

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

The board of directors (the “Board”) of Air China Limited (the “Company”) announced the unaudited interim results of the Company, its subsidiaries and joint ventures (collectively, the “Group”) for the six months ended 30 June 2008, with comparative figures for the corresponding period of last year, as follows:

FINANCIAL INFORMATION

A. Prepared in accordance with International Financial Reporting Standards (“IFRSs”)

Unaudited Interim Condensed Consolidated Income Statement

		For the six months ended 30 June 2008 RMB'000 (Unaudited)	30 June 2007 RMB'000 (Unaudited)
	Notes		
TURNOVER			
Air traffic revenue	3	24,460,083	21,684,442
Other operating revenue	4	1,186,377	1,668,378
		<u>25,646,460</u>	<u>23,352,820</u>
OPERATING EXPENSES			
Jet fuel costs		(10,608,221)	(8,042,121)
Take-off, landing and depot charges		(2,785,661)	(2,714,364)
Depreciation		(2,907,421)	(2,696,361)
Aircraft maintenance, repairs and overhaul costs		(984,264)	(946,615)
Employee compensation costs		(2,555,265)	(1,989,282)
Air catering charges		(739,434)	(711,389)
Aircraft and engine operating lease expenses		(1,214,134)	(1,172,875)
Other operating lease expenses		(206,622)	(151,976)
Other flight operation expenses		(2,169,924)	(1,996,063)
Selling and marketing expenses		(1,316,809)	(1,163,530)
General and administrative expenses		(494,589)	(401,592)
		<u>(25,982,344)</u>	<u>(21,986,168)</u>
PROFIT FROM OPERATIONS	5	(335,884)	1,366,652
Finance revenue	6	2,256,835	1,226,399
Finance costs	6	(896,719)	(999,572)
Gain on disposal of subsidiaries and an associate	7	477,680	–
Share of profits and losses of associates		(94,927)	478,928
PROFIT BEFORE TAX		<u>1,406,985</u>	<u>2,072,407</u>
Tax	8	(223,637)	(596,372)
PROFIT FOR THE PERIOD		<u>1,183,348</u>	<u>1,476,035</u>
Attributable to:			
Equity holders of the Company		1,244,073	1,568,579
Minority interests		(60,725)	(92,544)
		<u>1,183,348</u>	<u>1,476,035</u>
Interim dividend	9	<u>–</u>	<u>–</u>
Earnings per share attributable to equity holders of the Company:			
Basic	10	<u>10.5 cents</u>	<u>13.2 cents</u>
Diluted	10	<u>N/A</u>	<u>N/A</u>

Unaudited Interim Condensed Consolidated Balance Sheet

	30 June 2008 <i>RMB'000</i> (Unaudited)	31 December 2007 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	66,227,410	61,691,673
Lease prepayments	1,110,930	1,046,042
Intangible asset	60,524	75,194
Goodwill	439,745	—
Interests in associates	8,342,616	9,542,677
Advance payments for aircraft and related equipment	8,741,256	7,652,365
Deposits for aircraft under operating leases	266,457	257,505
Long term receivable from ultimate holding company	281,813	331,813
Available-for-sale investments	1,997	1,997
Deferred tax assets	670,434	626,645
	86,143,182	81,225,911
CURRENT ASSETS		
Aircraft held for sale	197,516	184,728
Inventories	1,236,258	1,142,050
Accounts receivable	2,664,146	2,794,280
Bills receivable	1,553	1,599
Prepayments, deposits and other receivables	1,628,110	1,318,062
Derivative financial instruments	104,157	6,493
Pledged deposits	108,414	118,624
Tax recoverable	56,949	—
Cash and cash equivalents	4,591,794	3,906,520
Due from ultimate holding company	360,727	335,129
Due from related companies	45,888	22,881
	10,995,512	9,830,366
TOTAL ASSETS	97,138,694	91,056,277
CURRENT LIABILITIES		
Air traffic liabilities	(2,364,282)	(2,156,104)
Accounts payable	(7,126,755)	(5,930,800)
Other payables and accruals	(4,366,605)	(4,350,281)
Derivative financial instruments	(27,604)	(14,826)
Tax payable	(4,699)	(1,111,404)
Obligations under finance leases	(2,841,739)	(2,216,680)
Bank and other loans	(13,602,765)	(10,978,835)
Provision for major overhauls	(104,283)	(83,907)
Due to related companies	(58,950)	(45,142)
	(30,497,682)	(26,887,979)
NET CURRENT LIABILITIES	(19,502,170)	(17,057,613)
TOTAL ASSETS LESS CURRENT LIABILITIES	66,641,012	64,168,298

