing a year-on-year decrease of RMB180 million. In 2017, the Group recorded a net exchange gain of RMB2,938 million, as compared to the net exchange loss of RMB4,234 million for the same period of 2016, which was mainly due to the depreciation in the exchange rate of US dollars against RMB during the reporting period.

**Share of Results of Associates and Joint Ventures**

In 2017, the Group's share of results of its associates and joint ventures was a loss of RMB376 million, as compared to the share of results of its associates and joint ventures as a profit of RMB22 million for the same period of 2016, mainly due to the decrease in the profits of Cathay Pacific (an associate of the Group) this year. The Group recorded a loss on investment of Cathay Pacific of RMB986 million during the reporting period, representing a year-on-year increase of RMB327 million.

**Material Acquisitions and Disposals**

In 2017, the Company did not make any material acquisitions and disposals of subsidiaries, associates or joint ventures.

**Assets Structure Analysis**

As at 31 December 2017, the total assets of the Group amounted to RMB235,645 million, representing a year-on-year increase of 5.17%, among which current assets accounted for RMB20,760 million or 8.81% of the total assets, while non-current assets accounted for RMB214,885 million or 91.19% of the total assets.

Among the current assets, cash and cash equivalents were RMB5,563 million, accounting for 26.80% of the current assets and representing a decrease of 18.77% from the beginning of 2017. The decrease was mainly due to the improvement of the Group in utilisation efficiency of financial funds.

Among the non-current assets, the net book value of property, plant and equipment amounted to RMB168,536 million, accounting for 78.43% of the non-current assets and representing a year-on-year increase of 6.66%, which was primarily due to the increase in the number of self-owned and financing leased aircraft during the year.

**Asset Mortgage**

As at 31 December 2017, 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 RMB81,064 million (RMB84,030 million as at 31 December 2016) and land use rights with net book value of approximately RMB34 million (RMB35 million as at 31 December 2016). In addition, as at 31 December 2017, the Group had restricted bank deposits of approximately RMB697 million (approximately RMB474 million as at 31 December 2016), which were mainly reserves deposited in the People's Bank of China.

**Capital Expenditure**

In 2017, the Company's capital expenditure amounted to a total of RMB19,617 million, of which the total investment in aircraft and engines was RMB18,493 million. Other capital expenditure investment amounted to RMB1,124 million, mainly including investments in 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 2017, the Group's equity investment in its associates amounted to RMB14,200 million, representing an increase of 0.13% from the beginning of 2017. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB11,469 million, RMB1,301 million and RMB888 million, respectively, with such companies recording profits of RMB-768 million, RMB604 million and RMB490 million, respectively for the year of 2017.

As at 31 December 2017, the Group's equity investment in its joint ventures was RMB1,239 million, representing an increase of 9.97% from the beginning of 2017, mainly due to the impact of the recognition of investment income from the joint ventures during the year.

**Debt Structure Analysis**

As at 31 December 2017, the Group's total liabilities were RMB140,786 million, representing a year-on-year decrease of 4.65%. Among which, current liabilities amounted to RMB72,132 million, accounting for 51.24% of the total liabilities; and non-current liabilities amounted to RMB68,654 million, accounting for 48.76% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings and obligations under finance leases) amounted to RMB34,892 million, representing an increase of 8.78% from the beginning of 2017.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and obligations under finance leases) amounted to RMB59,907 million, representing a decrease of 19.19% from the beginning of 2017.

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

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| *(in RMB'000)* | **Amount** | **Percentage** | Amount | Percentage | Change |
| US dollars | **38,719,435** | **40.84%** | 52,170,383 | 49.12% | (25.78%) |
| RMB | **54,830,969** | **57.84%** | 52,434,834 | 49.37% | 4.57% |
| Others | **1,248,538** | **1.32%** | 1,598,669 | 1.51% | (21.90%) |
| Total | **94,798,942** | **100.00%** | 106,203,886 | 100.00% | (10.74%) |

**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 8.69% from RMB85,143 million as at 31 December 2016 to RMB77,742 million as at 31 December 2017. The Group's commitments under operating leases, which mainly consisted of the payments in the next few years for leasing certain aircraft, offices and related equipment, amounted to RMB51,391 million as at 31 December 2017, representing a year-on-year decrease of 1.49%. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB58 million as at 31 December 2017, representing a decrease of RMB1 million from RMB59 million as at 31 December 2016.

