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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 2018

The Board of the Company has approved, among others, the unaudited interim results of the Group for the six months ended 30 June 2018 at a meeting of the Board held on 30 August 2018.

 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board presents the unaudited interim results of the Group for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	NOTES	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3A	64,242,322	57,380,618
Other income and gains	4	1,972,760	1,365,854
		<u>66,215,082</u>	<u>58,746,472</u>
Operating expenses			
Jet fuel costs		(17,581,987)	(13,629,016)
Employee compensation costs		(11,596,358)	(10,525,998)
Take-off, landing and depot charges		(7,370,150)	(6,656,849)
Depreciation and amortisation		(7,025,077)	(6,538,174)
Aircraft and engine operating lease expenses		(3,503,772)	(3,675,180)
Aircraft maintenance, repair and overhaul costs		(3,415,660)	(3,111,576)
Air catering charges		(1,806,920)	(1,638,989)
Other flight operation expenses		(4,180,080)	(3,866,439)
Selling and marketing expenses		(2,114,512)	(2,166,118)
General and administrative expenses		(589,720)	(642,784)
Other operating lease expenses		(572,748)	(481,165)
Impairment losses, net of reversal		183,337	(6,479)
		<u>(59,573,647)</u>	<u>(52,938,767)</u>
Profit from operations	5	6,641,435	5,807,705
Finance income		59,682	89,706
Finance costs	6	(1,370,145)	(1,592,410)
Share of results of associates		77,487	(513,836)
Share of results of joint ventures		115,289	112,988
Exchange (loss)/gain, net		(517,697)	1,269,684
Profit before taxation		5,006,051	5,173,837
Income tax expense	7	(1,101,553)	(1,253,054)
Profit for the period		<u>3,904,498</u>	<u>3,920,783</u>
Attributable to:			
– Equity shareholders of the Company		3,476,157	3,340,730
– Non-controlling interests		428,341	580,053
Profit for the period		<u>3,904,498</u>	<u>3,920,783</u>
Earnings per share			
– Basic and diluted	9	<u>RMB25.31 cents</u>	<u>RMB25.32 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>3,904,498</u>	<u>3,920,783</u>
Other comprehensive (expense) income for the period		
Items that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit liability	(8,030)	(17,922)
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	(11,203)	–
– Share of other comprehensive expense of associates and joint ventures	(1,436)	–
– Income tax relating to items that will not be reclassified to profit or loss	<u>2,801</u>	<u>–</u>
Items that may be reclassified subsequently to profit or loss:		
– Fair value gains on:		
Available-for-sale securities	–	107,727
Investments in debt instruments measured at fair value through other comprehensive income	5,234	–
– Exchange differences on translation of foreign operations	171,814	(636,313)
– Share of other comprehensive income (expense) of associates and joint ventures	936,330	(133,787)
– Income tax relating to items that may be reclassified subsequently to profit or loss	<u>(1,299)</u>	<u>(26,932)</u>
Other comprehensive income (expense) for the period (net of tax)	<u>1,094,211</u>	<u>(707,227)</u>
Total comprehensive income for the period	<u><u>4,998,709</u></u>	<u><u>3,213,556</u></u>
Attributable to:		
– Equity shareholders of the Company	4,569,603	2,616,771
– Non-controlling interests	<u>429,106</u>	<u>596,785</u>
Total comprehensive income for the period	<u><u>4,998,709</u></u>	<u><u>3,213,556</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	At 30 June 2018 <i>NOTES</i> <i>RMB'000</i> (Unaudited)	At 31 December 2017 <i>RMB'000</i> (Audited)
Non-current assets		
Property, plant and equipment	169,911,576	168,536,471
Lease prepayments	3,269,042	3,300,124
Investment properties	832,364	674,738
Intangible assets	56,617	76,021
Goodwill	1,099,975	1,099,975
Interests in associates	15,352,023	14,199,540
Interests in joint ventures	1,210,155	1,239,396
Advance payments for aircraft and flight equipment	24,147,908	20,480,204
Deposits for aircraft under operating leases	555,024	567,889
Available-for-sale securities	–	1,334,953
Equity instruments at fair value through other comprehensive income	288,790	–
Debt instruments at fair value through other comprehensive income	898,151	–
Deferred tax assets	2,586,843	2,501,518
Other non-current assets	861,718	873,813
	<u>221,070,186</u>	<u>214,884,642</u>
Current assets		
Non-current assets held for sale	32,675	284,169
Inventories	1,848,745	1,535,769
Accounts receivable	4,605,821	3,490,427
Bills receivable	363	348
Prepayments, deposits and other receivables	3,313,149	5,122,517
Financial assets at fair value through profit or loss	83,632	19,938
Restricted bank deposits	911,296	697,167
Cash and cash equivalents	8,960,504	5,562,907
Held-to-maturity securities	–	10,000
Other current assets	4,610,669	4,036,700
	<u>24,366,854</u>	<u>20,759,942</u>
Total assets	<u><u>245,437,040</u></u>	<u><u>235,644,584</u></u>

		At 30 June 2018 <i>RMB'000</i> (Unaudited)	At 31 December 2017 <i>RMB'000</i> (Audited)
	<i>NOTES</i>		
Current liabilities			
Air traffic liabilities		(7,838,481)	(7,405,757)
Accounts payable	11	(14,657,658)	(13,254,188)
Dividends payable		(1,669,918)	–
Other payables and accruals		(11,282,588)	(13,336,701)
Current taxation		(605,838)	(1,825,063)
Obligations under finance leases		(6,635,100)	(6,237,472)
Interest-bearing bank loans and other borrowings		(31,861,987)	(28,654,599)
Provision for major overhauls		(1,634,852)	(1,418,055)
Contract liabilities		(867,175)	–
		<u>(77,053,597)</u>	<u>(72,131,835)</u>
Net current liabilities		<u>(52,686,743)</u>	<u>(51,371,893)</u>
Total assets less current liabilities		<u>168,383,443</u>	<u>163,512,749</u>
Non-current liabilities			
Obligations under finance leases		(38,148,441)	(37,798,582)
Interest-bearing bank loans and other borrowings		(22,345,904)	(22,108,289)
Provision for major overhauls		(3,992,228)	(3,586,943)
Provision for early retirement benefit obligations		(4,089)	(4,869)
Long-term payables		(216,985)	(193,712)
Defined benefit obligations		(263,424)	(263,575)
Contract liabilities		(3,153,516)	–
Deferred income		(741,152)	(3,568,127)
Deferred tax liabilities		(954,850)	(1,130,054)
		<u>(69,820,589)</u>	<u>(68,654,151)</u>
NET ASSETS		<u><u>98,562,854</u></u>	<u><u>94,858,598</u></u>
CAPITAL AND RESERVES			
Issued capital		14,524,815	14,524,815
Treasury shares		(3,047,564)	(3,047,564)
Reserves		<u>77,974,533</u>	<u>74,570,311</u>
Total equity attributable to equity shareholders of the Company		<u>89,451,784</u>	<u>86,047,562</u>
Non-controlling interests		<u>9,111,070</u>	<u>8,811,036</u>
TOTAL EQUITY		<u><u>98,562,854</u></u>	<u><u>94,858,598</u></u>

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34 “**Interim Financial Reporting**” (“**IAS 34**”) issued by the International Accounting Standards Board (the “**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group’s current liabilities exceeded its current assets by approximately RMB52,687 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 RMB121,075 million as at 30 June 2018, the Directors believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements when preparing these condensed consolidated financial statements for the six months ended 30 June 2018. Accordingly, these condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“**IFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements.

