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: 753)

2007 ANNUAL RESULTS ANNOUNCEMENT

GROUP RESULTS

The board of directors (the "Board") of Air China Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company, its subsidiaries and joint ventures (collectively, the "Group") for the year ended 31 December 2007 with comparative figures for the corresponding year of 2006 as follows:

A. Prepared under International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT

	Notes	**2007** **RMB'000**	2006 RMB'000
TURNOVER			
Air traffic revenue	*3*	**47,717,546**	41,606,130
Other operating revenue	*4*	**3,612,995**	3,330,476
		51,330,541	44,936,606
OPERATING EXPENSES			
Jet fuel costs		**(17,201,143)**	(15,716,174)
Take-off, landing and depot charges		**(5,537,907)**	(5,136,388)
Depreciation		**(5,554,443)**	(5,274,033)
Aircraft maintenance, repair and overhaul costs		**(2,076,119)**	(1,812,647)
Employee compensation costs	*5*	**(5,209,766)**	(4,313,883)
Air catering charges		**(1,473,543)**	(1,320,123)
Aircraft and engine operating lease expenses		**(2,239,359)**	(2,069,639)
Other operating lease expenses		**(311,262)**	(323,752)
Other flight operation expenses		**(4,232,726)**	(3,658,986)
Selling and marketing expenses		**(2,708,770)**	(2,026,728)
General and administrative expenses		**(951,376)**	(766,549)
		(47,496,414)	(42,418,902)
PROFIT FROM OPERATIONS	*6*	**3,834,127**	2,517,704
Finance revenue	*7*	**2,376,572**	1,177,871
Finance costs	*7*	**(1,969,326)**	(1,876,487)
Gain on disposal of an associate	*8*	**–**	1,592,633
Share of profits and losses of associates		**1,364,740**	517,500
PROFIT BEFORE TAX		**5,606,113**	3,929,221
Tax		**(1,484,613)**	(624,124)
PROFIT FOR THE YEAR		**4,121,500**	3,305,097

	Notes	2007 RMB'000	2006 RMB'000
Attributable to:			
Equity holders of the Company		**4,228,997**	2,687,841
Minority interests		**(107,497)**	617,256
		4,121,500	3,305,097
Dividend:			
Interim		**–**	–
Proposed final		**837,987**	602,767
		837,987	602,767
Earnings per share attributable to equity holders of the Company:	*12*		
Basic		**35.6 cents**	26.2 cents
Diluted		**NA**	NA

CONSOLIDATED BALANCE SHEET

	2007 *RMB'000*	2006 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**61,691,673**	54,767,664
Lease prepayments	**1,046,042**	1,013,529
Intangible asset	**75,194**	–
Interests in associates	**9,542,677**	9,255,474
Advance payments for aircraft and related equipment	**7,652,365**	6,976,054
Deposits for aircraft under operating leases	**257,505**	259,681
Long term receivable from ultimate holding company	**331,813**	431,813
Available-for-sale investments	**1,997**	6,704
Deferred tax assets	**626,645**	1,064,157
	81,225,911	73,775,076
CURRENT ASSETS		
Aircraft held for sale	**184,728**	–
Inventories	**1,142,050**	1,015,266
Accounts receivable	**2,794,280**	2,835,227
Bills receivable	**1,599**	–
Prepayments, deposits and other receivables	**1,318,062**	1,077,036
Derivative financial instruments	**6,493**	99,935
Pledged deposits	**118,624**	211,504
Cash and cash equivalents	**3,906,520**	5,159,181
Due from ultimate holding company	**335,129**	289,933
Due from related companies	**22,881**	14,378
	9,830,366	10,702,460
TOTAL ASSETS	**91,056,277**	84,477,536
CURRENT LIABILITIES		
Air traffic liabilities	**(2,156,104)**	(1,530,484)
Accounts payable	**(5,930,800)**	(5,221,061)
Bills payable	**–**	(651,345)
Other payables and accruals	**(4,350,281)**	(4,192,887)
Derivative financial instruments	**(14,826)**	(242,108)
Tax payable	**(1,111,404)**	(534,273)
Obligations under finance leases	**(2,216,680)**	(2,354,905)
Bank and other loans	**(10,978,835)**	(11,139,021)
Provision for major overhauls	**(83,907)**	(47,318)
Due to related companies	**(45,142)**	(39,989)
	(26,887,979)	(25,953,391)
NET CURRENT LIABILITIES	**(17,057,613)**	(15,250,931)
TOTAL ASSETS LESS CURRENT LIABILITIES	**64,168,298**	58,524,145
NON-CURRENT LIABILITIES		
Obligations under finance leases	**(13,328,193)**	(11,247,855)
Bank loans, other loans and corporate bonds	**(16,615,291)**	(12,701,977)
Provision for major overhauls	**(1,190,415)**	(921,929)
Provision for early retirement benefits obligations	**(164,837)**	(201,199)
Long term payables	**(190,005)**	(252,591)
Deferred income	**(872,023)**	(948,966)
Deferred tax liabilities	**(300,181)**	(513,935)
	(32,660,945)	(26,788,452)
NET ASSETS	**31,507,353**	31,735,693

	2007	2006
	RMB'000	*RMB'000*
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Issued share capital	**12,251,362**	12,251,362
Treasury shares	**(1,283,492)**	(1,246,955)
Reserves	**19,551,280**	18,117,084
Proposed final dividend	**837,987**	602,767
	31,357,137	29,724,258
MINORITY INTERESTS	**150,216**	2,011,435
TOTAL EQUITY	**31,507,353**	31,735,693

Notes:

1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value and aircraft held for sale which have been stated at the lower of their carrying amounts and fair values less costs to sell.

Impact of New and Revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Capital Disclosures
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment

(a) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to IAS 1 Presentation of Financial Statements – *Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and procedures for managing capital.

(c) IFRIC-Int 8 *Scope of IFRS 2*

This interpretation requires IFRS2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Company's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued any equity instruments to its employees and only incurred liabilities to its employees for identified services provided in accordance with its share appreciation right arrangement, the interpretation has had no effect on these financial statements.

(d) IFRIC-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or results of operations of the Group.

(e) IFRIC-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted IFRIC Interpretation 10 as at 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group

Impact of Issued but not yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IFRS 8	Operating Segments
IFRS 2	Share-based Payments – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 1 (Revised)	Presentation of Financial Statements
IAS 32 (Amendment)	Puttable Financial Instruments
IAS 1 (Amendment)	Puttable Financial Instruments
IFRIC-Int 11	IFRS 2: Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

(a) IFRS 8 *Operating Segments*

This standard will become effective for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

(b) IFRS 2 *Share-based Payments – Vesting Conditions and Cancellations*

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into shared-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

(c) IFRS 3 *Business Combinations*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised., the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by IFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interest.

