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 2019

The Board of the Company has approved, among others, the unaudited interim results of the Group for the six months ended 30 June 2019 at a meeting of the Board held on 28 August 2019.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board presents the unaudited interim results of the Group for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	NOTES	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3A*	**65,313,087**	64,242,322
Other income and gains	*4*	**1,931,447**	1,972,760
		67,244,534	66,215,082
Operating expenses			
Jet fuel costs		**(17,614,613)**	(17,581,987)
Employee compensation costs		**(11,760,502)**	(11,596,358)
Depreciation and amortisation		**(10,302,734)**	(7,025,077)
Take-off, landing and depot charges		**(8,055,126)**	(7,370,150)
Aircraft maintenance, repair and overhaul costs		**(2,886,110)**	(3,415,660)
Air catering charges		**(1,928,614)**	(1,806,920)
Aircraft and engine lease expenses		**(560,023)**	(3,503,772)
Other lease expenses		**(323,185)**	(572,748)
Other flight operation expenses		**(4,071,682)**	(4,180,080)
Selling and marketing expenses		**(2,365,467)**	(2,114,512)
General and administrative expenses		**(643,591)**	(589,720)
Net impairment gains under expected credit loss model		**9,483**	183,337
		(60,502,164)	(59,573,647)
Profit from operations	*5*	**6,742,370**	6,641,435
Finance income		**63,462**	59,682
Finance costs	*6*	**(2,439,582)**	(1,370,145)
Share of results of associates		**145,741**	77,487
Share of results of joint ventures		**112,021**	115,289
Exchange loss, net		**(118,863)**	(517,697)
Profit before taxation		**4,505,149**	5,006,051
Income tax expense	*7*	**(1,004,795)**	(1,101,553)
Profit for the period		**3,500,354**	3,904,498
Attributable to:			
– Equity shareholders of the Company		**3,144,219**	3,476,157
– Non-controlling interests		**356,135**	428,341
Profit for the period		**3,500,354**	3,904,498
Earnings per share			
– Basic and diluted	*9*	**RMB22.89 cents**	RMB25.31 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**3,500,354**	3,904,498
Other comprehensive (expense) income for the period		
Items that will not be reclassified to profit or loss:		
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	**(46,092)**	(11,203)
– Income tax relating to items that will not be reclassified to profit or loss	**12,424**	2,801
– Remeasurement of net defined benefit liability	**225**	(8,030)
– Share of other comprehensive income/(expense) of associates and joint ventures	**135,529**	(1,436)
Items that may be reclassified subsequently to profit or loss:		
– Fair value (losses)/gains on investments in debt instruments measured at fair value through other comprehensive income	**(2,276)**	5,234
– Income tax relating to items that may be reclassified subsequently to profit or loss	**569**	(1,299)
– Share of other comprehensive income of associates and joint ventures	**181,405**	936,330
– Exchange differences on translation of foreign operations	**79,873**	171,814
Other comprehensive income for the period (net of tax)	**361,657**	1,094,211
Total comprehensive income for the period	**3,862,011**	4,998,709
Attributable to:		
– Equity shareholders of the Company	**3,520,756**	4,569,603
– Non-controlling interests	**341,255**	429,106
Total comprehensive income for the period	**3,862,011**	4,998,709

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

	NOTE	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**101,152,337**	171,662,659
Right-of-use assets		**113,634,928**	–
Lease prepayments		**–**	2,599,058
Investment properties		**665,661**	650,786
Intangible assets		**36,679**	36,913
Goodwill		**1,099,975**	1,099,975
Interests in associates		**14,369,471**	15,253,744
Interests in joint ventures		**1,407,803**	1,427,063
Advance payments for aircraft and flight equipment		**20,182,538**	21,303,650
Deposits for aircraft under leases		**629,131**	613,346
Equity instruments at fair value through other comprehensive income		**203,180**	268,071
Debt instruments at fair value through other comprehensive income		**1,207,308**	1,040,419
Deferred tax assets		**4,263,691**	2,840,321
Other non-current assets		**1,014,398**	1,134,996
		259,867,100	219,931,001
Current assets			
Inventories		**2,286,569**	1,877,494
Accounts receivable	*10*	**7,386,958**	5,373,972
Bills receivable		**648**	403
Prepayments, deposits and other receivables		**3,564,913**	4,220,036
Restricted bank deposits		**749,993**	1,044,389
Cash and cash equivalents		**7,624,501**	6,763,183
Other current assets		**3,973,750**	4,446,630
		25,587,332	23,726,107
Total assets		**285,454,432**	243,657,108

	NOTE	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Current liabilities			
Air traffic liabilities		**(8,759,018)**	(8,886,274)
Accounts payable	*11*	**(16,821,400)**	(14,726,428)
Dividends payable		**(1,616,491)**	–
Other payables and accruals		**(10,737,443)**	(10,833,540)
Current taxation		**(263,467)**	(1,023,938)
Lease liabilities/obligations under finance leases		**(13,040,177)**	(7,125,586)
Interest-bearing bank loans and other borrowings		**(23,853,667)**	(27,194,901)
Provision for return condition checks		**(1,348,893)**	(1,447,693)
Contract liabilities		**(1,350,239)**	(1,301,518)
		(77,790,795)	(72,539,878)
Net current liabilities		**(52,203,463)**	(48,813,771)
Total assets less current liabilities		**207,663,637**	171,117,230
Non-current liabilities			
Lease liabilities/obligations under finance leases		**(82,905,959)**	(45,848,095)
Interest-bearing bank loans and other borrowings		**(16,902,072)**	(15,585,481)
Provision for return condition checks		**(6,452,105)**	(4,174,398)
Provision for early retirement benefit obligations		**(2,494)**	(3,105)
Long-term payables		**(101,317)**	(154,171)
Contract liabilities		**(2,896,557)**	(3,062,739)
Defined benefit obligations		**(254,736)**	(263,862)
Deferred income		**(487,092)**	(647,973)
Deferred tax liabilities		**(693,432)**	(879,372)
		(110,695,764)	(70,619,196)
NET ASSETS		**96,967,873**	100,498,034
CAPITAL AND RESERVES			
Issued capital		**14,524,815**	14,524,815
Treasury shares		**(3,047,564)**	(3,047,564)
Reserves		**78,131,969**	81,680,090
Total equity attributable to equity shareholders of the Company		**89,609,220**	93,157,341
Non-controlling interests		**7,358,653**	7,340,693
TOTAL EQUITY		**96,967,873**	100,498,034

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2019 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 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 2018.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB52,203 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 RMB113,033 million as at 30 June 2019, 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 2019. 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 values.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2018.