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
IFRIC-22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Amendments to IAS 28	<i>As part of the Annual Improvements to IFRSs 2014-2016 Cycle</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which resulted in changes in accounting policies, amounts reported and disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Air traffic revenue
- Revenue from airline-related services
- Sale of goods

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability, also together with air traffic liability, represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Passenger ticket breakage

Passenger ticket breakage consists of flight tickets that remain unused past the departure date or the ultimate expiration date. Prior to the adoption of IFRS 15, revenue of the Group arising from passenger ticket breakage was recognized when the likelihood of the passenger exercising their remaining rights becomes remote.

Upon adoption of IFRS 15, for those passenger flight tickets the Group expects to be entitled to breakage because the passenger has not required the Group to perform and is unlikely to do so, the Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue). This estimation is made such that the revenue recognized from passenger ticket breakage is highly probable not to result in a significant reversal of cumulative revenue in the future.

2.1.2 Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
	Notes				
Non-current assets					
Interests in associates	<i>b</i>	14,199,540	–	131,109	14,330,649
Non-current liabilities					
Contract liabilities	<i>c</i>	–	(2,822,657)	–	(2,822,657)
Deferred income	<i>c</i>	(3,568,127)	2,822,657	–	(745,470)
Current liabilities					
Air traffic liabilities	<i>a</i>	(7,405,757)	–	531,393	(6,874,364)
Other payables and accruals	<i>a, c, d</i>	(13,336,701)	1,225,519	(17,303)	(12,128,485)
Current taxation	<i>a</i>	(1,825,063)	–	(122,606)	(1,947,669)
Contract liabilities	<i>c, d</i>	–	(1,225,519)	–	(1,225,519)
Capital and reserves					
Reserves	<i>a, b</i>	74,570,311	–	504,537	75,074,848
Non-controlling interests	<i>a</i>	8,811,036	–	18,056	8,829,092

Notes:

- (a) At the date of initial application of IFRS 15, passenger ticket breakage of RMB531 million, the respective value-added tax liability of RMB17 million and current taxation of RMB123 million were recognised with the corresponding adjustments of RMB373 million and RMB18 million made to retained earnings and non-controlling interests.
- (b) The net effects arising from the initial application of IFRS 15 resulted in an increase in the carrying amount of interests in associates of RMB131 million with a corresponding adjustment made to retained earnings.
- (c) At the date of initial application of IFRS 15, deferred income (including current portion of RMB707 million previously included in other payables and accruals and non-current portion of RMB2,823 million) relating to the frequent-flyer programme of RMB3,530 million was reclassified to contract liabilities.
- (d) At the date of initial application of IFRS 15, advance billings to customers for aircraft engineering services of RMB519 million previously included in other payables and accruals was reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of IFRS 15
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Interests in associates	15,352,023	(137,430)	15,214,593
Non-current liabilities			
Contract liabilities	(3,153,516)	3,153,516	–
Deferred income	(741,152)	(3,153,516)	(3,894,668)
Current liabilities			
Air traffic liabilities	(7,838,481)	(550,885)	(8,389,366)
Other payables and accruals	(11,282,588)	(845,138)	(12,127,726)
Current taxation	(605,838)	126,103	(479,735)
Contract liabilities	(867,175)	867,175	–
Capital and reserves			
Reserves	77,974,533	(522,119)	77,452,414
Non-controlling interests	9,111,070	(18,056)	9,093,014

Impact on the condensed consolidated statement of profit or loss

	As reported	Adjustments	Amounts without application of IFRS 15
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	64,242,322	(14,758)	64,227,564
Share of results of associates	77,487	(6,321)	71,166
Profit before taxation	5,006,051	(21,079)	4,984,972
Income tax expense	(1,101,553)	3,497	(1,098,056)
Profit for the period	3,904,498	(17,582)	3,886,916

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“**FVTPL**”), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“**OCI**”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of capital reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amount of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the capital reserve, and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivable, bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, financial assets included in other current assets and other non-current assets, and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12- month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable and bills receivable. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and other receivables where the corresponding adjustment is recognized through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in capital reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Available- for-sale ("AFS") securities	Financial assets at FVTPL	Held-to- maturity securities	Other current assets	Prepayments, deposits and other receivables	Capital reserve	Retained earnings
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing balance at									
31 December 2017- IAS 39	-	-	1,334,953	19,938	10,000	4,036,700	5,122,517	29,725,260	38,309,358
Effect arising from initial application of IFRS 9:									
Reclassification									
From AFS securities	a	299,992	654,961	(1,334,953)	380,000	-	-	-	-
From held-to-maturity securities	b	-	-	-	-	(10,000)	10,000	-	-
From other receivables	a	-	-	-	13,559	-	(13,559)	-	-
Impairment on AFS	a	-	-	-	-	-	-	(25,713)	25,713
Impact of interests in associates	a	-	-	-	-	-	-	(171,971)	171,971
Opening balance at									
1 January 2018- IFRS 9	<u>299,992</u>	<u>654,961</u>	<u>-</u>	<u>413,497</u>	<u>-</u>	<u>4,046,700</u>	<u>5,108,958</u>	<u>29,527,576</u>	<u>38,507,042</u>

(a) *AFS investments*

From AFS equity investments to FVTOCI

At the date of initial application of IFRS 9, approximately RMB300 million were reclassified from AFS securities to equity instruments at FVTOCI, of which RMB43 million related to unquoted equity investments previously measured at cost less impairment under IAS 39 and RMB257 million related to unlisted securities of a listed company previously measured at fair value under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. The fair value gains of RMB248 million relating to those investments previously carried at fair value continued to accumulate in capital reserve and non-controlling interests. In addition, impairment losses previously recognized of RMB26 million were transferred from retained earnings to capital reserve as at 1 January 2018.

From AFS debt investments to FVTOCI

Listed bonds with a fair value of RMB626 million and negotiable certificate of deposits with a fair value of RMB29 million were reclassified from AFS securities to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB5.04 million continued to accumulate in the capital reserve from 1 January 2018.

From AFS debt investments to FVTPL

Entrusted products and financing products with a fair value of RMB380 million were reclassified from AFS securities to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Interests receivable on these products of RMB14 million were reclassified from prepayments, deposits and other receivables to financial assets at FVTPL as well.

Impact of interests in associates

The net effect arising from the initial application of IFRS 9 by Cathay Pacific Airways Limited ("**Cathay Pacific**", an associate of the Group) resulted in an increase of RMB172 million in retained earnings with a corresponding adjustment to capital reserve.

(b) *Held-to-maturity investments*

Listed bonds of RMB10 million previously classified as held-to-maturity investments were reclassified to other current assets and measured at amortised cost upon application of IFRS 9.

(c) *Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and bills receivable. To measure the ECL, some receivables are assessed individually and others are grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise restricted bank deposits, cash and cash equivalents, deposits and other receivables, other current assets and other non-current assets, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are measured on lifetime ECL basis as their credit risk had increased significantly since initial recognition.