**Capital Expenditure Plan and Relevant Financing Plan for Aircraft and Related Equipment for the Coming Three Years**

The Group has set the total budgeted capital expenditure for aircraft and related equipment at RMB97,973 million, of which RMB29,553 million, RMB37,143 million and RMB31,277 million have been allocated to the years of 2018, 2019 and 2020 respectively. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or debt financing.

**Gearing Ratio**

As at 31 December 2017, the Group's gearing ratio (total liabilities divided by total assets) was 59.75%, representing a decrease of 6.15 percentage points from 65.90% as at 31 December 2016, such decrease was mainly due to the non-public issuance of A Shares during the reporting period. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a relatively reasonable level. Taking into account the Group's profitability and the market environment where it operates, its long-term insolvency risk is within controllable range.

**Working Capital and its Sources**

As at 31 December 2017, the Group's net current liabilities (current liabilities minus current assets) were RMB51,372 million, representing an increase of RMB7,178 million as compared to the previous year. The increase in net current liabilities was mainly due to the increase in short-term interest-bearing bank loans and other borrowings. Based on the structure of current assets and current liabilities, the current ratio (current assets divided by current liabilities) was 0.29, representing a decrease from 0.31 as at 31 December 2016.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2017, the Group's net cash inflow from operating activities was RMB22,837 million, representing a decrease of 16.55%from RMB27,366 million in 2016, which is mainly due to the increase of jet fuel costs. Net cash outflow from investment activities was RMB14,653 million, representing a decrease of 22.93% from RMB19,013 million in 2016, mainly due to the year-on-year decrease in the cash payment of advances and remaining balances for aircraft during the reporting period. Net cash outflow from financing activities amounted to RMB9,302 million, representing an increase of 5.92% from RMB8,781 million in 2016, mainly due to the increase in debt repayment during the reporting period. The Company has obtained bank facilities of up to RMB171,567 million granted by several banks in the PRC, among which approximately RMB23,004 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

## OUTLOOK FOR THE FUTURE

### Further development of consumption upgrade and continuous increase of demand

With China's economy maintaining a middle-to-high speed growth and the residents' income increasing rapidly, the middle-income population and consumption capacity has been continuously expanding. Due to the rapid growth of the needs for personal travel such as tours and vacations, family visits and study abroad, the travel trend tends to be high-end, quality, convenient and customized, and it is expected more and more residents will take airplane as their prior choice of travelling means for self-funded tours and family visits. As a result, air travel will gain increasing popularity.

### Due to supply-side reform, the punctuality of flights is expected to improve

The Civil Aviation Administration of China has issued "Several Policies and Measures on Controlling the Total Traffic and Adjusting Flight Structure to Improve the Punctuality Rate of Flights" which is designed to further improve flight punctuality through strictly controlling airport capacity and optimizing the allocation of flight slots resources. The Group, with an objective of constructing aviations hubs, will substantially benefit from the flight punctuality since flight punctuality is crucial for the transferring and connecting functions of these hubs. In the future, with the improvement of flight punctuality of the industry as a whole, the importance of these hubs will be further elevated.

### With the implementation of pricing reform, marketisation of aviation industry will be further enhanced

The Civil Aviation Administration of China and National Development and Reform Commission have promulgated new pricing policies for civil aviation, in the light of which marketized ticket price shall be applied to routes between first-tier cities and most of other routes with huge traffic. Thus, aviation companies will be able to develop different products and services according to their respective advantages and development models, which will be beneficial for the differentiated development of various aviation companies in the industry.