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 2019 for the preparation of the Group's condensed consolidated financial statements.

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

As a lessor

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group acts as a seller-lessee

The Group applies the requirements of IFRS 15 *Revenue from Contracts with Customers* to assess whether sale and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as borrowing within the scope of IFRS 9 *Financial Instruments*.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB93,549 million and right-of-use assets of RMB108,880 million at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 3.90% to 4.89%.

	Note	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018		51,395,439
Less: Value-added tax		6,067,742
Operating lease commitments excluding value-added tax		45,327,697
Lease liabilities discounted at relevant incremental borrowing rates		41,209,140
Less: Recognition exemption – short-term leases		633,655
Recognition exemption – low value assets		205
Lease liabilities relating to operating leases recognised upon application of IFRS 16		40,575,280
Add: Obligations under finance leases recognised at 31 December 2018	*(d)*	52,973,681
Lease liabilities as at 1 January 2019		93,548,961
Analysed as		
Current		12,224,913
Non-current		81,324,048
		93,548,961

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	*(a)*	34,107,831
Reclassified from prepayments for rental expense		559,580
Reclassified from other non-current assets and deferred income in respect of sale and operating leaseback transactions	*(b)*	(52,522)
Recognition of provisions in respect of final check costs		2,377,798
Reclassified from lease prepayments	*(c)*	2,599,058
Amount included in property, plant and equipment under IAS 17 – Assets previously under finance leases	*(d)*	69,288,713
		108,880,458
By class:		
Aircraft and engines		105,128,019
Land		2,599,058
Buildings		1,141,040
Others		12,341
		108,880,458

Notes:

(a) Upon application of IFRS 16, right-of-use assets of RMB34,108 million were recognised relating to operating leases under IAS 17. The associated right-of-use assets for aircraft and engines leases were measured on a retrospective basis as if IFRS 16 had been applied since the commencement date but discounted using the incremental borrowing rate of the relevant group entities at the date of initial application. Other right-of-use assets were measured at the amounts equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 31 December 2018 as described below.

(b) Right-of-use assets were adjusted by the deferred income of RMB147 million and other non-current assets of RMB94 million respectively in respect of sale and operating leaseback transactions applying IAS 17 immediately before the date of initial application of IFRS 16.

(c) Upfront payments for leasehold lands in the PRC were classified as lease prepayments as at 31 December 2018. Upon application of IFRS 16, lease prepayments amounting to RMB2,599 million were reclassified to right-of-use assets.

(d) In relation to assets previously obtained under finance leases, the Group re-categorised the carrying amount of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB69,289 million as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB7,126 million and RMB45,848 million to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application. Comparative information has not been restated.

Sales and leaseback transactions

The Group acts as a seller-lessee

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group applies the requirements of IFRS 15 to assess whether a sale and leaseback transaction constitutes a sale.

The following table summarises the impact of transition to IFRS 16 on retained earnings at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 *RMB'000*
Retained earnings	
Recognition of right-of-use assets relating to operating leases	34,107,831
Recognition of lease liabilities relating to operating leases	(40,575,280)
The impact arising from initial application of IFRS 16 by associates	(1,175,623)
Impact before tax	(7,643,072)
Tax effects	1,553,393
Reserve funds	456,307
Non-controlling interests	528,826
Impact at 1 January 2019	(5,104,546)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under IFRS 16 at 1 January 2019** ***RMB'000***
Non-current assets				
Property, plant and equipment	*(d)*	171,662,659	(69,288,713)	**102,373,946**
Right-of-use assets		–	108,880,458	**108,880,458**
Lease prepayments	*(c)*	2,599,058	(2,599,058)	**–**
Interests in associates		15,253,744	(1,175,623)	**14,078,121**
Deferred tax assets		2,840,321	1,553,393	**4,393,714**
Other non-current assets	*(b)*	1,134,996	(93,994)	**1,041,002**
Current assets				
Prepayments, deposits and other receivables		4,220,036	(559,580)	**3,660,456**
Total assets		243,657,108	36,716,883	**280,373,991**
Current liabilities				
Lease liabilities		–	(12,224,913)	**(12,224,913)**
Obligations under finance leases	*(d)*	(7,125,586)	7,125,586	**–**
Net current liabilities		(48,813,771)	(5,658,907)	**(54,472,678)**
Total assets less current liabilities		171,117,230	31,617,556	**202,734,786**
Non-current liabilities				
Lease liabilities		–	(81,324,048)	**(81,324,048)**
Obligations under finance leases	*(d)*	(45,848,095)	45,848,095	**–**
Deferred income	*(b)*	(647,973)	146,516	**(501,457)**
Provision for return condition checks		(4,174,398)	(2,377,798)	**(6,552,196)**
NET ASSETS		100,498,034	(6,089,679)	**94,408,355**
CAPITAL AND RESERVES				
Reserves		81,680,090	(5,560,853)	**76,119,237**
Non-controlling interests		7,340,693	(528,826)	**6,811,867**
TOTAL EQUITY		100,498,034	(6,089,679)	**94,408,355**

3A. REVENUE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**65,164,538**	64,130,789
Rental income (included in revenue of airline operations segment)	**148,549**	111,533
Total revenue	**65,313,087**	64,242,322