All of the Group's debt instruments at FVTOCI are listed bonds and negotiable certificate of deposits that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

Application of ECL model did not have any significant impact on retained earnings as at 1 January 2018.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017			1 January 2018
	(Audited)	IFRS 15	IFRS 9	(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	168,536,471	—	—	168,536,471
Lease prepayments	3,300,124	—	—	3,300,124
Investment properties	674,738	—	—	674,738
Intangible assets	76,021	—	—	76,021
Goodwill	1,099,975	—	—	1,099,975
Interests in associates	14,199,540	131,109	—	14,330,649
Interests in joint ventures	1,239,396	—	—	1,239,396
Advance payments for aircraft and flight equipment	20,480,204	—	—	20,480,204
Deposits for aircraft under operating leases	567,889	—	—	567,889
Available-for-sale securities	1,334,953	—	(1,334,953)	—
Equity instruments at fair value through other comprehensive income	—	—	299,992	299,992
Debt instruments at fair value through other comprehensive income	—	—	654,961	654,961
Deferred tax assets	2,501,518	—	—	2,501,518
Other non-current assets	873,813	—	—	873,813
	<u>214,884,642</u>	<u>131,109</u>	<u>(380,000)</u>	<u>214,635,751</u>

	31 December 2017			1 January 2018
	(Audited)	IFRS 15	IFRS 9	(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Non-current assets held for sale	284,169	–	–	284,169
Inventories	1,535,769	–	–	1,535,769
Accounts receivable	3,490,427	–	–	3,490,427
Bills receivable	348	–	–	348
Prepayments, deposits and other receivables	5,122,517	–	(13,559)	5,108,958
Financial assets at fair value through profit or loss	19,938	–	393,559	413,497
Restricted bank deposits	697,167	–	–	697,167
Cash and cash equivalents	5,562,907	–	–	5,562,907
Held-to-maturity securities	10,000	–	(10,000)	–
Other current assets	<u>4,036,700</u>	<u>–</u>	<u>10,000</u>	<u>4,046,700</u>
	<u>20,759,942</u>	<u>–</u>	<u>380,000</u>	<u>21,139,942</u>
Total assets	<u><u>235,644,584</u></u>	<u><u>131,109</u></u>	<u><u>–</u></u>	<u><u>235,775,693</u></u>
Current liabilities				
Air traffic liabilities	(7,405,757)	531,393	–	(6,874,364)
Accounts payable	(13,254,188)	–	–	(13,254,188)
Other payables and accruals	(13,336,701)	1,208,216	–	(12,128,485)
Current taxation	(1,825,063)	(122,606)	–	(1,947,669)
Obligations under finance leases	(6,237,472)	–	–	(6,237,472)
Interest-bearing bank loans and other borrowings	(28,654,599)	–	–	(28,654,599)
Provision for major overhauls	(1,418,055)	–	–	(1,418,055)
Contract liabilities	<u>–</u>	<u>(1,225,519)</u>	<u>–</u>	<u>(1,225,519)</u>
	<u>(72,131,835)</u>	<u>391,484</u>	<u>–</u>	<u>(71,740,351)</u>
Net current liabilities	<u>(51,371,893)</u>	<u>391,484</u>	<u>380,000</u>	<u>(50,600,409)</u>
Total assets less current liabilities	<u><u>163,512,749</u></u>	<u><u>522,593</u></u>	<u><u>–</u></u>	<u><u>164,035,342</u></u>

	31 December 2017	IFRS 15	IFRS 9	1 January 2018
	(Audited)			(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities				
Obligations under finance leases	(37,798,582)	–	–	(37,798,582)
Interest-bearing bank loans and other borrowings	(22,108,289)	–	–	(22,108,289)
Provision for major overhauls	(3,586,943)	–	–	(3,586,943)
Provision for early retirement benefit obligations	(4,869)	–	–	(4,869)
Long-term payables	(193,712)	–	–	(193,712)
Defined benefit obligations	(263,575)	–	–	(263,575)
Contract liabilities	–	(2,822,657)	–	(2,822,657)
Deferred income	(3,568,127)	2,822,657	–	(745,470)
Deferred tax liabilities	(1,130,054)	–	–	(1,130,054)
	<u>(68,654,151)</u>	<u>–</u>	<u>–</u>	<u>(68,654,151)</u>
Net assets	<u>94,858,598</u>	<u>522,593</u>	<u>–</u>	<u>95,381,191</u>
Capital and Reserves				
Issued capital	14,524,815	–	–	14,524,815
Treasury shares	(3,047,564)	–	–	(3,047,564)
Reserves	<u>74,570,311</u>	<u>504,537</u>	<u>–</u>	<u>75,074,848</u>
Total equity attributable to equity shareholders of the Company	86,047,562	504,537	–	86,552,099
Non-controlling interests	<u>8,811,036</u>	<u>18,056</u>	<u>–</u>	<u>8,829,092</u>
TOTAL EQUITY	<u>94,858,598</u>	<u>522,593</u>	<u>–</u>	<u>95,381,191</u>

2.4 New key source of estimation uncertainty

The Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. This estimation is made such that the revenue recognised from passenger ticket breakage is highly probable not to result in a significant reversal of cumulative revenue in the future. As at 30 June 2018, the carrying amount of air traffic liabilities was RMB7,838 million.

3A. REVENUE

	Six months ended 30 June 2018 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers for goods or services	64,130,789
Rental income (included in revenue of Airline operations segment)	<u>111,533</u>
Total	<u><u>64,242,322</u></u>

Disaggregation of revenue from contracts with customers for goods or services

	Six months ended 30 June 2018	
Segments	Airline operations <i>RMB'000</i> (Unaudited)	Other operations <i>RMB'000</i> (Unaudited)
Type of goods or service		
Airline operations		
Passenger	56,893,930	—
Cargo and mail	5,074,687	—
Ground service income	478,686	—
Others	<u>1,023,959</u>	<u>—</u>
	<u>63,471,262</u>	<u>—</u>
Other operations		
Aircraft engineering income	—	569,539
Import and export service income	—	39,788
Others	<u>—</u>	<u>50,200</u>
	<u>—</u>	<u>659,527</u>
Total	<u><u>63,471,262</u></u>	<u><u>659,527</u></u>

Segments	Six months ended 30 June 2018	
	Airline operations	Other operations
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Geographical markets		
Mainland China	40,780,426	659,527
Hong Kong, Macau and Taiwan	2,863,411	—
Europe	6,278,529	—
North America	5,171,763	—
Japan and Korea	3,469,931	—
Asia Pacific and others	4,907,202	—
Total	63,471,262	659,527
Timing of revenue recognition		
A point in time	63,443,677	659,527
Over time	27,585	—
Total	63,471,262	659,527

3B. 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 six months ended 30 June 2018 and 2017 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 2018

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	63,582,795	659,527	–	64,242,322
Intersegment sales	<u>99,649</u>	<u>3,651,791</u>	<u>(3,751,440)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u>63,682,444</u>	<u>4,311,318</u>	<u>(3,751,440)</u>	<u>64,242,322</u>
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	<u>4,776,241</u>	<u>277,396</u>	<u>(57,770)</u>	<u>4,995,867</u>
Effect of differences between IFRSs and CASs				<u>10,184</u>
Profit before taxation for the period under IFRSs				<u>5,006,051</u>