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Obligations under finance leases	(14,117,596)	(13,328,193)
Bank loans, other loans and corporate bonds	(17,403,931)	(16,615,291)
Provision for major overhauls	(1,308,382)	(1,190,415)
Provision for early retirement benefits obligations	(176,663)	(164,837)
Long term payables	(107,996)	(190,005)
Deferred income	(833,551)	(872,023)
Deferred tax liabilities	(1,042,040)	(300,181)
	(34,990,159)	(32,660,945)
NET ASSETS	<u>31,650,853</u>	<u>31,507,353</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Issued share capital	12,251,362	12,251,362
Treasury shares	(1,353,714)	(1,283,492)
Reserves	20,268,895	19,551,280
Proposed final dividend	—	837,987
	31,166,543	31,357,137
MINORITY INTERESTS	<u>484,310</u>	<u>150,216</u>
TOTAL EQUITY	<u>31,650,853</u>	<u>31,507,353</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

At 30 June 2008, the Group’s net current liabilities amounted to approximately RMB19,502 million, which comprised current assets of approximately RMB10,996 million and current liabilities of approximately RMB30,498 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the interim condensed consolidated financial statements for the six months ended 30 June 2008, the directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements. Accordingly, the interim condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2007.

Significant accounting policies

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2007, except for the adoption of the following new International Financial Reporting Standards (“IFRSs”, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect).

IFRIC – Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

(a) *IFRIC – Int 11 IFRS 2 – Group and Treasury Share Transactions*

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.

(b) *IFRIC – Int 12 Service Concession Arrangements*

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.

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

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 adoption of the above IFRSs has had no material impact on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2008.

2. SEGMENT INFORMATION

Segment information of the Group is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the airline operations segment comprises the provision of air passenger and air cargo services;
- (b) the engineering services segment comprises the provision of aircraft engineering services which include aircraft maintenance, repair and overhaul services;
- (c) the airport terminal services segment comprises the provision of ground services, which include check-in service, boarding service, premium class lounge service, ramp service, luggage handling service, loading and unloading services, cabin cleaning and transit services; and
- (d) the "others" segment comprises the provision of air catering services and other airline-related services.

In determining the Group's geographical segments, revenue is attributed to the segments based on the origin and destination of each flight segment.

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

Business segments

The following tables present the Group's consolidated revenue and profit from operations by business segment for the six months ended 30 June 2008 and 2007:

For the six months ended 30 June 2008

	Airline operations RMB'000 (Unaudited)	Engineering services RMB'000 (Unaudited)	Airport terminal services RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE						
Sales to external customers	24,854,308	325,659	297,994	168,499	–	25,646,460
Intersegment sales	–	356,258	–	111,968	(468,226)	–
Total revenue	24,854,308	681,917	297,994	280,467	(468,226)	25,646,460
PROFIT FROM OPERATIONS	(380,037)	573	30,946	12,634	–	(335,884)

For the six months ended 30 June 2007

	Airline operations <i>RMB'000</i> (Unaudited)	Engineering services <i>RMB'000</i> (Unaudited)	Airport terminal services <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Eliminations <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
REVENUE						
Sales to external customers	22,734,273	229,641	256,808	132,098	–	23,352,820
Intersegment sales	–	309,462	–	81,826	(391,288)	–
Total revenue	<u>22,734,273</u>	<u>539,103</u>	<u>256,808</u>	<u>213,924</u>	<u>(391,288)</u>	<u>23,352,820</u>
PROFIT FROM OPERATIONS	<u>1,279,193</u>	<u>10,974</u>	<u>59,863</u>	<u>16,622</u>	<u>–</u>	<u>1,366,652</u>