(d) IAS 23 *Borrowing Costs*

The revised standard will become effective for annual periods beginning on or after 1 January 2009 and requires capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing cost aligns with the requirement of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

(e) IAS 27 *Consolidated and Separate Financial Statements*

IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Further more, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interest.

(f) IAS 1 *Presentation of Financial Statements*

The revised IFAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning or after 1 January 2009. The Standard separates owners and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expenses, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

(g) IAS 32 *Puttable Financial Instruments*

Amendment to IAS 32 were issued in February 2008 and become effective for annual periods beginning or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The Group does not expect these amendments to impact the financial statements of the Group.

(h) IAS 1 *Puttable Financial Instruments*

Amendment to IAS 1 were issued in February 2008 and become effective for annual periods beginning or after 1 January 2009. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

(i) IFRIC-Int 11: *IFRS 2 Group and Treasury Share Transactions*

This interpretation will become effective for annual periods beginning on or after 1 March 2007. This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

(j) IFRIC-Int 12 *Service Concession Arrangements*

This interpretation will become effective for annual periods beginning on or after 1 January 2008. The interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivables in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The interpretation also address how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public service. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

(k) IFRIC-Int 13 *Customer Loyalty Programmes*

This interpretation will become effective for annual periods beginning on or after 1 July 2008. This interpretation requires that the loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

(l) IFRIC-Int *14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This interpretation will become effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact if applicable, of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS8 may result in new or amended disclosure and the adoption of IFRIC-Int 13 may result in a change in amounting policy,these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2 BUSINESS SEGMENTS

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006:

Year ended 31 December 2007

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	50,028,849	487,710	509,450	304,532	–	51,330,541
Intersegment sales	–	674,123	–	190,758	(864,881)	–
Total revenue	50,028,849	1,161,833	509,450	495,290	(864,881)	51,330,541
PROFIT FROM OPERATIONS						
Segment results	3,695,437	686,601	111,793	205,177	(864,881)	3,834,127
Finance revenue	2,328,035	21,791	–	26,746	–	2,376,572
Finance costs	(1,954,476)	(13,400)	–	(1,450)	–	(1,969,326)
Share of profits and losses of associates	1,214,190	5,189	117,808	27,553		1,364,740
Profit before tax	5,283,186	700,181	229,601	258,026	(864,881)	5,606,113
Tax						(1,484,613)
Minority interests						107,497
Profit attributable to equity holders of the Company						4,228,997
ASSETS						
Segment assets	79,308,581	1,441,639	371,119	1,096,601	(1,330,985)	80,886,955
Interests in associates	9,013,689	153,911	119,317	255,760	–	9,542,677
Unallocated assets						626,645
Total assets						91,056,277
LIABILITIES						
Segment liabilities	(57,441,708)	(827,806)	(608,978)	(890,013)	1,330,985	(58,437,520)
Unallocated liabilities						(1,111,404)
Total liabilities						(59,548,924)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related equipment)	20,591,633	215,990	134,954	3,852	–	20,946,429
Depreciation of property, plant and equipment	5,447,151	38,594	66,324	2,374	–	5,554,443
Amortisation of lease prepayments	22,478	–	–	–	–	22,478
Impairment loss on aircraft held for sale	142,800	–	–	–	–	142,800
Impairment loss on available-for-sale investments	–	–	–	4,481	–	4,481
Decrease in fair value of derivative financial instruments	133,840	–	–	–	–	133,840
Reversal of impairment for doubtful debts	(435)	(884)	–	(92)	–	(1,411)
Recognition of deferred income	76,943	–	–	–	–	76,943

Year ended 31 December 2006

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	43,708,683	481,021	496,741	250,161	–	44,936,606
Intersegment sales	–	620,302	–	186,000	(806,302)	–
Total revenue	43,708,683	1,101,323	496,741	436,161	(806,302)	44,936,606
PROFIT FROM OPERATIONS						
Segment results	2,281,754	655,137	175,445	211,670	(806,302)	2,517,704
Finance revenue	1,161,287	9,456	–	7,128	–	1,177,871
Finance costs	(1,863,002)	(11,606)	–	(1,879)	–	(1,876,487)
Gain on disposal of an associate	1,592,633	–	–	–	–	1,592,633
Share of profits and losses of associates	365,639	4,797	135,169	11,895	–	517,500
Profit before tax	3,538,311	657,784	310,614	228,814	(806,302)	3,929,221
Tax						(624,124)
Minority interests						(617,256)
Profit attributable to equity holders of the Company						2,687,841
ASSETS						
Segment assets	72,975,757	1,239,259	306,758	1,182,531	(1,546,400)	74,157,905
Interests in associates	8,663,367	112,336	170,115	309,656	–	9,255,474
Unallocated assets						1,064,157
Total assets						84,477,536
LIABILITIES						
Segment liabilities	(51,130,149)	(639,936)	(475,015)	(994,935)	1,546,400	(51,693,635)
Unallocated liabilities						(1,048,208)
Total liabilities						(52,741,843)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related equipment)	16,440,786	89,754	27,521	28,191	–	16,586,252
Depreciation of property, plant and equipment	5,168,367	41,834	56,088	7,744	–	5,274,033
Amortisation of lease prepayments	21,495	–	–	–	–	21,495
Impairment loss on available-for-sale investments	–	–	–	15,562	–	15,562
Decrease in fair value of derivative financial instruments	268,041	–	–	–	–	268,041
Impairment/(reversal of impairment) for doubtful debts	3,536	(3,579)	–	(1,859)	–	(1,902)
Recognition of deferred income	76,943	–	–	–	–	76,943

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the years ended 31 December 2007 and 2006:

Year ended 31 December 2007

	Mainland China *RMB'000*	**Hong Kong and Macau** *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	27,702,479	2,848,675	7,616,370	4,678,276	4,475,578	4,009,163	51,330,541

Year ended 31 December 2006

	Mainland China *RMB'000*	Hong Kong and Macau *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan and Korea *RMB'000*	Pacific and others *RMB'000*	Total *RMB'000*
Sales to external customers and total revenue	23,868,328	2,770,579	6,203,536	3,806,678	4,256,753	4,030,732	44,936,606

3 AIR TRAFFIC REVENUE

Air traffic revenue comprises revenue from the airline operations business and is stated net of business tax. An analysis of the Group's air traffic revenue during the year is as follows:

	Group	
	2007 *RMB'000*	2006 *RMB'000*
Passenger	**43,632,090**	37,564,903
Cargo and mail	**4,085,456**	4,041,227
	47,717,546	41,606,130

Pursuant to the relevant PRC business tax rules and regulations, air traffic revenue for all domestic and outbound international flights is subject to business tax at a rate of 3%. All inbound international, Hong Kong and Macau regional flights are exempted from business tax. Business tax incurred and set off against air traffic revenue for the years ended 31 December 2007 amounted to approximately RMB1,224 million (2006: RMB1,039 million).