Disaggregation of revenue from contracts with customers

	Six months ended 30 June 2019		Six months ended 30 June 2018	
Segments	**Airline operations**	**Other operations**	Airline operations	Other operations
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Type of goods or services				
Airline operations				
Passenger	**59,850,511**	**–**	56,893,930	–
Cargo and mail	**2,830,064**	**–**	5,074,687	–
Ground service income	**358,834**	**–**	478,686	–
Others	**940,996**	**–**	1,023,959	–
	63,980,405	**–**	63,471,262	–
Other operations				
Aircraft engineering income	**–**	**959,212**	–	569,539
Import and export service income	**–**	**34,427**	–	39,788
Others	**–**	**190,494**	–	50,200
	–	**1,184,133**	–	659,527
Total	**63,980,405**	**1,184,133**	63,471,262	659,527
Geographical markets				
Mainland China	**41,142,506**	**1,184,133**	40,780,426	659,527
Hong Kong SAR, Macau SAR and Taiwan, China	**3,242,639**	**–**	2,863,411	–
Europe	**5,870,253**	**–**	6,278,529	–
North America	**4,200,578**	**–**	5,171,763	–
Japan and Korea	**4,120,203**	**–**	3,469,931	–
Asia Pacific and others	**5,404,226**	**–**	4,907,202	–
Total	**63,980,405**	**1,184,133**	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, import and export services and other airline-related services.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the 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 2019 and 2018 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 2019

	Airline operations *RMB'000*	Other operations *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales to external customers	**64,128,954**	**1,184,133**	**–**	**65,313,087**
Intersegment sales	**24,143**	**3,724,697**	**(3,748,840)**	**–**
Revenue for reportable segments under CASs and IFRSs	**64,153,097**	**4,908,830**	**(3,748,840)**	**65,313,087**
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	**4,354,262**	**415,505**	**(270,967)**	**4,498,800**
Effect of differences between IFRSs and CASs				**6,349**
Profit before taxation for the period under IFRSs				**4,505,149**

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	99,649	3,651,791	(3,751,440)	–
Revenue for reportable segments under CASs and IFRSs	63,682,444	4,311,318	(3,751,440)	64,242,322
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	4,776,241	277,396	(57,770)	4,995,867
Effect of differences between IFRSs and CASs				10,184
Profit before taxation for the period under IFRSs				5,006,051

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2019 and 31 December 2018 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations *RMB'000*	**Other operations** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Segment assets				
Total assets for reportable segments as at 30 June 2019 under CASs (unaudited)	277,295,157	21,092,599	(12,879,188)	285,508,568
Effect of differences between IFRSs and CASs				(54,136)
Total assets as at 30 June 2019 under IFRSs (unaudited)				285,454,432
Total assets for reportable segments as at 31 December 2018 under CASs (audited)	236,739,437	22,396,863	(15,420,294)	243,716,006
Effect of differences between IFRSs and CASs				(58,898)
Total assets as at 31 December 2018 under IFRSs (audited)				243,657,108

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2019 and 2018, respectively:

For the six months ended 30 June 2019

	Mainland China *RMB'000*	**Hong Kong SAR, Macau SAR and Taiwan, China** *RMB'000*	**Europe** *RMB'000*	**North America** *RMB'000*	**Japan and Korea** *RMB'000*	**Asia Pacific and others** *RMB'000*	**Total** *RMB'000*
Sales to external customers and total revenue	**42,475,188**	**3,242,639**	**5,870,253**	**4,200,578**	**4,120,203**	**5,404,226**	**65,313,087**

For the six months ended 30 June 2018

	Mainland China *RMB'000*	Hong Kong SAR, Macau SAR and Taiwan, China *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan and Korea *RMB'000*	Asia Pacific and others *RMB'000*	Total *RMB'000*
Sales to external customers and total revenue	41,551,486	2,863,411	6,278,529	5,171,763	3,469,931	4,907,202	64,242,322

In determining the Group's geographical information, revenue is attributed to the segments based on the origin or 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. According to the business demand, the Group needs to flexibly allocate the aircraft to match the need of the route network. An analysis of the assets of the Group by geographical distribution has therefore not been included.

4. OTHER INCOME AND GAINS

	Six months ended 30 June **2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Unaudited)
Co-operation routes income and subsidy income	**1,749,242**	1,679,916
Dividend income	**8,675**	2,053
Gain on disposal of		
– Interest in an associate	**–**	161,894
– Property, plant and equipment and non-current assets held for sale	**383**	72,184
Net gain arising on financial assets measured at fair value through profit or loss	**–**	2,058
Others	**173,147**	54,655
	1,931,447	1,972,760

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**4,704,949**	6,939,392
Depreciation of right-of-use assets	**5,585,175**	–
Depreciation of investment properties	**12,588**	31,786
Amortisation of lease prepayments	**–**	34,495
Amortisation of intangible assets	**22**	19,404

6. FINANCE COSTS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on borrowings and lease liabilities/obligations under finance leases	**2,708,665**	1,671,149
Less: Interest capitalised	**(269,083)**	(301,004)
	2,439,582	1,370,145

The interest capitalisation rates during the period range from 3.80% to 4.75% per annum (six months ended 30 June 2018: 2.67% to 4.57% per annum) relating to the costs of related specific borrowings during the period.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	**1,036,090**	1,345,774
– Hong Kong SAR and Macau SAR, China	**13,575**	18,173
Over – provision in respect of prior years	**(2,006)**	(3,367)
Deferred taxation	**(42,864)**	(259,027)
	1,004,795	1,101,553

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches and two subsidiaries which are taxed at a preferential rate of 15% (six months ended 30 June 2018: 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 2018: 25%) during the current period. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 8.25% and 16.5% (six months ended 30 June 2018: 16.5%) and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (six months ended 30 June 2018: 12%).