For the six months ended 30 June 2017

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	56,882,475	498,143	–	57,380,618
Intersegment sales	<u>82,804</u>	<u>3,766,046</u>	<u>(3,848,850)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u>56,965,279</u>	<u>4,264,189</u>	<u>(3,848,850)</u>	<u>57,380,618</u>
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	<u>5,117,946</u>	<u>49,997</u>	<u>(13,186)</u>	<u>5,154,757</u>
Effect of differences between IFRSs and CASs				<u>19,080</u>
Profit before taxation for the period under IFRSs				<u>5,173,837</u>

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2018 and 31 December 2017 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 2018 under CASs (unaudited)	<u>238,450,420</u>	<u>20,624,206</u>	<u>(13,571,992)</u>	<u>245,502,634</u>
Effect of differences between IFRSs and CASs				<u>(65,594)</u>
Total assets as at 30 June 2018 under IFRSs (unaudited)				<u>245,437,040</u>
Total assets for reportable segments as at 31 December 2017 under CASs (audited)	<u>228,104,759</u>	<u>19,166,617</u>	<u>(11,553,560)</u>	<u>235,717,816</u>
Effect of differences between IFRSs and CASs				<u>(73,232)</u>
Total assets as at 31 December 2017 under IFRSs (audited)				<u>235,644,584</u>

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2018 and 2017, respectively:

For the six months ended 30 June 2018

	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>41,551,486</u>	<u>2,863,411</u>	<u>6,278,529</u>	<u>5,171,763</u>	<u>3,469,931</u>	<u>4,907,202</u>	<u>64,242,322</u>

For the six months ended 30 June 2017

	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>37,531,316</u>	<u>2,557,381</u>	<u>5,534,033</u>	<u>4,751,018</u>	<u>2,894,483</u>	<u>4,112,387</u>	<u>57,380,618</u>

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants	1,679,916	1,282,931
Dividend income	2,053	11,763
Gain (loss) on disposal of		
– Interest in an associate	161,894	–
– Property, plant and equipment	72,184	(2,194)
Net gain arising on financial assets measured at fair value through profit or loss	2,058	89
Others	<u>54,655</u>	<u>73,265</u>
	<u>1,972,760</u>	<u>1,365,854</u>

Note: Certain air traffic revenue in the comparative figure was reclassified to government grants to conform with the presentation in this period 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.

5. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	6,939,392	6,469,650
Depreciation of investment properties	31,786	14,756
Amortisation of lease prepayments	34,495	34,311
Amortisation of intangible assets	19,404	19,457
Impairment losses, net of reversal	(183,337)	6,479
Operating lease expenses:		
– Aircraft and related equipment	3,503,772	3,675,180
– Land and buildings and others	572,748	481,165
	<u>572,748</u>	<u>481,165</u>

6. FINANCE COSTS

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings and finance leases	1,671,149	1,794,159
Less: Interest capitalised	<u>(301,004)</u>	<u>(201,749)</u>
	<u>1,370,145</u>	<u>1,592,410</u>

The interest capitalisation rates during the period range from 2.67% to 4.57% per annum (six months ended 30 June 2017: 3.09% to 3.92% per annum) relating to the costs of related borrowings during the period.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	1,345,774	1,906,068
– Hong Kong and Macau	18,173	–
Over – provision in respect of prior years	(3,367)	(5,473)
Deferred taxation	<u>(259,027)</u>	<u>(647,541)</u>
	<u>1,101,553</u>	<u>1,253,054</u>

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% (six months ended 30 June 2017: 15%) during the current period, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2017: 25%) during the current period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% and 12% (six months ended 30 June 2017: 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.

8. DIVIDENDS

(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 Directors decided not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the current interim period, of RMB1.1497 per ten shares (including tax) (six months ended 30 June 2017: RMB1.0771 per ten shares (including tax))	<u>1,669,918</u>	<u>1,564,468</u>

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,476 million (six months ended 30 June 2017 (unaudited): RMB3,341 million) and the weighted average of 13,734,960,921 ordinary shares (six months ended 30 June 2017: 13,193,942,334 shares) in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding.

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

10. ACCOUNTS RECEIVABLE

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

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

	At 30 June 2018 <i>RMB'000</i> (Unaudited)	At 31 December 2017 <i>RMB'000</i> (Audited)
Within 30 days	3,116,867	2,743,074
31 to 60 days	683,111	463,564
61 to 90 days	210,115	100,562
Over 90 days	<u>595,728</u>	<u>183,227</u>
	<u>4,605,821</u>	<u>3,490,427</u>

11. ACCOUNTS PAYABLE

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

	At 30 June 2018 <i>RMB'000</i> (Unaudited)	At 31 December 2017 <i>RMB'000</i> (Audited)
Within 30 days	7,213,461	5,605,426
31 to 60 days	1,421,845	1,880,067
61 to 90 days	1,252,239	1,395,745
Over 90 days	<u>4,770,113</u>	<u>4,372,950</u>
	<u>14,657,658</u>	<u>13,254,188</u>

SUMMARY OF OPERATING DATA

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

	January to June 2018	January to June 2017	Increase/ (decrease)
Capacity			
ASK (million)	133,799.77	118,991.56	12.44%
International	50,093.75	42,784.11	17.08%
Mainland China	78,868.08	71,715.75	9.97%
Hong Kong, Macau and Taiwan	4,837.94	4,491.70	7.71%
AFTK (million)	7,024.12	6,408.22	9.61%
International	4,650.72	4,213.16	10.39%
Mainland China	2,231.45	2,057.90	8.43%
Hong Kong, Macau and Taiwan	141.95	137.16	3.50%
ATK (million)	19,094.49	17,142.48	11.39%
Traffic			
RPK (million)	107,679.81	96,415.01	11.68%
International	38,876.94	33,415.18	16.35%
Mainland China	64,951.22	59,645.82	8.89%
Hong Kong, Macau and Taiwan	3,851.65	3,354.01	14.84%
RFTK (million)	3,827.03	3,530.75	8.39%
International	2,963.33	2,685.84	10.33%
Mainland China	808.97	791.82	2.17%
Hong Kong, Macau and Taiwan	54.73	53.09	3.10%
Passengers carried (thousand)	53,752.20	49,201.13	9.25%
International	7,458.54	6,465.87	15.35%
Mainland China	43,831.04	40,604.65	7.95%
Hong Kong, Macau and Taiwan	2,462.62	2,130.61	15.58%
Cargo and mail carried (tonnes)	908,626.25	873,733.17	3.99%
Kilometres flown (million)	698.70	639.04	9.34%