4 OTHER OPERATING REVENUE

	Group	
	2007	2006
	RMB'000	*RMB'000*
Bellyhold income from a joint venture	**1,579,185**	1,518,925
Aircraft engineering income	**487,710**	481,021
Ground service income	**509,450**	496,741
Air catering income	**162,886**	136,581
Government grants:		
Recognition of deferred income	**76,943**	76,943
Others	**131,136**	124,420
Service charges on return of unused flight tickets	**152,107**	110,825
Cargo handling service income	**62,466**	63,938
Sale of materials	**12,648**	15,055
Import and export service income	**7,850**	10,676
Training service income	**20,837**	17,839
Aircraft and related equipment lease income	**12,688**	1,323
Gain on disposal of property, plant and equipment, net	**165,311**	17,353
Others	**231,778**	258,836
	3,612,995	3,330,476

5 EMPLOYEE COMPENSATION COSTS

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
Wages, salaries and social security costs	**4,817,539**	4,037,553
Retirement benefit costs	**368,241**	276,330
Share-based benefits	**23,986**	–
	5,209,766	4,313,883

6 PROFIT FROM OPERATIONS

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
Auditors' remuneration	**14,261**	10,658
Depreciation	**5,554,443**	5,274,033
Gain on disposal of property, plant and equipment, net	**(165,311)**	(17,353)
Loss on derecognition of property, plant and equipment	**37,138**	70,206
Amortisation of lease prepayments	**22,478**	21,495
Minimum lease payments under operating leases:		
Aircraft and engines	**2,239,359**	2,069,639
Land, buildings and others	**311,262**	323,752
Impairment loss on available-for-sale investments	**4,481**	15,562
Impairment loss on aircraft held for sale	**142,800**	–
Reversal of impairment for doubtful debts	**(1,411)**	(1,902)

7 FINANCE REVENUE AND FINANCE COSTS

An analysis of the Group's finance revenue and finance costs during the year is as follows:

Finance revenue

	Group	
	2007	2006
	RMB'000	*RMB'000*
Exchange gains, net	**2,030,391**	983,692
Interest income	**110,013**	80,689
Gains on fuel derivatives, net	**235,944**	113,225
Dividend income from available-for-sale investments	**224**	265
	2,376,572	1,177,871

Finance costs

	Group	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans, other loans and corporate bonds	**1,572,793**	1,380,781
Interest on finance leases	**650,613**	601,153
Total interest	**2,223,406**	1,981,934
Less: Interest capitalised	**(254,080)**	(105,447)
	1,969,326	1,876,487

The interest capitalisation rates ranging from 4.5% to 5.9% (2006: 4.5% to 6.0%) per annum represent the cost of related borrowings during the year.

8 GAIN ON DISPOSAL OF AN ASSOCIATE

The gain on disposal of an associate in 2006 relates to the sale of the Group's equity interest in Dragonair to Cathay.

9 TAX

According to the PRC Enterprise Income Tax Law ("Old CIT Law"), the Company, its subsidiaries, joint ventures and associates established in the PRC are subject to enterprise income tax at rates ranging from 12% to 33% (2006: 12% to 33%) on their taxable income.

Hong Kong profits tax has been provided at a rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

In accordance with the Old CIT Law and an approval document issued by the relevant tax bureau on 28 November 2005 (the "Approval Document"), Air China Cargo Co., Ltd ("Air China Cargo") was subject to a state enterprise income tax rate of 24% and was fully exempted from state enterprise income tax for the year ended 31 December 2005, followed by a 3-year 50% reduction in state enterprise income tax during the period between 1 January 2006 and 31 December 2008. In addition, pursuant to the Approval Document, Air China Cargo has been granted a 4-year local enterprise income tax exemption during the period between 1 January 2005 and 31 December 2008, followed by a 5-year 50% reduction in local enterprise income tax during the period between 1 January 2009 and 31 December 2013.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the People's Republic of China Corporate Income Tax Law (the "New CIT Law") was approved and became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax rate for both domestic enterprises and foreign-invested enterprises as 25%. The New CIT Law also lays down principles for transitional arrangements relating to tax incentive (reduced tax and tax holidays) enjoyed by enterprises under the Old CIT Law. Therefore, deferred income tax assets and liabilities of the Group are measured at the 25% tax rate or other applicable tax rates that are expected to apply to the annual periods beginning on or after 1 January 2008 when the deferred tax asset is realised or the deferred tax liability is settled.

The determination of current and deferred income tax was based on enacted tax rates. Major components of income tax charge are as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Current income tax – Mainland China	**1,260,855**	675,975
Deferred income tax – origination and reversal of temporary differences	**223,758**	(51,851)
Income tax charge for the year	**1,484,613**	624,124

The share of tax attributable to associates amounting to RMB193,915,329 (2006: RMB113,577,000) is included in the "Share of profit and losses of associates" on the face of the consolidated income statement.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rates in Mainland China to income tax expense at the Group's effective income tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

	Group			
	2007		2006	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**5,606,113**		3,929,221	
At statutory income tax rate of 33%	**1,850,017**	**33.0**	1,296,643	33.0
Tax effect of share of profits and losses of associates, net	**(450,364)**	**(8.0)**	(170,775)	(4.3)
Lower income tax rates of other territories	**54,074**	**0.9**	(20,718)	(0.5)
Income not subject to tax	**(27,716)**	**(0.5)**	(614,323)	(15.6)
Expenses not deductible for tax purposes	**(27,247)**	**(0.5)**	125,004	3.2
Tax losses not recognised	**8,844**	**0.2**	8,293	0.2
Effect on opening deferred income tax due to a decrease in income tax rates	**77,005**	**1.4**	–	–
At the Group's effective income tax rate	**1,484,613**	**26.5**	624,124	16.0

As at 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures as the Directors of the Company have no intention to request remittance of any significant amount of earnings to the Company in the foreseeable future.

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

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2007 includes a profit of approximately RMB3,097 million (2006: RMB1,226 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB91 million (2006: RMB39 million) from the Company's profit of approximately RMB3,188 million (2006: RMB1,265 million) that has been dealt with in the financial statements of the Company.

11 APPROPRIATIONS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.684 (2006: RMB0.492) per 10 shares	**837,987**	602,767

(a) The proposed final dividend of RMB0.684 (2006: RMB0.492) per 10 shares for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

(b) Under the PRC Company Law and the Company's articles of association, profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under China Accounting Standards("CAS"). The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company;

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

In accordance with the articles of association of the Company, the profit after tax of the Companyfor the purpose of dividends payment is based on the lesser of (i) the profit determined in accordance with CAS; and (ii) the profit determined in accordance with IFRSs.

12 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB4,229 million, and the weighted average number of 11,878,992,909 ordinary shares in issue during the year, as adjusted to reffect the weighted average number of treasure shares held by Cathay Pacific Airways Limited ("Cathay") through reciprocal shareholding.

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2006 of approximately RMB2,688 million, and the weighted average number of 10,256,259,792 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay through reciprocal shareholding.