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 2019 (six months ended 30 June 2018: Nil).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved during the current interim period, of RMB1.0328 per ten shares (including tax) (six months ended 30 June 2018: RMB1.1497 per ten shares (including tax))	**1,500,123**	1,669,918

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,144 million (six months ended 30 June 2018 (unaudited): RMB3,476 million) and the number of 13,734,960,921 ordinary shares (six months ended 30 June 2018: 13,734,960,921 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 ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date, net of allowance for credit losses, was as follows:

	At 30 June 2019 *RMB'000* **(Unaudited)**	At 31 December 2018 *RMB'000* (Audited)
Within 30 days	**2,922,484**	2,548,148
31 to 60 days	**786,022**	696,437
61 to 90 days	**587,572**	514,171
Over 90 days	**3,090,880**	1,615,216
	7,386,958	5,373,972

11. ACCOUNTS PAYABLE

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

	At 30 June 2019 *RMB'000* **(Unaudited)**	At 31 December 2018 *RMB'000* (Audited)
Within 30 days	**8,309,844**	7,587,233
31 to 60 days	**1,874,902**	1,440,778
61 to 90 days	**1,083,603**	1,063,182
Over 90 days	**5,553,051**	4,635,235
	16,821,400	14,726,428

SUMMARY OF OPERATING DATA

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

	January to June 2019	January to June 2018	Increase/ (decrease)
Capacity			
ASK (million)	**141,728.21**	133,799.77	5.93%
International	**54,504.05**	50,093.75	8.80%
Mainland China	**81,574.22**	78,868.08	3.43%
Hong Kong SAR, Macau SAR and Taiwan, China	**5,649.94**	4,837.94	16.78%
AFTK (million)	**5,534.23**	5,349.36	3.46%
International	**3,300.41**	3,088.06	6.88%
Mainland China	**2,084.05**	2,134.34	(2.36%)
Hong Kong SAR, Macau SAR and Taiwan, China	**149.78**	126.96	17.97%
ATK (million)	**18,319.41**	17,419.72	5.16%
Traffic			
RPK (million)	**114,784.17**	107,679.81	6.60%
International	**43,132.60**	38,876.94	10.95%
Mainland China	**67,083.22**	64,951.22	3.28%
Hong Kong SAR, Macau SAR and Taiwan, China	**4,568.34**	3,851.65	18.61%
RFTK (million)	**2,333.48**	2,385.29	(2.17%)
International	**1,555.17**	1,585.44	(1.91%)
Mainland China	**734.73**	756.48	(2.87%)
Hong Kong SAR, Macau SAR and Taiwan, China	**43.57**	43.38	0.46%
Passengers carried (thousand)	**56,483.19**	53,752.20	5.08%
International	**8,577.62**	7,458.54	15.00%
Mainland China	**45,003.00**	43,831.04	2.67%
Hong Kong SAR, Macau SAR and Taiwan, China	**2,902.57**	2,462.62	17.86%
Cargo and mail carried (tonnes)	**688,714.87**	700,086.55	(1.62%)
Kilometres flown (million)	**716.28**	680.43	5.27%

	January to June 2019	January to June 2018	Increase/ (decrease)
Block hours (thousand)	**1,129.22**	1,082.02	4.36%
Number of flights	**364,211**	349,528	4.20%
International	**49,153**	44,352	10.82%
Mainland China	**294,523**	287,128	2.58%
Hong Kong SAR, Macau SAR and Taiwan, China	**20,535**	18,048	13.78%
RTK (million)	**12,476.08**	11,933.68	4.55%
Load factor			
Passenger load factor (RPK/ASK)	**80.99%**	80.48%	0.51 ppt
International	**79.14%**	77.61%	1.53 ppt
Mainland China	**82.24%**	82.35%	(0.11 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**80.86%**	79.61%	1.25 ppt
Cargo and mail load factor (RFTK/AFTK)	**42.16%**	44.59%	(2.43 ppt)
International	**47.12%**	51.34%	(4.22 ppt)
Mainland China	**35.26%**	35.44%	(0.18 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**29.09%**	34.17%	(5.08 ppt)
Overall load factor (RTK/ATK)	**68.10%**	68.51%	(0.41 ppt)
Daily utilisation of aircraft (block hours per day per aircraft)	**9.71**	9.56	0.15 hour
Yield			
Yield per RPK (RMB)	**0.5214**	0.5282	(1.29%)
International	**0.4086**	0.4084	0.05%
Mainland China	**0.5830**	0.5902	(1.22%)
Hong Kong SAR, Macau SAR and Taiwan, China	**0.6821**	0.6928	(1.54%)
Yield per RFTK (RMB)	**1.2128**	1.2145	(0.14%)
International	**1.2675**	1.2846	(1.33%)
Mainland China	**0.9969**	0.9729	2.47%
Hong Kong SAR, Macau SAR and Taiwan, China	**2.9031**	2.8650	1.33%
Unit cost			
Operating cost per ASK (RMB)	**0.4269**	0.4298	(0.67%)
Operating cost per ATK (RMB)	**3.3026**	3.3013	0.04%

Note: As at 28 December 2018, the Company completed the transfer of 51% equity interest in Air China Cargo to China National Aviation Capital Holding Co., Ltd., and since then the Company ceased to hold any equity interest in Air China Cargo. Thus, from January 2019, the periodic reports of the Company would no longer contain fleet information of Air China Cargo and the operating data would only include freight data of the bellyhold space of passenger aircraft. The freight data, yield and unit cost of the previous period would no longer contain Air China Cargo's freight data of all freighters, and shall be adjusted to a comparable basis.

BUSINESS OVERVIEW

During the Reporting Period, the Group's ASKs and RPKs reached 141,728 million and 114,784 million, representing a year-on-year increase of 5.93% and 6.60%, respectively. The passenger load factor was 80.99%, representing a year-on-year increase of 0.51 ppt. The Group's AFTKs reached 5,534 million, representing a year-on-year increase of 3.46%, and RFTKs was 2,333 million, representing a year-on-year decrease of 2.17%. The Group's cargo and mail load factor was 42.16%, representing a year-on-year decrease of 2.43 ppt.

Development of Fleet

During the Reporting Period, the Group introduced 19 aircraft including four A350-900, one A330-300, two B737-8MAX, ten A320NEO and two A321NEO, and phased out 12 aircraft including eight B737-800, one A319 and three A320. As at the end of the Reporting Period, the Group operated a fleet of 676 aircraft with an average age of 6.81 years, of which the Company operated a fleet of 415 aircraft with an average age of 7.02 years. The Company introduced 14 aircraft and phased out 8 aircraft, among which two were sold to Air Macau, one was sold to Dalian Airlines and one was sold to Air China Inner Mongolia.