	January to June 2018	January to June 2017	Increase/ (decrease)
Block hours (thousand)	1,105.93	1,031.73	7.19%
Number of flights	352,680	311,873	13.08%
International	46,211	40,874	13.06%
Mainland China	288,271	254,469	13.28%
Hong Kong, Macau and Taiwan	18,198	16,530	10.09%
RTK (million)	13,375.42	12,092.16	10.61%
Load factor			
Passenger load factor (RPK/ASK)	80.48 %	81.02%	(0.54 ppt)
International	77.61 %	78.10%	(0.49 ppt)
Mainland China	82.35 %	83.17%	(0.82 ppt)
Hong Kong, Macau and Taiwan	79.61 %	74.68%	4.93 ppt
Cargo and mail load factor (RFTK/AFTK)	54.48 %	55.09%	(0.61 ppt)
International	63.72 %	63.75%	(0.03 ppt)
Mainland China	36.25 %	38.48%	(2.23 ppt)
Hong Kong, Macau and Taiwan	38.56 %	38.71%	(0.15 ppt)
Overall load factor (RTK/ATK)	70.05 %	70.54%	(0.49 ppt)
Daily utilisation of aircraft (block hours per day per aircraft)	9.54	9.47	0.07 hour
Yield			
Yield per RPK (RMB)	0.5282	0.5289	(0.13%)
International	0.4084	0.4158	(1.78%)
Mainland China	0.5902	0.5818	1.44%
Hong Kong, Macau and Taiwan	0.6928	0.7154	(3.16%)
Yield per RFTK (RMB)	1.3260	1.2706	4.36%
International	1.3329	1.2656	5.32%
Mainland China	1.1494	1.1730	(2.01%)
Hong Kong, Macau and Taiwan	3.5643	2.9762	19.76%
Unit cost			
Operating cost per ASK (RMB)	0.4452	0.4449	0.07%
Operating cost per ATK (RMB)	3.1199	3.0882	1.03%

BUSINESS OVERVIEW

During the Reporting Period, the Group's ASKs and RPKs reached 133,799 million and 107,680 million, representing a year-on-year increase of 12.44% and 11.68%, respectively. The passenger load factor was 80.48%, representing a year-on-year decrease of 0.54 ppt. The Group's AFTKs and RFTKs reached 7,024 million and 3,827 million, representing a year-on-year increase of 9.61% and 8.39%, respectively. The Group's cargo and mail load factor was 54.48%, representing a year-on-year decrease of 0.61 ppt.

Development of Fleet

During the Reporting Period, the Group introduced 15 aircraft (including one B787-9 aircraft, one B777-300ER aircraft, two A330-300 aircraft, three B737-8MAX aircraft, five B737-800 aircraft, two B737-700 aircraft and one A320NEO aircraft). And the Group phased out 8 aircraft (including two B777-200 aircraft, one B737-800 aircraft, two A320 aircraft and three B737-700 aircraft). As of 30 June 2018, the Group had a total of 662 aircraft, with an average age of 6.74 years.

Among the aircraft set out above, the Company operated a fleet of 397 aircraft in total, with an average age of 6.76 years. The Company introduced 8 aircraft and phased out 7 aircraft among which one was sold to Air Macau in the first half of 2018.

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

	30 June 2018				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Passenger aircraft	641	272	173	196	6.65
Airbus	312	130	86	96	6.98
A319	47	32	6	9	11.16
A320/A321	202	71	73	58	6.21
A330	63	27	7	29	6.35
Boeing	329	142	87	100	6.33
B737	275	115	68	92	6.54
B747	11	9	2	0	10.46
B777	29	6	17	6	5.25
B787	14	12	0	2	1.36
Cargo aircraft	15	10	5	0	11.04
B747F	3	3	0	0	16.02
B757F	4	4	0	0	21.85
B777F	8	3	5	0	3.76
Business jets	6	1	0	5	5.78
Total	662	283	178	201	6.74

	Introduction Plan			Phase-out Plan		
	2018	2019	2020	2018	2019	2020
Passenger aircraft						
Airbus	25	31	23	2	9	9
A319	0	0	0	2	5	3
A320/A321	15	27	23	0	4	6
A330	4	0	0	0	0	0
A350	6	4	0	0	0	0
Boeing	29	34	31	20	10	8
B737	25	34	31	17	10	8
B777	2	0	0	3	0	0
B787	2	0	0	0	0	0
Total	<u>54</u>	<u>65</u>	<u>54</u>	<u>22</u>	<u>19</u>	<u>17</u>

Hub Network

In the first half of 2018, the Company together with Dalian Airlines and Air China Inner Mongolia newly launched or resumed 28 domestic and international routes, comprising 21 domestic and 7 international routes. As for the Beijing Hub, the Company launched international routes of Beijing-Barcelona, Beijing-Houston-Panama, Beijing-Copenhagen, Beijing-Hanoi, etc.; as at the end of the Reporting Period, the Company launched around 30 direct routes from Beijing to the countries along the Belt and Road. The capacity of Beijing as one of the key bases increased by 6.8% year-on-year by optimizing the capacity deployment structure of the Beijing Hub and increasing the deployment of wide-body aircraft for key routes departing from Beijing. We delivered through check-in baggage services on routes from 19 European cities to domestic destinations via Beijing. As at the end of June 2018, this service has covered 35 waypoints in Europe, America and Australia; the number of O&D connected by the Beijing Hub increased to 6,050 from 5,918 as at the end of 2017; the onward transit products of the Beijing Hub were promoted and the passengers transfer services were enhanced. The number of onward transit passengers via Beijing increased by 25.4% year on year. The Chengdu International Hub launched new international and domestic routes such as Chengdu-Bangkok, Chengdu-Huai'an and Chengdu-Hotan, and the capacity contributed increased by 10.3% year-on-year. Shanghai and Shenzhen international gateways have continuously improved the planning of route network and deployment of wide-body aircraft through interconnection with surrounding areas. In addition, the quadrilateral strategic layout has been continuously optimized and the route network has been further developed as the Company launched new international and domestic routes such as Hangzhou-Nha Trang, Dalian-Shijiazhuang-Yinchuan, and Hangzhou-Xi'an-Karamay.

As at the end of June 2018, the Company's passenger routes have expanded to 434 in total, across six continents of the world, comprising 308 domestic, 109 international and 17 regional routes. The Company's network covered 42 countries and regions and 189 cities, comprising 69 international, 4 regional and 116 domestic cities. Through Star Alliance, the Company's route network extended to 1,317 destinations in 193 countries.

Sales and Marketing

The Company compiled the 2018 Global Sales Yearbook (《2018年全球銷售地年鑒》) and the Global Market Opportunity Information Calendar (《全球機會市場信息日曆》), and continuously strengthened the building of sales and marketing capacity. Thanks to the expansion of domestic and international interlining products and refined revenue management, the sales revenue of domestic and international interlining services achieved a year-on-year growth of 14%. The Company seized the opportunity of domestic price adjustment to adjust the prices of premium cabins on 99 domestic routes and the price of economy cabin on 22 domestic routes, which resulted in a year-on-year increase in the revenue of RMB356 million. By enriching marketing activities in relation to and expanding the customer base of premium classes, the domestic and international revenue for premium cabins increased by 8% and 15%, respectively, on a year-on-year basis. The total number of "Phoenix Miles" members amounted to 54.21 million, and revenue contribution increased by 12% compared to the same period last year. The Company steadily promoted business model innovation, and enhanced e-commerce channel sales capabilities. Our APP has been upgraded nine times which added 580 new functions and realized product optimization, achieving sales revenue of RMB2.64 billion, representing an increase of 53% as compared to the same period last year. We have completed the E-service for frequent flyers business and expanded the mileage usage channels, which significantly enhanced our customers' satisfaction and loyalty. The customer experience on ancillary products has also improved. In the first half of 2018, our cumulative sales revenue from ancillary products such as paid seat selection and boarding gate cabin upgrade reached RMB92.32 million, representing a year-on-year increase of 43%.