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not been disclosed because no diluting events existed during these years.

B. Prepared in accordance with China Accounting Standards ("CAS")

		2007	As 2006 (Restated)
Revenue from operations		**49,738,921**	43,410,605
Less:	Costs of operations	**40,307,624**	36,727,352
	Business taxes and surcharges	**1,205,082**	1,005,817
	Selling expenses	**3,290,959**	2,540,147
	General and administrative expenses	**1,311,598**	1,254,505
	Finance costs	**(52,619)**	876,888
	Impairment losses in assets	**52,821**	19,457
Add:	Gains/(loss)from changes in fair value	**133,840**	(268,041)
	Investment income	**1,235,655**	3,525,557
	Including: Share of profits and losses of associates and joint ventures	**1,131,024**	590,908
Profit from operations		**4,992,951**	4,243,955
Add:	Non-operating income	**333,608**	161,840
Less:	Non-operating expenses	**123,424**	87,192
	Including: Loss on disposal of non-current assets	**45,212**	29,129
Profit before tax		**5,203,135**	4,318,603
Less:	Tax	**1,429,284**	364,253
Net profit		**3,773,851**	3,954,350
Attributable to:			
Equity holders of the Company		**3,881,348**	2,977,195
Minority interests		**(107,497)**	977,155
Earnings per share (RMB):			
(I)	Basic	**0.3267**	0.2903
(II)	Diluted	**N/A**	N/A

ASSETS	**31 December, 2007**	31 December, 2006 (Restated)
CURRENT ASSETS:		
Cash and bank balances	**3,787,152**	4,982,844
Financial assets held for trading	**6,493**	99,935
Bills receivable	**1,599**	–
Accounts receivable	**2,812,327**	2,662,281
Other receivables	**997,205**	847,272
Prepayments	**311,784**	298,704
Inventories	**755,340**	704,367
Total current assets	**8,671,900**	9,595,403
NON-CURRENT ASSETS:		
Long term receivables	**255,340**	293,160
Long term equity investments	**11,404,643**	11,387,551
Fixed assets	**55,000,376**	49,243,169
Construction-in-progress	**10,967,888**	9,309,266
Intangible assets	**1,396,620**	1,291,905
Goodwill	**131,945**	131,945
Deferred tax assets	**385,843**	578,625
Long-term deferred expenses	**80,684**	67,931
Total non-current assets	**79,623,339**	72,303,552
Total assets	**88,295,239**	81,898,955

	31 December, 2007	31 December, 2006 (As restated)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term loans	**6,546,088**	8,016,656
Financial liabilities held for trading	**14,826**	242,108
Bills payable	**–**	610,545
Accounts payable	**6,338,341**	5,869,229
Domestic air traffic liabilities	**437,473**	383,851
International air traffic liabilities	**1,702,490**	1,147,204
Receipts in advance	**53,778**	14,770
Employee compensations	**254,073**	193,641
Taxes payable	**1,906,067**	1,700,858
Interest payable	**273,824**	177,946
Other payables	**2,221,096**	1,648,457
Non-current liabilities repayable within one year	**6,344,212**	5,205,258
Total current liabilities	**26,092,268**	25,210,523
NON-CURRENT LIABILITIES:		
Long-term loans	**12,938,092**	9,130,330
Corporate bonds	**3,000,000**	3,000,000
Long-term payables	**1,301,844**	1,140,234
Obligations under finance leases	**13,328,193**	11,247,855
Provisions	**191,533**	149,021
Deferred tax liabilities	**5,000**	7,000
Total non-current liabilities	**30,764,662**	24,674,440
Total liabilities	**56,856,930**	49,884,963
SHAREHOLDERS' EQUITY		
Share capital	**12,251,362**	12,251,362
Capital reserve	**11,852,408**	13,044,987
Reserve fund	**1,299,214**	716,612
Retained earnings	**6,888,843**	4,192,864
Including: Discretionary reserve fund proposed by Board of Directors	**264,700**	317,902
Dividend proposed by Board of Directors	**837,987**	602,767
Foreign exchange translation reserve	**(1,003,732)**	(203,151)
Equity attributable to equity holders of the Company	**31,288,095**	30,002,674
Minority interests	**150,214**	2,011,318
Total shareholders' equity	**31,438,309**	32,013,992
Total liabilities and shareholders' equity	**88,295,239**	81,898,955

C. Effects of significant differences between IFRS and CAS

The consolidated income statement and consolidated balance sheet set out in Section A were prepared in accordance with IFRS.

The significant differences between the consolidated financial statement prepared under CAS and the consolidated financial statement prepared under IFRS of the Group are as follows:

	2007	2006
	RMB'000	*RMB'000*
		(Restated)
Net profit under CAS	**3,881,348**	2,977,195
Deferred taxes	**(40,916)**	(232,066)
Additional depreciation from restatement of costs of fixed assets	**(149,060)**	(159,746)
Reversal of depreciation and amortisation arising on revaluation	**446,936**	490,369
Government grant	**16,900**	(10,987)
Effect of component accounting	**57,635**	234,344
Gain on disposal of an associate	**–**	(627,761)
Others	**16,154**	16,493
Profit attributable to equity holders of the Company under IFRS	**4,228,997**	2,687,841

	2007	2006
	RMB'000	*RMB'000*
Shareholders' equity under CAS	**31,288,095**	30,002,674
Deferred taxes	**(62,319)**	(21,403)
Restatement of costs of fixed assets	**743,768**	892,828
Reversal of revaluation surplus	**(972,848)**	(1,419,784)
Government grant	**(410,242)**	(427,142)
Effect of component accounting	**603,038**	545,403
Gain on disposal of an associate	**139,919**	139,919
Others	**27,726**	11,763
Equity interest attributable to equtiy holders of the Company under IFRS	**31,357,137**	29,724,258

2007 REVIEW

In 2007, China's economy continued to maintain the trend of a rapid but steady growth and the market demand for air transportation remained robust. The Company has, while ensuring its flight safety, improved the service quality and realized the steady growth through economies of scale and a stable increase of the relevant profits as well.

In December 2007, the Company was formally admitted to the Star Alliance, the largest alliance in the world, and thereafter the route network coverage of the Star Alliance extended to 155 countries and regions and 895 destinations. By taking the advantages of its admission to the alliance, the Company is able to fully explore its geographical market.

In 2007, the Company was enlisted in the "World's Top Five Hundred Brands" and the "2007 Top 20 Most Competitive Chinese Companies in the World", and was ranked No.27 in the "Top 500 Most Valuable Chinese Brands". The Company's brand value was further enhanced.