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

	30 June 2019				
	Sub-total	**Self-owned**	**Finance leases**	**Operating leases**	**Average age (year)**
Airbus	**342**	**139**	**101**	**102**	**7.10**
A319	44	32	6	6	12.02
A320/A321	223	79	77	67	6.42
A330	65	28	8	29	7.15
A350	10	0	10	0	0.54
Boeing	**329**	**143**	**93**	**93**	**6.50**
B737	277	119	73	85	6.72
B747	10	8	2	0	9.97
B777	28	4	18	6	5.21
B787	14	12	0	2	2.36
Business jets	**5**	**1**	**0**	**4**	**6.90**
Total	**676**	**283**	**194**	**199**	**6.81**

	Introduction Plan			Phase-out Plan		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
Airbus	**43**	**40**	**31**	**6**	**3**	**1**
A319	–	–	–	2	2	–
A320/A321	38	35	24	4	1	1
A330	1	–	–	–	–	–
A350	4	5	7	–	–	–
Boeing	**12**	**50**	**5**	**9**	**–**	**–**
B737	12	50	5	9	–	–
COMAC	**–**	**3**	**6**	**–**	**–**	**–**
ARJ21	–	3	6	–	–	–
Total	**55**	**93**	**42**	**15**	**3**	**1**

Hub Network

The Company continued to follow the strategy of developing our diamond-shaped hub network and devoted balanced efforts to the development of both international and domestic route networks. The Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China", which has unique location advantages and has one of the best local government and corporate customer bases. During the Reporting Period, the Company actively promoted the renovation project of Terminal 3 of Beijing Capital International Airport, completed the planning of relevant route networks and the planning for the operation of "one airport and two terminals", and formulated the plan for the overall renovation of premium lounges. The Company also facilitated the implementation of projects such as the construction of the fourth runway and the construction of landside integrated transportation hub. The Company will continue to concentrate our resources and advantages to develop its principal base in Beijing into a world-class aviation hub with global competitiveness.

In response to the "Belt and Road" Initiative, Beijing Hub launched domestic routes such as Beijing-Kashgar and Beijing-Changzhi and international routes such as Beijing-Phnom Penh and Beijing-Shenzhen-Johannesburg. The Company also optimised the flight schedule and aircraft models for international and domestic routes such as Beijing-London, Beijing-Manila and Beijing-Guangzhou, and optimised flights and interlining services via Beijing Hub. The Company newly opened all entrusted baggage through check services for routes from 24 cities in 11 countries to China via Beijing, covering 96% of total passengers who transit to China from the abroad via Beijing. The number of passengers who used interlining services in Beijing Hub recorded a year-on-year increase of 11%. The size of flights increased continually, and the commercial value of Beijing Hub improved steadily.

The Company continuously expanded route network and developed its hubs. The newly launched or resumed routes included domestic routes such as Shanghai-Hohhot-Xilinhot, Chengdu-Zhengzhou-Changchun and Chengdu-Bazhong-Shanghai and international routes such as Hangzhou-Rome, Hangzhou-Osaka and Tianjin-Osaka. We also increased flight frequencies to Chengdu-Harbin, Shanghai-Xi'an, Shanghai-Paris and other domestic and international routes. With the joint venture cooperation, Shanghai International Gateway has built up more domestic and international route network connection. Leveraging the upcoming completion of Chengdu Tianfu International Airport, Chengdu International Hub deployed more extensive route network. Shenzhen International Gateway launched the "Belt and Road" routes and supported the development of Guangdong-Hong Kong-Macau Greater Bay Area.

As at the end of the Reporting Period, the Company, Shenzhen Airlines (including Kunming Airlines), Air Macau, Beijing Airlines, Dalian Airlines and Air China Inner Mongolia newly launched or adjusted 28 domestic and international routes, and operated a total of 766 passenger routes, including 605 domestic routes, 132 international routes and 29 regional routes. The Company's passenger routes reached 41 countries and regions and 190 cities, including 120 domestic cities, 67 international cities and three regions. The Company proactively carried out international cooperation and 36 global partners offered 15,436 code sharing flights per week. Through cooperation with members of Star Alliance, the Company has expanded our service coverage to 1,317 destinations in 193 countries.

Brand and Marketing

During the Reporting Period, the Company optimised the operation of the entire fleet and improved capacity allocation, and increased the daily utilisation of aircraft by 0.15 hour. The improvement of efficiency and capacity allocation contributed gains of about RMB400 million. We conducted accurate marketing to achieve better alignment between capacity and demand, matching of products and customers, and recorded a year-on-year growth of 0.51 ppt in average passenger load factor. We also refined the policies for premium services on different routes and saw a year-on-year growth of 4.3% in revenue from premium cabins. By introducing products such as the A350 Premium Economy Class, the accumulated sales revenue of our ancillary services and products has increased year-on-year by 73% to RMB160 million. We also stepped up the transformation of business model and further exploited innovative marketing. We improved the sales function and user experience of our mobile platform, and the number of registered users of our application has reached 9.37 million, contributing sales revenue of RMB3,590 million. We enriched ecosystem of our application by launching a payment method by which mileage credits can be used for payment with cash and be spent in various traveling-related scenarios, which has increased loyalty and stickiness of our customers. Our program "Phoenix Miles" has a total of 60.09 million members, and its contributed revenue has increased by 6.3% as compared with corresponding period of last year.

Our brand construction continued to proceed while our brand value steadily increased. We conducted comprehensive, systematic and multi-dimensional brand communication in major European markets, thereby significantly improving brand recognition. Furthermore, we endeavoured to maximise our brand value through the exhibition hall featuring "Wings of Dream (夢之翼)" of Beijing International Horticultural Exhibition, and the "Beijing Cross-Country Skiing Competition (北京越野滑雪大獎賽)" of Beijing 2022 Winter Olympic Games. Our brand communication has won numerous awards, such as the nomination of the "Best Enterprise Brand Communication on the Global Award List" by the PR Week (《公關週刊》全球榜單最佳企業品牌傳播獎), representing the first airline in the world to be nominated with such honor. We also won awards such as the "Best VR/AR" of 2019 Asia Pacific PR Award (亞太公關大獎「最佳VR/AR」獎項) and the "Excellent Chinese Global Brand Award (中國出海品牌卓越獎)".