Brand Value

With the steady development of brand building projects, the brand communication and innovation capabilities have been enhanced. We carried out comprehensive brand promotion projects in markets in China, the UK, Germany and France promoting in all directions through traditional and new media. Advertising media exposure covered 1.3 billion people and Internet media received 20.56 million clicks on its advertisements. The Company actively planned in-depth interactive activities and implemented the "Landing with Dreams" H5 interactive events, with full media coverage reaching nearly 1 billion people and online activities engaging more than 1 million people. We deepened brand public relations communication, cooperated with multiple media platforms to publicize and promote brand marketing events, and enhanced the audience's memory of the brand's core. We expanded our brand influence by registering a theme blog for our IP image "Panda (胖安達)", and planning the "Panda Celebrates Children's Day with You" theme flight activities. We also participated in the first China Independent Brand Expo to show our brand image as an international airline company. Joint marketing agreements were signed with the tourist bureau in Copenhagen and Australia, and "Munich Express" cooperation agreements were signed with Beijing Capital Airport and Munich Airport to strengthen brand synergy. The successful first flight of theme painting aircraft "Colorful World Garden (多彩世園號)" and "Flowering World

(花開盛世號)” for the Beijing World Horticultural Exposition effectively enhanced our brand influence and reputation. The Company was selected as one of China’s Top 500 Most Valuable Brands released by the World Brand Lab, with a brand value of RMB145.295 billion.

Products and Services

Under its “passenger first” principle, the Company has optimized the whole-process product and service system, and consistently enhanced the quality of products and services, so as to improve passenger experience. We promoted the construction of “Smart Airport” and created a new mode of “self-service-oriented, manual-assisted” check-in service. The proportion of all-channel self-service check-in reached 70.5%. We opened fully self-service baggage check-in service areas in Beijing, Chengdu, Chongqing, Shanghai, Hangzhou and other cities. We also implemented “paperless and convenient travel” project, and launched QR code electronic boarding pass inspection services in 23 domestic and 8 international and regional airports. The Company built the premium class lounges brand, and promoted the “Move Under One Roof – Beijing terminal joint operation” with Star Alliance. We also expanded the construction of our domestic first class lounge on the second floor and the floating island lounge project on the fourth floor at the T3C building of Beijing Capital Airport. The Company has built and operated 95583 global service centre, set up a global linkage mechanism for irregular flights, a pretreatment mechanism and an emergency response mechanism to boost travel security for passengers. We improved the “mobile cabin” project by adding 37 functional modules, which extended to the ground service department, and connected the passenger interface whole service information chain. We continued to revise and improve the rules and standards of service business; and further promoted the standardization of services by formulating Code for Ground Operation of Mobile Cabin (《移動客艙地面操作規範》) and A350-900 Passenger Service Interface Product Manual (《A350-900旅客服務介面產品手冊》), and revising the Regulations for Management of Injury, Death and Serious Diseases of Passengers (《旅客傷亡、重病事件處置管理規程》) and Manual for Passenger Baggage Transport Service (《旅客行李運輸服務手冊》).

External Cooperation

Through in-depth cooperation with Lufthansa under a joint operation arrangement, we have made steady progress in pushing forward with our SME customer scheme and have participated in 7 SME customer platforms operated by Lufthansa in Europe in total. We continued to integrate contracts with regional corporate customers in China and Europe to provide passengers with more flight choices while effectively enhancing the route yield level of both parties. In addition, we entered into a passenger route joint operation agreement with Air Canada, which would allow both parties to provide passengers with quality travel services through measures including optimizing flight schedules, integrating their frequent-flyer programme and corporate customer scheme, and carrying out joint sales and marketing campaigns. We also continued to enhance our cooperation with Cathay Pacific, United Airlines, Scandinavian Airlines and Air New Zealand in relation to code sharing, flight schedule coordination and service improvement. Such joint operations and cooperation have brought satisfactory results and synergy effects. We actively deepened our cooperation with Star Alliance and officially launched the project “Move Under One Roof” with Star Alliance and Beijing Capital International Airport to improve passengers’ flight experience and enhance the overall competitiveness of the Company in the future by implementing various measures including airport automation and transfer processes optimisation.

Cost Controls

With its rich management experience in optimizing wide-body aircraft operation, the Company has fully commenced the work of “whole fleet operation optimisation”. By focusing on key areas such as production organization and cost efficiency improvement, we strengthened our control over production process organization and resource utilization through reinforcing the role of market in guiding the formulation of production plans and resource allocation. We also conducted aircraft performance optimisation management and accelerated the process of integrated management of airline catering to improve decision-making efficiency and resource synergy, and therefore further improved our cost efficiency.

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 International Accounting Standard 34 “Interim Financial Reporting” as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules and are designed to assist the readers in further understanding the information provided in this announcement so as to better understand the financial conditions and results of operations of the Group as a whole.

Profit Analysis

During the Reporting Period, the Group recorded a profit attributable to the equity shareholders of the Company of RMB3,476 million, representing a year-on-year increase of 4.05%. During the first half of 2018, the air transport market of the PRC has a general balance between supply and demand where there was a strong need for domestic travel and a modest need for international/regional travel. However, the relatively fast-growing transport capacity has surpassed the growing demand. The Group acted in accordance with the market condition and further strengthened the advantages of economies of scale of our core air transport business by adopting measures including optimising operational arrangement, stabilising the yield level and refining cost control. For the Reporting Period, the Group has achieved satisfactory results despite the adverse impacts from factors such as oil price rebounding and currency depreciation.

Revenue

During the Reporting Period, the Group’s revenue was RMB64,242 million, representing an increase of RMB6,862 million or 11.96%, on a year-on-year basis. Among the total revenue, revenue from our air traffic operations contributed RMB61,969 million, representing an increase of RMB6,477 million or 11.67%, on a year-on-year basis. Other operating revenue was RMB2,273 million, representing an increase of RMB385 million or 20.35%, on a year-on-year basis.

Revenue Contribution by Geographical Segments

(in RMB'000)	For the six months ended 30 June				
	2018		2017		Change
	Amount	Percentage	Amount	Percentage	
International	19,827,425	30.86%	17,291,921	30.14%	14.66%
Mainland China	41,551,486	64.68%	37,531,316	65.41%	10.71%
Hong Kong, Macau and Taiwan	2,863,411	4.46%	2,557,381	4.45%	11.97%
Total	<u>64,242,322</u>	<u>100.00%</u>	<u>57,380,618</u>	<u>100.00%</u>	<u>11.96%</u>

Air Passenger Revenue

During the Reporting Period, the Group recorded an air passenger revenue of RMB56,894 million, representing an increase of RMB5,889 million or 11.55% over that of the same period of 2017. Among the air passenger revenue, the increase of capacity contributed an increase of RMB6,347 million to the revenue, and the drop of passenger load factor brought a decrease of RMB388 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB70 million. During the Reporting Period, the Group's capacity, passenger load factor and yield per RPK are as follows:

	For the six months ended 30 June		
	2018	2017	Change
Available seat kilometres (<i>million</i>)	133,799.77	118,991.56	12.44%
Passenger load factor (%)	80.48	81.02	(0.54 ppt)
Yield per RPK (<i>RMB</i>)	0.5282	0.5289	(0.13%)