1. Business review of passenger service operation

In 2007, the Company's passenger traffic reached 67,000 million RPKs, representing an increase of 11.10% from 2006. Passenger traffic from international routes, Mainland China routes and Hong Kong and Macau routes increased by 12.10%, 10.80% and 2.70% respectively. The higher growth in international routes compared with Mainland China and Hong Kong and Macau routes reflected the robust growth potential of the international aviation markets. The number of passengers carried was increased by 10.60% from 2006 to 34.841 million with an average passenger load factor of 78.60%, representing an increase of 2.6 percentage points from 2006. The available seat kilometres of the Company was increased by 7.30% from 2006 to 85,270 million kilometers. The revenue per RPK was increased by 5.08% from 2006 to RMB0.62.

Air Macau Company Limited ("Air Macau"): For 2007, while the available seat kilometres reached 3,964 million representing a decrease of 2.14% from 2006, passenger traffic decreased by 0.43% from 2006 to 3,026 million RPKs, and the number of passengers carried decreased by 2.10% from 2006 to 2.415 million. Passenger load factor for 2007 was 76.35%, representing an increase of 1.3 percentage points from 2006.

2. Business review of cargo service operation

In 2007, the cargo and mail traffic of the Company's joint venture Air China Cargo Co., Ltd ("Air China Cargo") and the bellyhold space of the Company's passenger aircraft increased by 12.30% from 2006 to 3,690 million RFTKs. Cargo and mail carried increased by 10.60% from 2006 to 934,000 tonnes while cargo and mail load factor increased by 2.1 percentage points from 2006 to 55.80%. The available freight tonne kilometres increased by 8.20% from 2006 to 6,620 million, and cargo yield per tonne kilometer decreased by 7.20% from 2006 to RMB1.80.

Air Macau: For 2007, while the available fright tonne kilometres reached 249 million representing a decrease of 13.30% from 2006, turnover volume of cargo and mail decreased by 3.75% from 2006 to 185 million RFTKs, and cargo and mail carried decreased by 2.81% from 2006 to 169,800. Fright and mail load factor for 2007 was 74.31%, representing an increase of 7.4 percentage points from 2006.

3. Business review of the Company's investment in airlines

(1) Shandong Airlines Company Limited ("Shandong Airlines")

The Company holds 22.8% of the share capital of Shandong Airlines, and 49.4% of the share capital of Shandong Aviation Group Corporation, which in turn holds 42% of the share capital of Shandong Airlines. During 2007, the total traffic turnover of Shandong Airlines increased by 9.10% from 2006 to 600 million tonne kilometres, while passengers carried increased by 6.40% from 2006 to 5.36 million.

(2) Shenzhen Airlines Company Limited ("Shenzhen Airlines")

The Company holds 25% of the share capital of Shenzhen Airlines. During 2007, the total traffic turnover of Shenzhen Airlines increased by 34% from 2006 to 1.42 billion tonne kilometers, while passengers carried increased by 33.70% from 2006 to 9.52 million.

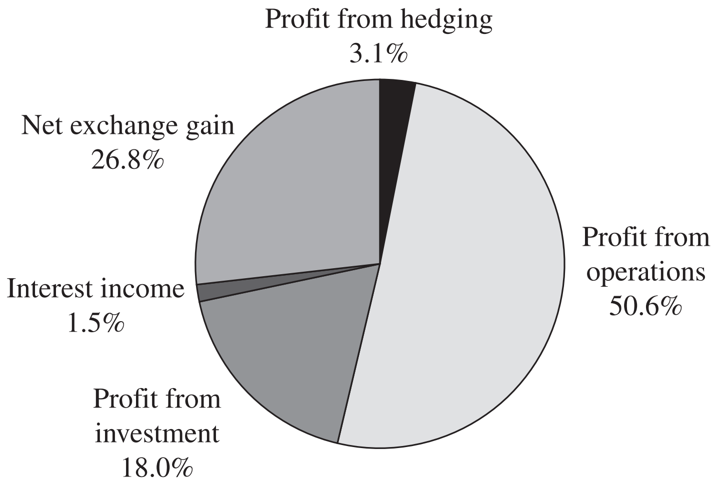
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis are based on the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and are designed to assist the readers in understanding the information provided in this report further so as to fully comprehend the financial performance of the Group as a whole.

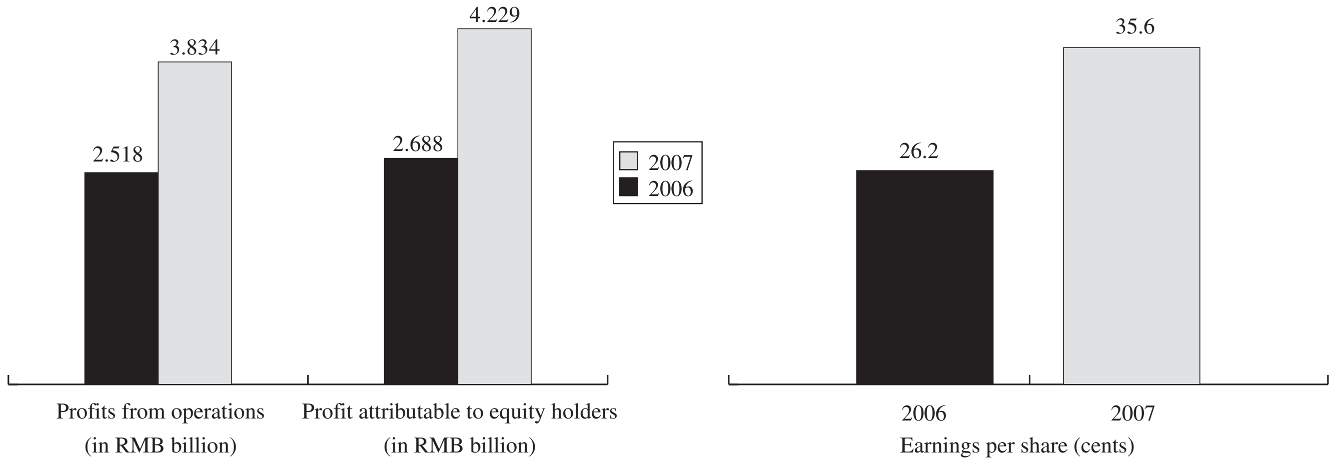
ANALYSIS OF THE PROFITABILITY

In 2007, the profit before tax realized by the Group was RMB5.606 billion, representing an increase of RMB1.677 billion or 42.68%, in which the Group's profit from operations was RMB3.834 billion, representing an increase of RMB1.316 billion or 52.29% compared with 2006, and the net exchange gains was RMB2.030 billion, representing an increase of RMB1.046 billion or 106.41%, and the share of profits of associates was RMB 1.365 billion, representing an increase of RMB847 million or 163.72% as compared with 2006. The profit structure of the Group was further improved.