Products and Services

Upholding a philosophy of offering sincere service, we effectively enhanced passenger experience, implemented the "three-all" strategy of service, so as to promote the high-quality development of products and services. We kept abreast of global standards and strived to improve the competitiveness of services and products. We also continued to promote the benchmarking of service standard system with that of the Star Alliance and the implementation of digital system, "Move under One Roof" programme, Luggage Hub Center and other projects proposed by Star Alliance. Aircraft seats, entertainment systems, compartments on narrow-body aircraft, cabin lighting products and other products continued to be optimised and upgraded. We created innovative aircraft tableware, toiletries and other products, and launched new eco-friendly tableware of economy class, and created a catering brand for the Belt and Road routes. We implemented the whole process management to improve the design ability of service standards. We established the whole process product and service standard system. By the end of the Reporting Period, a total of 75 product and service standards were released. We opened the information flow for the whole process of service. In the first half of the year, 10 aircraft including A320 and B777 were revamped with in-flight WIFI. We made great efforts to improve the traveling experience of passengers in an all-round way. We fully promoted self-service check-in, self-service baggage check-in, face recognition + self-boarding and other convenient travel products. We enriched transit products, expanded transit guidance services and transit lounge booking channels. We created aircraft cultural entertainment scenarios, providing more than 1,031 hours of aircraft entertainment in 28 languages for passengers in the first half of the year.

Coordination and Cooperation

The Company continued to strengthen the multi-brand strategic cooperation with its member airlines and improved the security audit and management system to cope with the large-scale and multi-brand operation model. We also planned our base and market layout as a whole to improve the strategic objective management system, promote the sharing of time slot resources, deploy capacity with market demand and deepen maintenance cost linkage. Further, we constantly converted our strategic advantages into operational advantages by enhancing joint purchasing and implementing data assets consolidation.

We deepened the joint operation with Deutsche Lufthansa AG by strengthening the partnership on secondary markets, lounge and high-end services. We carried out full joint operation with Air Canada and made progress in improving yield level of common flight routes, conducting channels and customer integration, implementing code sharing, the synergistic effects of which have begun to appear. We continued to enhance the joint, bilateral and multilateral cooperation with airlines companies such as United Airlines, Air New Zealand, Singapore Airlines and conducted code sharing cooperation with 19 enterprises in Star Alliance with a total of 36 aviation enterprises.

Safe Operation

The Company further promoted the implementation of 30 measures aimed at the sustainable and safe development of the Group by firmly establishing the concept of safe development, holding the bottom line of safety, strictly implementing safety responsibilities and strengthening the whole production process control. We enhanced our ability to handle emergency under irregular conditions such as the prompt launch of consultation mechanism and emergency security. We always maintained high sensitivity to safety and actively responded to situations such as the grounding of B737MAX and technical problems of the aircraft engine of B787, so as to ensure the safe operation of flights. We continued to reinforce the safety foundation by promoting the development of a three-level risk management system and developing a new risk source database. We applied a new flight quality monitoring system which improved the timeliness of data monitoring. We also fully utilised the flight training system and improved the utilization of training resources. Furthermore, we adopted the new Flight Standard Operating Procedure Manual (SOP) to unify flight procedures of our fleet. We promoted the integration of quality control system. AMECO was awarded the first maintenance license issued by the Civil Aviation Administration of China after the reform of "integrating certificates into one". During the Reporting Period, the Company recorded 1.1292 million safe flight hours and conducted safe take-offs and landings for nearly 410 thousand times.

Prospects

In the second half of the year, the Group will continuously adhere to the important instructions of General Secretary Xi Jinping on civil aviation, stay committed to the underlying principle of pursuing progress while ensuring stability and adhere to the philosophy of high-quality development, so as to unswervingly develop Air China into a top-tier aviation group in the world. The Group will further enhance the management on civil safety, improve risk prevention and control capabilities, improve profitability, optimise the hub network and production organization, as well as improve service quality and passenger experience, so as to greet the 70th anniversary of the founding of the PRC with extraordinary achievements.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the Group's interim condensed consolidated financial statements and notes thereto 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's profit from operations increased year-on-year by 1.52% to RMB6,742 million. In the first half of 2019, the air transport market of the PRC showed 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 relatively satisfactory results despite the impact factors such as oil price, exchange rate fluctuation.

Revenue

During the Reporting Period, the Group's revenue was RMB65,313 million, representing a year-on-year increase of RMB1,071 million or 1.67%. Among which, air traffic revenue was RMB62,681 million, representing a year-on-year increase of RMB712 million or 1.15%. Other operating revenue was RMB2,632 million, representing a year-on-year increase of RMB359 million or 15.79%.

Revenue Contributed by Geographical Segments

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**19,595,260**	**30.00%**	19,827,425	30.86%	(1.17%)
Mainland China	**42,475,188**	**65.03%**	41,551,486	64.68%	2.22%
Hong Kong SAR, Macau SAR and Taiwan, China	**3,242,639**	**4.97%**	2,863,411	4.46%	13.24%
Total	**65,313,087**	**100.00%**	64,242,322	100.00%	1.67%

Air Passenger Revenue

During the Reporting Period, the Group recorded an air passenger revenue of RMB59,851 million, representing an increase of RMB2,957 million or 5.20% over that of the same period of 2018. Among the air passenger revenue, the increase of capacity contributed an increase in revenue of RMB3,371 million, the increase of passenger load factor contributed an increase in revenue of RMB382 million, while the decrease of passenger yield resulted in a decrease in revenue of RMB796 million. The capacity, passenger load factor and yield per RPK of air passenger business during the Reporting Period are as follows:

	For the six months ended 30 June		
	2019	2018	Change
Available seat kilometres *(million)*	**141,728.21**	133,799.77	5.93%
Passenger load factor *(%)*	**80.99**	80.48	0.51ppt
Yield per RPK *(RMB)*	**0.5214**	0.5282	(1.29%)

Air Passenger Revenue Contributed by Geographical Segments

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**17,624,133**	**29.45%**	15,877,693	27.91%	11.00%
Mainland China	**39,110,239**	**65.35%**	38,347,915	67.40%	1.99%
Hong Kong SAR, Macau SAR and Taiwan, China	**3,116,139**	**5.20%**	2,668,322	4.69%	16.78%
Total	**59,850,511**	**100.00%**	56,893,930	100.00%	5.20%