Air Passenger Revenue Contribution by Geographical Segments

(in RMB'000)	For the six months ended 30 June				
	2018		2017		Change
	Amount	Percentage	Amount	Percentage	
International	15,877,693	27.91%	13,892,644	27.24%	14.29%
Mainland China	38,347,915	67.40%	34,713,335	68.06%	10.47%
Hong Kong, Macau and Taiwan	2,668,322	4.69%	2,399,375	4.70%	11.21%
Total	<u>56,893,930</u>	<u>100.00%</u>	<u>51,005,354</u>	<u>100.00%</u>	<u>11.55%</u>

Air Cargo and Mail Transportation Revenue

During the Reporting Period, the Group's air cargo and mail transportation revenue was RMB5,075 million, representing an increase of RMB589 million, or 13.12%, as compared to that of the same period of 2017. Among the Group's air cargo and mail transportation revenue, the increase in capacity of cargo and mail contributed to an increase in revenue of RMB431 million, the decrease in load factor resulted in a decrease in revenue of RMB54 million, and the increase in yield of cargo and mail contributed to an increase in revenue of RMB212 million. The capacity, load factor and yield of our air cargo and mail transportation operations for the Reporting Period are as follows:

	For the six months ended 30 June		
	2018	2017	Change
Available freight tonne kilometres (<i>million</i>)	7,024.12	6,408.22	9.61%
Cargo and mail load factor (%)	54.48	55.09	(0.61ppt)
Yield per RFTK (<i>RMB</i>)	1.3260	1.2706	4.36%

Air Cargo and Mail Transportation Revenue Contribution by Geographical Segment

(in RMB'000)	For the six months ended 30 June				
	2018		2017		Change
	Amount	Percentage	Amount	Percentage	
International	3,949,732	77.84%	3,399,277	75.78%	16.19%
Mainland China	929,866	18.32%	928,815	20.70%	0.11%
Hong Kong, Macau and Taiwan	195,089	3.84%	158,006	3.52%	23.47%
Total	5,074,687	100.00%	4,486,098	100.00%	13.12%

Operating Expenses

During the reporting period, the Group's operating expenses were RMB59,574 million, representing an increase of 12.53% as compared to that of RMB52,939 million in the same period of 2017. The breakdown of the operating expenses is set out below:

(in RMB'000)	For the six months ended 30 June				Change
	2018		2017		
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	17,581,987	29.51%	13,629,016	25.74%	29.00%
Take-off, landing and depot charges	7,370,150	12.37%	6,656,849	12.57%	10.72%
Depreciation and amortisation	7,025,077	11.79%	6,538,174	12.35%	7.45%
Aircraft maintenance, repair and overhaul costs	3,415,660	5.73%	3,111,576	5.88%	9.77%
Employee compensation costs	11,596,358	19.47%	10,525,998	19.88%	10.17%
Air catering charges	1,806,920	3.03%	1,638,989	3.10%	10.25%
Aircraft operating lease expenses	3,503,772	5.88%	3,675,180	6.94%	(4.66%)
Selling and marketing expenses	2,114,512	3.55%	2,166,118	4.09%	(2.38%)
General and administrative expenses	589,720	0.99%	642,784	1.21%	(8.26%)
Others	4,569,491	7.68%	4,354,083	8.24%	4.95%
Total	<u>59,573,647</u>	<u>100.00%</u>	<u>52,938,767</u>	<u>100.00%</u>	<u>12.53%</u>

- Jet fuel costs increased by RMB3,953 million, or 29.00%, 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 RMB713 million on a year-on-year basis, primarily due to an increase in the number of take-offs and landings.
- Depreciation and amortisation expenses increased by RMB487 million on a year-on-year basis mainly due to the increase in the number of self-owned and finance leased aircraft during the Reporting Period.
- Aircraft maintenance, repair and overhaul costs increased by RMB304 million on a year-on-year basis, mainly due to the expansion of fleet.
- Employee compensation costs increased by RMB1,070 million on a year-on-year basis, mainly due to our business expansion and the increase in number of employees.
- Air catering charges increased by RMB168 million on a year-on-year basis, mainly due to the increase in the number of passengers.

- Aircraft operating lease expenses decreased by RMB171 million on a year-on-year basis, mainly due to the decrease of the number of aircraft under operating leases and the exchange rate changes of US dollar as compared with the corresponding period last year.
- Selling and marketing expenses decreased by RMB52 million on a year-on-year basis, mainly due to the decrease in agency fees.
- General and administrative expenses decreased by RMB53 million on a year-on-year basis, mainly due to a year-on-year decrease in tax and surcharges.
- Other operating expenses mainly included contributions to the civil aviation development fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items, which increased by 4.95% on a year-on-year basis.

Exchange Gains and Losses and Finance Costs

During the Reporting Period, the Group recorded a net exchange loss of RMB518 million, as compared to the net exchange gain of RMB1,270 million for the same period of 2017, which was mainly due to the appreciation in the exchange rate of US dollars against RMB during the Reporting Period. The Group incurred interest expenses of RMB1,370 million (excluding those capitalised) during the Reporting Period, representing a year-on-year decrease of RMB222 million.

Share of Profits of Associates and Joint Ventures

During the Reporting Period, the Group's share of results of its associates was a profit of RMB77 million, as compared to a loss of RMB514 million for the same period of 2017, mainly due to the year-on-year decrease in the loss of Cathay Pacific, an associate of the Company, during the Reporting Period. The Group recorded a loss on investment of Cathay Pacific of RMB157 million during the Reporting Period, representing a year-on-year decrease of RMB508 million.

During the Reporting Period, the Company's share of results of its joint ventures was a profit of RMB115 million, representing a year-on-year increase of RMB2 million. This was mainly due to the slight increase in the profits of joint ventures during the Reporting Period.

Analysis of Assets Structure

As at the end of the Reporting Period, the total assets of the Group amounted to RMB245,437 million, representing an increase of 4.16% from those as at 31 December 2017, among which current assets accounted for RMB24,367 million, or 9.93% of the total assets, while non-current assets accounted for RMB221,070 million, or 90.07% of the total assets.

Among the current assets, cash and cash equivalents were RMB8,961 million, representing an increase of 61.08% from those as at 31 December 2017, mainly because the Group owned relatively abundant cash flows in the peak season and has reserved certain internal funds to repay debts which will due in the near future.

Among the non-current assets, the net book value of property, plant and equipment as at the end of the Reporting Period was RMB169,912 million, representing an increase of 0.82% from that as at 31 December 2017.

Assets Mortgage

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB81,413 million (RMB81,064 million as at 31 December 2017) and land use rights with a net book value of approximately RMB29 million (RMB34 million as at 31 December 2017). At the same time, the Group had approximately RMB911 million (approximately RMB697 million as at 31 December 2017) in bank deposits with title being restricted, which were mainly reserves deposited in the People's Bank of China.

Capital Expenditure

During the Reporting Period, the Group's capital expenditure amounted to RMB10,010 million, of which the total investment in aircraft and engines was RMB9,203 million. Other capital expenditure amounted to RMB807 million, mainly including investments in expensive rotatable parts, flight simulators, infrastructure construction, IT system construction, procurement of ground equipment and cash component of the long-term investments.