The pie chart below shows the profit before tax of the Group:



The bar charts below show the change in profit from operations, profit attributable to equity holders of the parent company and earnings per share:



TURNOVER

In 2007, the Group's total turnover was RMB51.330 billion, representing a 14.23% growth over 2006.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

(in RMB'000)

	2007		2006		Change
	Amount	***percentage***	*Amount*	*percentage*	
Mainland China	**27,702,479**	**53.97%**	23,868,328	53.12%	16.06%
Hong Kong and Macau	**2,848,675**	**5.55%**	2,770,579	6.17%	2.82%
Europe	**7,616,370**	**14.84%**	6,203,536	13.81%	22.77%
North America	**4,678,276**	**9.11%**	3,806,678	8.47%	22.90%
Japan and Korea	**4,475,578**	**8.72%**	4,256,753	9.47%	5.14%
Other Asia Pacific regions	**4,009,163**	**7.81%**	4,030,732	8.97%	-0.54%
Total	**51,330,541**	**100%**	44,936,606	100%	14.23%

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

(in RMB'000)

	2007		2006		Change
	Amount	***percentage***	*Amount*	*percentage*	
Air passenger	**43,632,090**	**85.00%**	37,564,903	83.60%	16.15%
Air cargo	**4,085,456**	**7.96%**	4,041,227	8.99%	1.09%
Engineering services	**487,710**	**0.95%**	481,021	1.07%	1.39%
Airport terminal services	**509,450**	**0.99%**	496,741	1.11%	2.56%
Others	**2,615,835**	**5.10%**	2,352,714	5.24%	11.18%
Total	**51,330,541**	**100%**	44,936,606	100%	14.23%

AIR PASSENGER REVENUE

In 2007, the Group's air passenger revenue was RMB43.632 billion, representing an increase of RMB6.067 billion or 16.15% as compared with 2006, which was mainly affected by factors in respect of the increase in traffic capacity, passenger load factor and revenue per seat kilometer as follows:

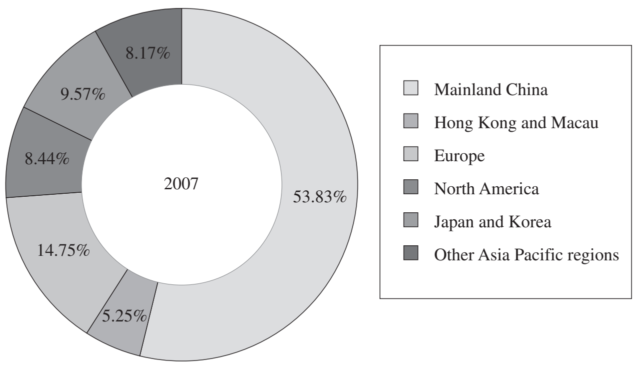
	2007	2006	Change
Available seat kilometres (million)	**89,233.74**	83,492.25	6.88%
Passenger load factor (%)	**78.47**	75.89	2.59%
Passenger yield per kilometre (RMB)	**0.62**	0.59	5.08%

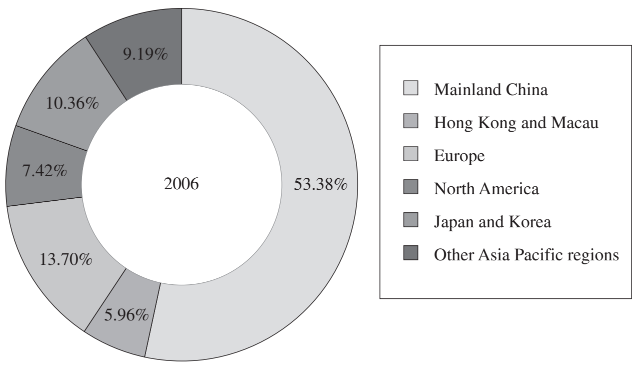
As compared with those factors attributable to the revenue growth in 2006, the increase in traffic capacity, passenger load factor and revenue level contributed to an increase of revenue of RMB2.583 billion, RMB1.368 billion and RMB2.116 billion in 2007 respectively.

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)

	2007		2006		Change
	Amount	***percentage***	*Amount*	*percentage*	
Mainland China	**23,486,436**	**53.83%**	20,051,081	53.38%	17.13%
Hong Kong and Macau	**2,288,552**	**5.25%**	2,239,280	5.96%	2.20%
Europe	**6,437,813**	**14.75%**	5,145,804	13.70%	25.11%
North America	**3,680,386**	**8.44%**	2,785,877	7.42%	32.11%
Japan and Korea	**4,173,935**	**9.57%**	3,890,891	10.36%	7.27%
Other Asia Pacific regions	**3,564,968**	**8.16%**	3,451,970	9.18%	3.27%
Total	**43,632,090**	**100%**	37,564,903	100%	16.15%





SIGNIFICANT REVENUE GROWTH CONTRIBUTED BY EUROPE AND US ROUTES

The Company increased its efforts in developing the air passenger markets in Europe and the US in 2007. By targeting at the right markets and initiating the appropriate marketing strategies together with deploying the proper aircraft models, business from the overall Europe and US regions became profitable during the year. At the same time, there was also an improvement in the operating performance of the large-capacity aircraft serving long-haul routes.

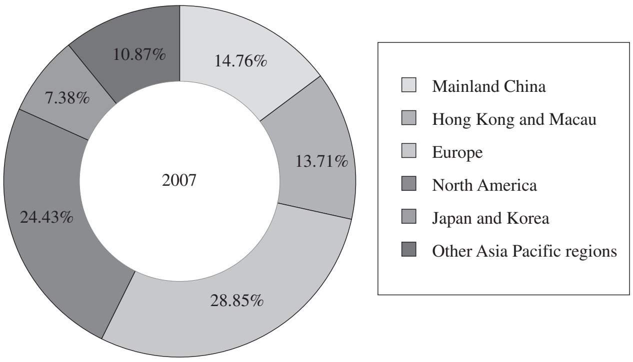
AIR CARGO REVENUE

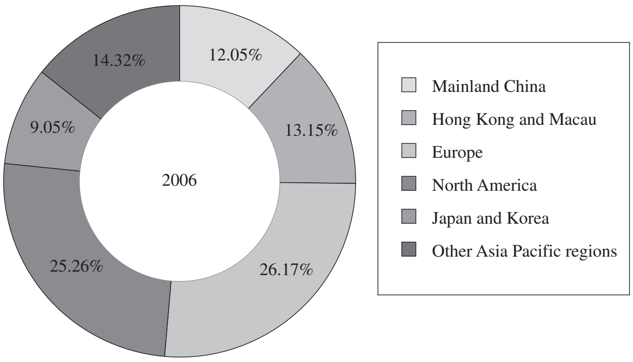
In 2007, the Group's air cargo and mail revenue was RMB4.085 billion, representing an increase of RMB44 million or 1.09% compared with 2006.