Air Cargo and Mail Revenue

During the Reporting Period, the Group's air cargo and mail revenue was RMB2,830 million, representing a decrease of RMB2,245 million as compared with that of the same period of 2018. Excluding the impact of deconsolidation of Air China Cargo, air cargo and mail revenue decreased by RMB67 million year-on-year. Among the air cargo and mail revenue, the increase of capacity contributed an increase in revenue of RMB100 million, while the decrease of cargo and mail load factor resulted in a decrease in revenue of RMB163 million, and the decrease of yield of cargo and mail resulted in a decrease in revenue of RMB4 million. The capacity, cargo and mail load factor and yield per RFTK of air cargo and mail business during the Reporting Period are as follows:

	For the six months ended 30 June		
	2019	2018	Change
Available freight tonne kilometres *(million)*	**5,534.23**	5,349.36	3.46%
Cargo and mail load factor *(%)*	**42.16**	44.59	(2.43ppt)
Yield per RFTK *(RMB)*	**1.2128**	1.2145	(0.14%)

Note: Data of the six months ended 30 June 2018 excluding the freight transportation data of freighters of Air China Cargo.

Air Cargo and Mail Revenue Contributed by Geographical Segments

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
International	**1,971,127**	**69.65%**	3,949,732	77.84%	(50.09%)
Mainland China	**732,437**	**25.88%**	929,866	18.32%	(21.23%)
Hong Kong SAR, Macau SAR and Taiwan, China	**126,500**	**4.47%**	195,089	3.84%	(35.16%)
Total	**2,830,064**	**100.00%**	5,074,687	100.00%	(44.23%)

Operating Expenses

During the Reporting Period, the Group's operating expenses were RMB60,502 million, representing an increase of 1.56% from RMB59,574 million in the same period of previous year. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2019		2018		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**17,614,613**	**29.11%**	17,581,987	29.51%	0.19%
Take-off, landing and depot charges	**8,055,126**	**13.31%**	7,370,150	12.37%	9.29%
Depreciation, amortisation and aircraft and engine lease expenses	**10,862,757**	**17.96%**	10,528,849	17.67%	3.17%
Aircraft maintenance, repair and overhaul costs	**2,886,110**	**4.77%**	3,415,660	5.73%	(15.50%)
Employee compensation costs	**11,760,502**	**19.44%**	11,596,358	19.47%	1.42%
Air catering charges	**1,928,614**	**3.19%**	1,806,920	3.03%	6.73%
Selling and marketing expenses	**2,365,467**	**3.91%**	2,114,512	3.55%	11.87%
General and administrative expenses	**643,591**	**1.06%**	589,720	0.99%	9.14%
Others	**4,385,384**	**7.25%**	4,569,491	7.68%	(4.03%)
Total	**60,502,164**	**100.00%**	59,573,647	100.00%	1.56%

Jet fuel costs increased by RMB33 million or 0.19% on a year-on-year basis.

Take-off, landing and depot charges increased by RMB685 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.

Depreciation, amortisation and aircraft and engine lease expenses increased by RMB334 million on a year-on-year basis, mainly due to the increase in the number of self-owned and leased aircraft.

Aircraft maintenance, repair and overhaul costs decreased by RMB530 million on a year-on-year basis, mainly due to the impact of implementing IFRS 16 *Leases* during the Reporting Period.

Employee compensation costs increased by RMB164 million on a year-on-year basis, mainly due to the impact of the expansion of production scale and the increase in number of employees.

Air catering charges increased by RMB122 million on a year-on-year basis, mainly due to the increase in the number of passengers.

Selling and marketing expenses increased by RMB251 million on a year-on-year basis, mainly due to the impact of no longer consolidating Air China Cargo into account and the increase in booking fees resulting from the increase in the number of passengers during the Reporting Period.

Other operating expenses mainly included contributions to the civil aviation development fund and non-above-mentioned ordinary expenses arising from the core air traffic business, which decreased by 4.03% on a year-on-year basis.

Net Exchange Loss and Finance Costs

During the Reporting Period, the Group recorded a net exchange loss of RMB119 million, representing a year-on-year decrease of RMB399 million. The Group incurred finance costs of RMB2,440 million (excluding those capitalised) during the Reporting Period, representing a year-on-year increase of RMB1,070 million, mainly due to the impact of adopting IFRS 16 *Leases*.

Share of Profits of Associates and Joint Ventures

During the Reporting Period, the Group's share of profits of its associates was RMB146 million, representing a year-on-year increase of RMB69 million. Among which, the Group recorded a gain on investment of Cathay Pacific of RMB199 million during the Reporting Period, as compared with the loss on investment of RMB157 million for the same period of previous year.

During the Reporting Period, the Group's share of profits of its joint ventures was RMB112 million, representing a year-on-year decrease of RMB3 million, mainly due to the slight decrease in the profits of joint ventures during the Reporting Period.

Assets Structure Analysis

Since the adoption of IFRS 16 *Leases*, the total assets of the Group as at 1 January 2019 was RMB280,374 million, representing an increase of RMB36,717 million from that as at 31 December 2018. As at the end of the Reporting Period, the total assets of the Group was RMB285,454 million, representing an increase of 1.81% from that as at 1 January 2019. Among which, the current assets accounted for RMB25,587 million or 8.96% of the total assets, while the non-current assets accounted for RMB259,867 million or 91.04% of the total assets.

Among the current assets, cash and cash equivalents were RMB7,625 million, representing an increase of 12.74% from that as at 1 January 2019.

Among the non-current assets, the net book value of property, plant and equipment and right-of-use assets as at the end of the Reporting Period was RMB214,787 million, representing an increase of 1.67% from that as at 1 January 2019.