Equity Investment

As at the end of the Reporting Period, the Group's equity investment in its associates was RMB15,352 million, representing an increase of 8.12% from that as at 31 December 2017, of which the equity investment in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines was RMB12,459 million, RMB1,367 million and RMB913 million, respectively. Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines recorded a net loss attributable to the parent of RMB221 million, a net profit attributable to the parent of RMB201 million and a net profit attributable to the parent of RMB204 million, respectively, for the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,210 million, representing a decrease of 2.36% from that as at 31 December 2017.

Debt Structure Analysis

As at the end of the Reporting Period, the total liabilities of the Group amounted to RMB146,874 million, representing an increase of 4.32% from those as at 31 December 2017, among which current liabilities were RMB77,054 million and non-current liabilities were RMB69,820 million, representing 52.46% and 47.54% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB38,497 million, representing an increase of 10.33% from those as at 31 December 2017, mainly due to the increase of working capital loans of the Group.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and liabilities under finance leases) amounted to RMB60,494 million, representing an increase of 0.98% from those as at 31 December 2017.

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

<i>(in RMB'000)</i>	30 June 2018		31 December 2017		Change
	Amount	Percentage	Amount	Percentage	
US dollars	37,101,784	37.48%	38,719,435	40.84%	(4.18%)
RMB	60,378,896	60.99%	54,830,969	57.84%	10.12%
Others	<u>1,510,752</u>	<u>1.53%</u>	<u>1,248,538</u>	<u>1.32%</u>	<u>21.00%</u>
Total	<u>98,991,432</u>	<u>100.00%</u>	<u>94,798,942</u>	<u>100.00%</u>	<u>4.42%</u>

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 7.14% from RMB77,742 million as at 31 December 2017 to RMB72,191 million as at the end of the Reporting Period. 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 RMB49,564 million as at the end of the Reporting Period, representing a decrease of 3.55% as compared with those as at 31 December 2017. The Group's investment commitments, which were mainly used in the investment agreements entered into, amounted to RMB58 million as at the end of the Reporting Period, which was basically flat with that of 31 December 2017.

Gearing Ratio

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 59.84%, representing an increase of 0.09 ppt as compared to the gearing ratio of 59.75% as at 31 December 2017. 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 the end of the Reporting Period, the Group's net current liabilities (current liabilities minus current assets) were RMB52,687 million, representing an increase of RMB1,315 million from those as at 31 December 2017. The Group's current ratio (current assets divided by current liabilities) was 0.32, representing an increase as compared to that of 0.29 as at 31 December 2017.

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the Reporting Period, the Group's net cash inflow generated from operating activities was RMB11,712 million, representing an increase of 28.89% as compared with that of RMB9,087 million in the same period of 2017, which was mainly due to the increase of transportation revenue and the decrease of operating receivables during the Reporting Period. Net cash outflow from investment activities was RMB8,451 million, representing an increase of 62.99% from that of RMB5,185 million in the same period of 2017, mainly due to the year-on-year decrease in the cash income from disposal of fixed assets and the year-on-year increase in the amount paid for purchase and construction of fixed assets and other long-term assets during the Reporting Period. The Group recorded a net cash inflow from financing activities of RMB120 million, representing a decrease of RMB326 million compared with the corresponding period in 2017.

The Company has obtained bank facilities of up to RMB147,397 million granted by several banks in the PRC, among which approximately RMB26,322 million has been utilised. The remaining amount is sufficient to meet our demands on working capital.

Financial Risk Management Objectives and Policies

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

PROSPECTS

The second half of 2018 will see both opportunities and challenges. China will continue to push forward the implementation of its new development concepts and materialize the requirement for high quality development while retaining its stable and healthy economic growth. On one hand, in light of the improving supply and demand dynamic in civil aviation industry and the progressive reform of the marketization of ticket price, the Company is confident in the realization of high quality development. On the other hand, the Company is facing challenges from adverse factors including increasingly fierce market competition in the industry, rising oil price and significant exchange rate fluctuation. The Group will continue to enhance its strategic measures, optimize the implementation mechanism of reform, comprehensively strengthen its control over corporate operation and improve its resilience against risks for the target of becoming a top-tier aviation group in the world with global competitiveness.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company (the term “securities” has the meaning ascribed to it under paragraph 1 of Appendix 16 to the Listing Rules).

INTERIM DIVIDEND

No interim dividend will be paid by the Company for the six months ended 30 June 2018.

SUBSEQUENT EVENTS

On 30 August 2018, the Company entered into an equity transfer agreement with Capital Holding, pursuant to which, the Company has conditionally agreed to sell and Capital Holding has conditionally agreed to purchase 51% equity interests of Air China Cargo at a consideration of RMB2,438,837,520 (the “**Disposal**”). Upon completion of the Disposal, Air China Cargo will cease to be a subsidiary of the Company. For details, please refer to the announcement of the Company dated 30 August 2018.

In accordance with requirements of relevant regulatory authority and the operating needs of the Company, on 30 August 2018, the Board has resolved to propose to amend the business scope and the articles of association of the Company. For details, please refer to the announcement of the Company dated 30 August 2018.

An extraordinary general meeting of the Company will be held to seek shareholders’ approval in respect of the Disposal and proposed amendments to the articles of association of the Company mentioned above.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Reporting Period.

Compliance with the Model Code

The Company has adopted and formulated a code of conduct on terms no less stringent 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 Reporting Period.

DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

In order to comply with the requirements under paragraph 46 of Appendix 16 to the Listing Rules, the Company confirmed that save as disclosed in this announcement, there are no material changes in the current information of the Company in relation to matters as set out in paragraph 46(3) of Appendix 16 to the Listing Rules as compared with relevant disclosures in 2017 annual report of the Company.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company's interim results for the six months ended 30 June 2018, the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

GLOSSARY OF TECHNICAL TERMS

Capacity Measurements

“available tonne kilometres” or “ATK(s)”	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
“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
“Block hours”	each whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

Traffic Measurements

“passenger traffic”	measured in revenue passenger kilometres, unless otherwise specified
“revenue passenger kilometres” or “RPK(s)”	the number of revenue passengers carried multiplied by the kilometres flown
“cargo and mail traffic”	measured in revenue freight tonne kilometres, unless otherwise specified

“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

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

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

DEFINITIONS

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

“Air China Cargo”	Air China Cargo Co., Ltd., a company incorporated under the laws of the PRC with limited liabilities
“Air China Inner Mongolia”	Air China Inner Mongolia Co., Ltd.
“Air Macau”	Air Macau Company Limited
“A Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
“Board”	the board of Directors of the Company

“Capital Holding”	China National Aviation Capital Holding Co., Ltd., a company incorporated under the laws of the PRC with limited liabilities and a wholly-owned subsidiary of CNAHC
“Cathay Pacific”	Cathay Pacific Airways Limited
“CNAHC”	China National Aviation Holding Corporation Limited
“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
“Dalian Airlines”	Dalian Airlines Company Limited
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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
“H Share(s)”	overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (as primary listing venue) and have been admitted into the Official List of the UK Listing Authority (as secondary listing venue)
“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 2018 to 30 June 2018
“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
“Shenzhen Airlines”	Shenzhen Airlines Company Limited
“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, 30 August 2018

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Xue Yasong, 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*