	2007	2006	Change
Available freight tonne kilometres (million)	**6,868.1**	6,404.4	7.24%
Load factor (%)	**56.43**	54.30	2.13%
Cargo yield per tonne kilometre (RMB)	**1.98**	2.16	-8.33%

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT
(in RMB'000)

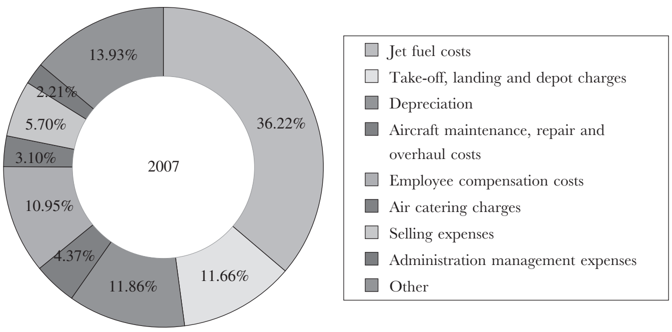
	2007		2006		Change
	Amount	***percentage***	*Amount*	*percentage*	
Mainland China	**603,048**	**14.76%**	486,771	12.05%	23.89%
Hong Kong and Macau	**560,123**	**13.71%**	531,299	13.15%	5.43%
Europe	**1,178,557**	**28.85%**	1,057,732	26.17%	11.42%
North America	**997,890**	**24.43%**	1,020,801	25.26%	-2.24%
Japan and Korea	**301,643**	**7.38%**	365,862	9.05%	-17.55%
Other Asia Pacific regions	**444,195**	**10.87%**	578,762	14.32%	-23.25%
Total	**4,085,456**	**100%**	4,041,227	100%	1.09%

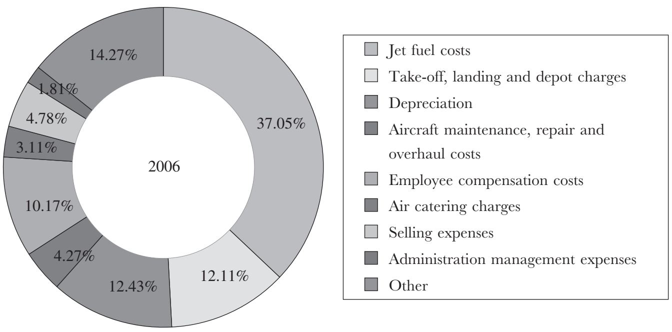




OPERATING EXPENSES

In 2007, the Group recorded an aggregate operating expenses of RMB47.496 billion, representing an increase of 11.97% compared with RMB42.419 billion in 2006. The elements comprising the operating expenses as well as the ratio and change of each of those elements are set out below:





Jet fuel costs

Jet fuel costs increased by 9.45% to RMB17.201 billion in 2007 from RMB15.716 billion in 2006 and accounted for 36.22% of operating expenses compared with 37.05% in 2006. Factors affecting the jet fuel costs include the jet fuel price and the consumption level of jet fuel, and in which the rise in jet fuel price and increase in the consumption of jet fuel caused an increase in operating cost of RMB0.383 billion and RMB1.102 billion respectively.

- Take-off, landing and depot charges increased by 7.82% to RMB5.538 billion in 2007 from RMB5.136 billion in 2006, primarily due to the increase in the number of flights operated. The percentage of the take-off, landing and depot charges to the operating expenses decreased from 12.11% to 11.66%.

- Due to the business needs during the year, there was an increase in the number of aircraft ranging from the self-owned aircraft to those under finance leases and operation leases, which resulted in an increase in the aircraft maintenance, repair and overhaul costs accordingly.

- Employee compensation costs were increased due to the increase in the number of flight hours, number of employees and employees' basic income.

- The increase in the air catering charges was primarily due to an increase in the number of passengers carried.

- The increase in the sale commission and the royalty from the sales of the relevant IT systems was brought by the increase in business revenue. The marketing expenses were increased to RMB2.709 billion in 2007 from RMB2.027 billion in 2006, representing an increase of 33.65%, and their percentage to the profit from operations was up from 4.78% to 5.70%.

- General and administrative expenses were increased primarily due to business growth and more frequently incurred donation expenses for Olympic Games in 2007.

- Other operating expenses mainly include the aircraft and engines operating lease expenses, civil aviation infrastructure construction fund and the daily expenses arising from core air traffic business not included in the aforesaid items. The growth of business inevitably drove such expenses upwards.

PROFIT CONTRIBUTION BY BUSINESS SEGMENT

(RMB'000)

	2007	2006	Change
Air businesses	**3,695,437**	2,281,754	61.96%
Engineering services	**12,478**	34,835	-64.18%
Airport terminal services	**111,793**	175,445	-36.28%
Others	**14,419**	25,670	-43.83%
Total	**3,834,127**	2,517,704	52.29%

ANALYSIS OF ASSETS STRUCTURE

As at 31 December 2007, the total assets of the Group amounted to RMB91.056 billion, representing an increase of 7.79% from 31 December 2006, of which the current assets accounted for RMB9.830 billion, representing 10.80% of the total assets, while non-current assets accounted for RMB81.226 billion, representing 89.20% of the total assets.

Among the current assets, cash and cash equivalents were RMB3.907 billion, decreased by 24.28% compared with those recorded as at 31 December 2006, while accounts receivable decreased by 1.44% to RMB2.794 billion compared with those recorded as at 31 December 2006. Among the non-current assets, the net book value of property, plant and equipment as at 31 December 2007 was RMB61.692 billion, representing an increase of 12.64% compared with those recorded as at 31 December 2006.

DEBT STRUCTURE ANALYSIS

(RMB'000)

	Bank loans, other loans and corporate bonds		**Obligation under finance lease**	
	31 December 2007	31 December 2006	**31 December 2007**	31 December 2006
Within one year	**10,978,835**	11,139,021	**2,216,680**	2,354,905
In the second year	**4,039,529**	2,649,697	**2,821,518**	1,996,954
In the third to fifth years (inclusive)	**8,181,988**	5,581,186	**5,484,352**	6,061,709
After five years	**4,393,774**	4,471,094	**5,022,323**	3,189,192
Total	**27,594,126**	23,840,998	**15,544,873**	13,602,760

ASSETS MORTGAGE

As at 31 December 2007, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB34.240 billion (compared with RMB34.251 billion as at 31 December 2006) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group in the sum of approximately RMB119 million (compared with approximately RMB212 million as at 31 December 2006) were pledged against the obligations in respect of certain bank loans, operating leases and financial derivatives of the Group. The Group also pledged certain number of shares in an associated company with an aggregate market value of approximately RMB7.609 billion as at 31 December 2007 (compared with approximately RMB7.695 billion as at 31 December 2006).

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2007, capital commitments of the Group increased substantially from RMB42.944 billion in 2006 to approximately RMB58.878 billion, primarily used for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years and the construction of certain properties.

As at 31 December 2007, the Group had contingent liabilities in respect of bank loans and other guarantees and other matters arising in the ordinary course of business. Details of contingent liabilities of the Group are set out in note 46 to the Group's 2007 annual consolidated financial statements.