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the six months ended 30 June 2008 and 2007:

For the six months ended 30 June 2008

	Domestic <i>RMB'000</i> (Unaudited)	Hong Kong/ Macau <i>RMB'000</i> (Unaudited)	Europe <i>RMB'000</i> (Unaudited)	North America <i>RMB'000</i> (Unaudited)	Japan/ Korea <i>RMB'000</i> (Unaudited)	Asia Pacific and others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
REVENUE							
Sales to external customers and total revenue	<u>13,011,138</u>	<u>1,397,400</u>	<u>4,423,972</u>	<u>2,773,692</u>	<u>2,054,010</u>	<u>1,986,248</u>	<u>25,646,460</u>

For the six months ended 30 June 2007

	Domestic <i>RMB'000</i> (Unaudited)	Hong Kong/ Macau <i>RMB'000</i> (Unaudited)	Europe <i>RMB'000</i> (Unaudited)	North America <i>RMB'000</i> (Unaudited)	Japan/ Korea <i>RMB'000</i> (Unaudited)	Asia Pacific and others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
REVENUE							
Sales to external customers and total revenue	<u>12,497,397</u>	<u>1,317,013</u>	<u>3,224,386</u>	<u>2,153,863</u>	<u>2,198,633</u>	<u>1,961,528</u>	<u>23,352,820</u>

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 is as follows:

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Passenger	20,804,991	19,768,612
Cargo and mail	3,655,092	1,915,830
	<u>24,460,083</u>	<u>21,684,442</u>

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 six months ended 30 June 2008 and 30 June 2007 amounted to approximately RMB606 million and RMB551 million, respectively.

4. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bellyhold income from a joint venture	–	780,966
Ground service income	297,994	256,808
Aircraft engineering income	325,659	229,641
Air catering income	85,962	72,276
Government grants:		
Recognition of deferred income	38,472	38,472
Others	94,621	72,264
Service charges on return of unused flight tickets	91,144	68,142
Cargo handling service income	43,091	19,764
Training service income	12,797	6,958
Import and export service income	12,784	6,846
Sale of materials	5,406	4,115
Others	178,447	112,126
	<u>1,186,377</u>	<u>1,668,378</u>

5. PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss/(Gain) on disposal of property, plant and equipment, net	(24,361)	12,425
Loss on derecognition of property, plant and equipment	26,262	13,883
Amortisation of lease prepayments	12,468	10,512

6. FINANCE REVENUE AND FINANCE COSTS

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	1,923,420	867,541
Interest income	45,107	54,248
Gains on financial derivatives, net	288,308	304,610
	<u>2,256,835</u>	<u>1,226,399</u>
Finance costs		
Interest on bank loans, other loans and corporate bonds	735,867	747,277
Interest on finance leases	325,808	362,816
Total interest	1,061,675	1,110,093
Less: Interest capitalised	(164,956)	(110,521)
	<u>896,719</u>	<u>999,572</u>

The interest capitalisation rate represents the cost of capital from raising the related borrowings and is approximately 3% to 7% (2007: 4.5% to 6%) per annum.

7. Disposal of subsidiaries and an associate

	30 June 2008
	RMB'000
	(Unaudited)
Net assets of subsidiaries disposed of	283,563
Share of net assets of an associate disposed of	88,757
Gain on disposal of subsidiaries and an associate	<u>477,680</u>
Satisfied by cash	<u>850,000</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries and an associate is as follows:

	RMB'000
	(Unaudited)
Cash consideration	850,000
Cash and bank balances disposed of	<u>(47,799)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries and an associate	<u>802,201</u>

8. TAX

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which was effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 onwards will decrease from 33% to 25%. The Company, its subsidiaries, joint ventures and associates established in Mainland China are subject to enterprise income tax at rates ranging from 12.5% to 25% (2007: 12% to 33%) on their taxable income.