**Intense competition will continue in the industry, and the impacts of high-speed rail as alternative will come to a stable level**

The further implementation of the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt and the Belt and Road Initiative, together with the construction of Guangdong-Hong Kong-Macao Bay Area, has provided opportunities for aviation companies to further explore market potentials. However, as a result of the relatively low market access barrier and the rapid development of low cost airlines in China, at the present, a number of major airports have been under almost full operation and the competition for traffic rights and flight slots resources is getting even more intense. Under such background, the Group has constructed a rhombus shape network with Beijing, Chengdu, Shanghai and Shenzhen as the four vertexes and has established strong competitive advantages in major airports across China. The Group will continue to push forward the development of its four hubs/portals in order to enhance the transferring capability, expand the coverage of the airline routes and optimise the network structure for the purpose of providing passengers with quality products and services.

The development of high-speed rail in China has entered a stable stage and a relatively mature route network has been established. Although leveraging the advantages in price and punctuality rate, high-speed rail has caused obvious diversion impacts on routes within the range of 800-1,000 kilometres, aviation companies has mitigated such impacts by adjusting route network and layout. In the medium-to-long term, the diversion pressure imposed on aviation companies by the competition from high-speed rail will gradually weaken. The Group has achieved a balance between domestic and overseas routes while the average distance for domestic routes is relatively longer compared with other airlines, and through continuous route network structure adjustment, the diversion impacts of high-speed rail will be further reduced.

## SHARE CAPITAL STRUCTURE

As at 31 December 2017, the total share capital of the Company was RMB14,524,815,185, divided into 14,524,815,185 shares with a nominal value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2017:

| Category of Shares | Number of shares | Percentage of the total share capital |
|---|---|---|
| A Shares | 9,962,131,821 | 68.59% |
| H Shares | 4,562,683,364 | 31.41% |
| Total | 14,524,815,185 | 100.00% |

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities. For this purpose, the term "securities" has the meaning ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules.

## CORPORATE GOVERNANCE

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

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

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

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

### Compliance with 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 year of 2017.

## DIVIDENDS

Based on the 2017 profit distribution plan of the Company, the Board recommends the appropriation of 10% of the profit after tax as statutory surplus reserve and 10% as discretionary surplus reserve and the payment of a cash dividend of RMB1.1497 (including tax) for every ten shares for the year 2017, totalling approximately RMB1,670 million based on the current total issued shares of 14,524,815,185 shares of the Company.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting proposed to be convened on 25 May 2018 ("**AGM**"). Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares and the holders of H Shares who are mainland investors investing in H Shares via Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Connect shall be paid in RMB while dividends payable to the other holders of H Shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle price of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the AGM.

The Company proposes to pay the aforesaid final dividends on 4 July 2018. For the H Shares, the dividends will be paid to shareholders whose names appear on the register of members of the Company on 5 June 2018. Accordingly, the register of members of the H Shares will be closed from 31 May 2018 to 5 June 2018. For the 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 3 July 2018, and the ex-dividend date of A Shares will be 4 July 2018.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the H Shares will be closed from Wednesday, 25 April 2018 to Friday, 25 May 2018 (both days inclusive). In order to be qualified to attend and vote at the AGM, all instruments of transfer of the holders of H Shares must be lodged at the H Share registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 24 April 2018. Holders of H Shares whose names appear on the register of members of the Company on Wednesday, 25 April 2018 shall be entitled to attend the AGM.

The register of members of the H Shares will be closed from Thursday, 31 May 2018 to Tuesday, 5 June 2018 (both days inclusive). In order to be qualified to receive the final dividends, all instruments of transfer of the holders of H Shares must be lodged at the H Share registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 30 May 2018. Holders of H Shares whose names appear on the register of members of the Company on Tuesday, 5 June 2018 shall be entitled to receive the final dividends.