CAPITAL EXPENDITURE

In 2007, the capital expenditure of the Company amounted to RMB15.293 billion in total. Among the capital expenditure of the Company, the total investment in aircraft and engines was RMB10.026 billion, including prepayments of RMB3.824 billion for the purchases of aircraft for 2007 and onwards.

Other capital expenditure amounted to RMB5.267 billion, which mainly involved the improvement of first class and business class cabins of certain aircraft, investment in the ancillary project in the Third Terminal of Beijing Capital International Airport, preparation for the 11th Five Years Plan as well as investment in certain long-term external investment projects.

CASH FLOW ANALYSIS

In 2007, the Group's net cash inflow from operating activities increased by 17.55% to RMB7.302 billion from RMB6.212 billion in 2006, primarily due to the increase in business revenue. Net cash outflow from investment activities during the year decreased by 15.94% to RMB10.212 billion from RMB12.148 billion in 2006, primarily due to the relatively substantial cash outflow arising out of the acquisition of the Cathay Pacific's equity interests in 2006. The Group recorded a net cash inflow from financing activities of RMB1.839 billion, representing a decrease of RMB5.470 billion from RMB7.309 billion in 2006, primarily due to the proceeds of approximately RMB8.570 billion raised by way of the A shares initial public offering and the additional issue of H shares in 2006.

The Group experienced a higher increase in the net operating cash flow of the Group for the current period, which secured the Group to enhance its cash structure.

RISKS ANALYSIS

- **Analysis of the long-term solvency**
  As at 31 December 2007, the Group's gearing ratio, which represents total liabilities divided by total assets, was 65.40%, representing an increase of 2.97 percentage points from 62.43% as at 31 December 2006, primarily due to the introduction of additional aircraft and the increase of debt financing activities. Although the gearing ratio of the Group for the current period slightly moved upwards, its solvency position in the long term was relatively strong insofar as it continued to dominate a leading position in the industry while the prevailing gearing ratios of other air carriers stood at a relatively high level.

- **Analysis of the short-term solvency and the long- and short-term debt structure**
  As at 31 December 2007, the Group's current ratio, which represents current assets divided by current liabilities, was 0.36, representing a decrease of 0.05 percentage point from 0.41 as at 31 December 2006, while its EBITDA interest cover was 4.78 times, representing an increase of 18.12% from 4.16 times as at 31 December 2006, resulting that the Group maintained a relatively sufficient operating cash flow position. The Company is in the process of optimizing both its long-term and short-term debt structures step by step to align with the changes in the financial market. The Group had already obtained bank facilities with an aggregate amount of up to RMB80.172 billion from a number of banks in the PRC and was therefore in a position to fully meet its own demand on current capital.

- **Foreign exchange and interest rate exposure**
  As at 31 December 2007, foreign currency denominated loans, mainly those denominated in US dollars, Hong Kong dollars and Japanese Yen, constitute a large proportion of the Group's loans. The Group basically maintained a balance of its foreign currency denominated incomes and expenditures. The Group will continue to effectively eliminate any foreign exchange risk by means of financial derivative products based on the major trend of foreign exchange and in accordance with its forecast on its overall incomes and expenditures.

  For managing risks associated with interest rates, the Company will attempt to make use of the swap transactions and other derivative products and to rationalize the ratios between the fixed and floating interest rates relating to the interest-bearing debts so as to eliminate any risks arising from interest rate.

- **Investment risk**
  As at 31 December 2007, regarding the air carriers that the Group had invested in, except for Shandong Airlines and Shenzhen Airlines, neither Air Macau nor Air China Cargo generated any profit from operations. Further efforts are needed to promote the consolidation and optimization of the businesses of the companies that the Group had made its investment in. There is also room for a substantial improvement in their financial position and operating results.

- **Risk associated with the fluctuation in the jet fuel price**
  The Group is exposed to the fluctuations in jet fuel price in its daily operation. International jet fuel prices have been historically, and will in the future continue to be, subject to price volatility and fluctuation in supply and demand. The Group's strategy for managing its jet fuel price risk aims to protect itself against sudden and significant price increases. To the extent as permitted by the relevant laws in the PRC, the Group has been engaging in fuel hedging transactions since March 2001. The hedging instruments used were mainly derivatives of Singapore Kerosene together with Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. In 2007, the net gain on fuel derivatives achieved by the Group was RMB236 million, representing an increase of 108.85% compared with RMB113 million in 2006.

  Information on financial risk management objectives and polices in other aspects of the Group's operations are set out in note 47 to the Group's 2007 annual consolidated financial statements.

OUTLOOK FOR 2008

Looking ahead in 2008, the Company believes that China's economy and the air transport market will continue to grow. However, competition in the air transportation market has become increasingly fierce, especially with the implementation of the liberalization policy, the Chinese aviation industry will face more severe challenges. In response to the changing market situation, the Company has to adjust its corporate strategies from time to time. Therefore, the Company has re-adjusted its future strategic objectives to "build up a world-class competitive strength, continuously improve its expansion capability, offer unique experience for its customers by delivering the most excellent services and realize a steady increase in the relevant revenues".

SHARE CAPITAL

As at 31 December 2007, the total share capital of the Company was RMB12,251,362,273, divided into 12,251,362,273 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2007:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	7,845,678,909	64.04%
H shares	4,405,683,364	35.96%
Total	12,251,362,273	100%

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

1. Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year of 2007.

2. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted and established a code of conduct on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all Directors and Supervisors have confirmed their compliance with the required standards of the Model Code throughout the period of the first half of 2007. The code of the Company is also applicable to Supervisors and relevant employees.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.684 per 10 shares for the year ended 31 December 2007, totalling approximately RMB837.987 million. A resolution for the dividend payment will be submitted for consideration at the annual general meeting. The dividend will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas foreign shares will be paid in Hong Kong dollars. The relevant exchange rate will be the mean of the average rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the PRC provide for any preemptive rights requiring the Company to offer new shares to existing shareholders in proportion to their existing shareholdings.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the Directors was appointed by the Company on 30 October 2007 for a term of three years.

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2007 containing all information required by Appendix 16 of the Listing Rules will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

We would like to caution readers of this announcement that the airline operations are substantially influenced by global political and economical developments. Accidental and unexpected incidents may have a material impact on our operations or the industry as a whole. This 2007 Annual Results Announcement of the Group contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT COMMITTEE

The annual results of the Company have been reviewed by the audit committee of the Board of Directors of the Company.

By order of the Board
Air China Limited
Kong Dong
Acting Chairman of the Board

Beijing, PRC, 17 March 2008

As at the date of this announcement, the Directors of the Company are Kong Dong, Wang Shixiang, Yao Weiting, Christopher Dale Pratt, Chen Nan Lok Philip, Ma Xulun, Cai Jianjiang, Fan Cheng, Hu Hung Lick, Henry, Wu Zhipan*, Zhang Ke* and Jia Kang*.*

* *Independent non-executive Director of the Company*