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax – Mainland China	(521,459)	421,920
Deferred income tax – origination and reversal of temporary differences	745,096	174,452
Income tax charge for the period	223,637	596,372

The share of tax attributable to joint ventures, which are accounted for in the Group's interim condensed consolidated financial statements through proportionate consolidation, amounting to RMB16,087,000 (unaudited) (2007: RMB11,117,000 (unaudited)) is included in the income tax charge for the period.

The share of tax attributable to associates amounting to RMB16,666,000 (unaudited) (2007: RMB99,331,000 (unaudited)) is included in the "Share of profit and losses of associates" on the face of the condensed consolidated income statement for the six months ended 30 June 2008.

9. DIVIDEND

In accordance with the Company's articles of association, the profit after tax of the Company for the purpose of dividends payment is based on the lesser of (i) the profit determined in accordance with the Accounting Standards for Business Enterprises; and (ii) the profit determined in accordance with IFRSs.

The proposed final dividend for the year ended 31 December 2007 was approved by the Company's shareholders on 30 May 2008 and it was fully paid by the end of 30 June 2008.

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2008 of approximately RMB1,244,073,000 (unaudited), and the weighted average of approximately 11,865,149,750 ordinary shares in issue during the period, as adjusted to account for the effect of cross holding with Cathay Pacific Airways Limited ("Cathay Pacific").

The calculation of basic earnings per share for the six months ended 30 June 2007 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately RMB1,568,579,000 (unaudited) and 11,879,594,685 ordinary shares in issue during the period, as adjusted to account for the effect of cross holding with Cathay Pacific.

Diluted earnings per share for the six months ended 30 June 2008 and 30 June 2007 have not been disclosed because no diluting events existed during those periods.

B. Prepared in accordance with Accounting Standards for Business Enterprises (“ASBE”)

Unaudited Interim Consolidated Income Statement

	For the six months ended	
	30 June 2008	30 June 2007
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Revenue from operations	25,760,238	22,744,019
Less: Cost of operations	23,134,131	19,162,370
Tax and surcharges	623,796	546,090
Selling expenses	1,610,461	1,370,680
Administrative expenses	673,303	501,452
Finance costs	(996,332)	126,794
Impairment loss	(880)	—
Add: Gains from changes in fair value	84,886	253,858
Investment income	613,770	405,026
Including: Investment income/(loss) from associates and joint ventures	(66,458)	352,024
Profit from operations	1,414,415	1,695,517
Add: Non-operating income	146,399	76,328
Less: Non-operating expenses	135,108	71,842
Including: Loss on disposal of non-current assets	18,960	44,248
Total profit	1,425,706	1,700,003
Less: Income tax	216,949	476,942
Net profit	<u>1,208,757</u>	<u>1,223,061</u>
Net profit attributable to equity holders of the Company	<u>1,282,317</u>	<u>1,300,297</u>
Minority interests	<u>(73,560)</u>	<u>(77,236)</u>

Unaudited Interim Consolidated Balance Sheet

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
ASSETS		
Current assets:		
Cash and bank balances	4,558,193	3,787,152
Financial assets	104,157	6,493
Note receivables	1,553	1,599
Account receivables	2,933,199	2,812,327
Other receivables	1,102,765	997,205
Prepayments	385,723	311,784
Inventories	831,609	755,340
Total current assets	9,917,199	8,671,900
Non-current assets:		
Long term receivables	259,383	255,340
Long-term equity investments	9,012,470	11,404,643
Fixed assets	61,100,806	55,000,376
Construction-in-progress	12,161,360	10,967,888
Intangible assets	1,747,235	1,396,620
Goodwill	511,309	131,945
Deferred tax assets	430,394	385,843
Long-term deferred assets	129,522	80,684
Total non-current assets	85,352,479	79,623,339
Total assets	95,269,678	88,295,239