## ANNUAL REPORT

The annual report for the year ended 31 December 2017 containing all information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

## FORWARD-LOOKING STATEMENT

The Company would like to remind the readers of this announcement that the airline operations are substantially influenced by global political and economic developments. Accidental and unexpected incidents may have material impacts on our operations or the industry as a whole. This 2017 annual results announcement of the Company contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

## AUDIT AND RISK CONTROL COMMITTEE

The 2017 annual results of the Company have been reviewed by the audit and risk control committee of the Board.

## SUBSEQUENT EVENTS

On 27 March 2018, the Company and CNACG entered into the 2018-2019 aircraft finance lease service framework agreement in relation to aircraft finance lease services provided by the CNACG Group to the Group. The 2018-2019 aircraft finance lease service framework agreement, the transactions contemplated thereunder as well as the proposed maximum transaction amounts thereunder are subject to the approval by the independent shareholders of the Company at the AGM. For details, please refer to the announcement of the Company dated 27 March 2018 published on the websites of the Company and the Hong Kong Stock Exchange.

## GLOSSARY OF TECHNICAL TERMS

### Capacity Measurements

| | |
|---|---|
| "available seat kilometres" or "ASK(s)" | the number of seats available for sale multiplied by the kilometres flown |
| "available freight tonne kilometres" or "AFTK(s)" | the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown |
| "available tonne kilometres" or "ATK(s)" | the number of tonnes of capacity available for transportation multiplied by the kilometres flown |

### Traffic Measurements

| | |
|---|---|
| "revenue passenger kilometres" or "RPK(s)" | the number of revenue passengers carried multiplied by the kilometres flown |
| "revenue freight tonne kilometres" or "RFTK(s)" | the revenue cargo and mail load in tonnes multiplied by the kilometres flown |
| "revenue tonne kilometres" or "RTK(s)" | the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown |

### Yield Measurements

| | |
|---|---|
| "passenger yield"/"yield per RPK" | revenues from passenger operations divided by RPKs |
| "cargo yield"/"yield per RFTK" | revenues from cargo operations divided by RFTKs |

### Load Factors

| | |
|---|---|
| "passenger load factor" | revenue passenger kilometres expressed as a percentage of available seat kilometres |
| "cargo and mail load factor" | revenue freight tonne kilometres expressed as a percentage of available freight tonne kilometres |
| "overall load factor" | revenue tonne kilometres expressed as a percentage of available tonne kilometres |

## DEFINITIONS

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

| | |
|---|---|
| "A Shares" | ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange |
| "Air China Cargo" | Air China Cargo Co., Ltd., a company incorporated in the People's Republic of China and a subsidiary of the Company in which the Company holds a 51% equity interests as at the date of this announcement |
| "Board" | the board of Directors of the Company |
| "Cathay Pacific" | Cathay Pacific Airways Limited |
| "CNAHC" | China National Aviation Holding Corporation Limited |
| "CNACG" | China National Aviation Corporation (Group) Limited (中國航空(集團)有限公司), a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this announcement |
| "CNACG Group" | CNACG and its subsidiaries |
| "Company" or "Air China" | Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "H Shares" | overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (as primary listing venue) and have been admitted into the Official List of the UK Listing Authority (as secondary listing venue) |

| | |
|---|---|
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Listing Rules" | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "Model Code" | The Model Code for Securities Transaction by Directors of Listed Issuers |
| "reporting period" | from 1 January 2017 to 31 December 2017 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Shandong Airlines" | Shandong Airlines Co., Ltd. |
| "Shandong Aviation Group Corporation" | Shandong Aviation Group Company Limited |
| "Shareholders" | the shareholders of the Company |
| "US dollars" | United States dollars, the lawful currency of the United States |

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

Beijing, the PRC, 27 March 2018

*As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. John Robert Slosar, Mr. Wang Xiaokang*, Mr. Liu Deheng*, Mr. Stanley Hui Hon chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*