Asset Mortgage

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated net book value of approximately RMB79,577 million (approximately RMB85,514 million as at 31 December 2018) and land use rights with net book value of approximately RMB28 million (approximately RMB28 million as at 31 December 2018). In addition, the Group had restricted bank deposits of approximately RMB750 million (approximately RMB1,044 million as at 31 December 2018), 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 a total of RMB9,667 million, of which the total investment in aircraft and engines was RMB8,965 million. Other capital expenditure investment amounted to RMB702 million, mainly including investment in expensive rotable parts, flight simulators, infrastructure construction, IT system construction, ground equipment procurement 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 amounted to RMB14,369 million, representing an increase of 2.07% from that as at 1 January 2019. Among which, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB12,225 million, RMB1,055 million and RMB522 million, respectively. Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines recorded a net profit attributable to the parent of RMB1,183 million, a net profit attributable to the parent of RMB17 million and a net loss attributable to the parent of RMB27 million, respectively, for the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,408 million, representing a decrease of 1.35% from that as at 1 January 2019.

Debt Structure Analysis

As at the end of the Reporting Period, the total liabilities of the Group amounted to RMB188,487 million, representing an increase of 1.36% from those as at 1 January 2019, among which current liabilities were RMB77,791 million and non-current liabilities were RMB110,696 million, accounting for 41.27% and 58.73% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and lease liabilities) amounted to RMB36,894 million, representing a decrease of 6.41% from that as at 1 January 2019, mainly due to the decrease of working capital loans of the Group.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and lease liabilities) amounted to RMB99,808 million, representing an increase of 2.99% from that as at 1 January 2019.

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

	30 June 2019		1 January 2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
US dollars	**60,410,706**	**44.19%**	66,022,894	48.43%	(8.50%)
RMB	**74,682,473**	**54.63%**	68,549,101	50.28%	8.95%
Others	**1,608,696**	**1.18%**	1,757,348	1.29%	(8.46%)
Total	**136,701,875**	**100.00%**	136,329,343	100.00%	0.27%

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 24.43% from RMB39,269 million as at 31 December 2018 to RMB29,677 million as at the end of the Reporting Period. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB59 million as at the end of the Reporting Period, which was basically flat with that as at 31 December 2018.

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 RMB52,203 million, representing a decrease of RMB2,269 million from that as at 1 January 2019. The Group's current ratio (current assets divided by current liabilities) was 0.33, representing an increase as compared to that of 0.30 as at 1 January 2019.

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 from operating activities was RMB13,075 million, representing an increase of 11.64% from RMB11,712 million for the corresponding period in 2018, which is mainly because operating lease expenses paid during the Reporting Period were included in financing activities according to IFRS 16 *Leases*. Net cash outflow from investing activities was RMB3,456 million, representing a decrease of 59.11% from RMB8,451 million for the corresponding period in 2018, mainly due to the year-on-year decrease in the cash payment of advances and remaining balances for aircraft during the Reporting Period. Net cash outflow from financing activities amounted to RMB8,703 million, as compared with the net cash inflow from financing activities of RMB120 million for the same period of previous year, mainly due to the improved efficiency of funds use, the optimised debt structure and the impact of implementing IFRS 16 *Leases* by the Group.

The Company has obtained bank facilities of up to RMB131,216 million granted by several banks in the PRC, among which approximately RMB18,183 million has been utilised. The remaining amount is sufficient to meet our demands on working capital and future capital commitments.

Gearing Ratio

The Group implemented IFRS 16 *Leases* from 1 January 2019, and gearing ratio (total liabilities divided by total assets) at the beginning of the year increased by 7.58 percentage points from that as at 31 December 2018 to 66.33%. As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 66.03%, representing a decrease of 0.30 percentage point from the gearing ratio as at 1 January 2019. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a 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.

Employees

As at the end of the Reporting Period, the Company had a total of 28,261 employees, and the subsidiaries of the Company had a total of 57,341 employees.

Upholding the concept of "paying salary with reference to the value of job, personal ability as well as performance appraisal" and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company has continually established and improved a linkage mechanism combining salary distribution with performance, and implemented differentiated management on gross payroll and budget. During the Reporting Period, the Company continued to develop its market benchmark system for position compensation and promote the pilot reform of talent mechanism for market-oriented remuneration, and has fully mobilized the enthusiasm and creativity of our employees.

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 2019.

SUBSEQUENT EVENTS

On 11 July 2019, the Company and Air China Import and Export Co., Ltd. (國航進出口有限公司) (a wholly-owned subsidiary of the Company) entered into an aircraft purchase agreement with Airbus Company, pursuant to which the Company has agreed to purchase 20 A350-900 aircraft from Airbus Company. For details, please refer to the announcement of the Company dated 11 July 2019.

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 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 2018 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 2019, 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

Traffic Measurements

"passenger traffic"	measured in RPK, 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 RFTK, 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

Efficiency Measurements

"passenger load factor"	RPK expressed as a percentage of ASK
"cargo and mail load factor"	RFTK expressed as a percentage of AFTK
"overall load factor"	RTK expressed as a percentage of ATK
"Block hour"	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

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:

"Airbus Company"	Airbus S.A.S., a company established in Toulouse, France
"Air China Cargo"	Air China Cargo Co., Ltd., a subsidiary of CNAHC
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd., a subsidiary of the Company
"Air Macau"	Air Macau Company Limited, a subsidiary of the Company
"AMECO"	Aircraft Maintenance and Engineering Corporation, a subsidiary of the Company
"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 the Shanghai Stock Exchange
"Beijing Airlines"	Beijing Airlines Company Limited, a subsidiary of the Company
"Board"	the board of directors of the Company
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNAHC"	China National Aviation Holding Corporation Limited
"COMAC"	Commercial Aircraft Corporation of China, Ltd., a company incorporated in Shanghai, the PRC
"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, a subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries

"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)
"International Financial Reporting Standards" or "IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Reporting Period"	the period from 1 January 2019 to 30 June 2019
"RMB"	Renminbi, the lawful currency of the PRC
"Shandong Airlines"	Shandong Airlines Co., Ltd., a subsidiary of Shandong Aviation Group Corporation
"Shandong Aviation Group Corporation"	Shandong Aviation Group Company Limited, an associate of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a subsidiary of the Company

"Supervisor(s)"	the supervisor(s) of the Company
"US dollars"	United States dollars, the lawful currency of the United States

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

Beijing, the PRC, 28 August 2019

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