30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
---	---

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Short-term loans	7,606,236	6,546,088
Financial liabilities	27,604	14,826
Accounts payables	7,934,562	6,338,341
Domestic air traffic liabilities	599,627	666,208
International traffic liabilities	1,828,805	1,888,548
Receipts in advance	91,979	53,778
Accrued employee compensations	349,238	254,073
Taxes payable	410,853	1,677,332
Interest payable	339,837	273,824
Other payables	2,138,970	2,035,038
Current portion of long-term liabilities	8,579,487	6,344,212

Total current liabilities	29,907,198	26,092,268
----------------------------------	-------------------	------------

Non-current liabilities:

Long-term loans	14,170,891	12,938,092
Corporate bonds	3,000,000	3,000,000
Long-term payables	1,416,378	1,301,844
Obligations under finance lease	14,117,596	13,328,193
Provisions	217,168	191,533
Deferred tax liabilities	776,000	5,000

Total non-current liabilities	33,698,033	30,764,662
--------------------------------------	-------------------	------------

Total liabilities	63,605,231	56,856,930
--------------------------	-------------------	------------

Shareholders' equity:

Share capital	12,251,362	12,251,362
Capital reserve	11,941,279	11,852,408
Reserve funds	1,563,914	1,299,214
Retained profits	7,068,473	6,888,843
Including: Discretionary reserve fund proposed by Board of Directors	–	264,700
Dividend proposed by Board of Directors	–	837,987
Exchange differences arising on translation of foreign currency denominated financial statements	(1,690,021)	(1,003,732)

Shareholder's equity attributable to the Company	31,135,007	31,288,095
Minority interests	529,440	150,214

Total shareholders' equity	31,664,447	31,438,309
-----------------------------------	-------------------	------------

Total liabilities and shareholders' equity	95,269,678	88,295,239
---	-------------------	------------

Effects of Significant Differences Between IFRS and ASBE

The effects of the significant differences between the consolidated financial statements of the Group prepared under ASBE and IFRS are as follows:

	For the six months ended	
	30 June 2008	30 June 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net profit under ASBE	1,282,317	1,300,297
Deferred taxes	4,712	(108,313)
Additional depreciation from restatement of costs of fixed assets	(72,493)	(82,030)
Reversal of depreciation and amortisation arising on revaluation	155,695	223,468
Effect of component accounting	(120,281)	245,648
Government grant	17,372	(8,722)
Others	(23,249)	(1,769)
Profit attributable to equity holders of the Company under IFRS	<u>1,244,073</u>	<u>1,568,579</u>

Effects of significant differences between equity attributable to the equity holders of the Company under ASBE and IFRS are analysed as follows:

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Equity attributable to equity holders of the Company under ASBE	31,135,007	31,288,095
Deferred taxes	(26,000)	(62,319)
Restatement of costs of fixed assets	696,334	743,768
Reversal of revaluation surplus	(1,007,628)	(972,848)
Government grant	(392,870)	(410,242)
Effect of component accounting	546,178	603,038
Gain on disposal of an associate	139,919	139,919
Goodwill from acquisition of additional interest in a joint venture	60,381	—
Others	15,222	27,726
Equity attributable to equity holders of the Company under IFRS	<u>31,166,543</u>	<u>31,357,137</u>

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

Overview

In the first half of 2008, due to the global economic downturn, increased inflationary pressure, soaring fuel prices and damaging natural disasters such as earthquakes, the global aviation industry, in particular, the Chinese aviation industry, experienced an unprecedented challenge.

In the first half of 2008, the Group's passenger capacity measured by Available Seat Kilometres (ASKs) increased by 2.91% over the same period last year, with increase in Revenue Passenger Kilometres (RPKs) by 1.89%, while the passenger load factor decreased by 0.76 percentage points and revenue increased by 5.24%. The cargo capacity measured by Available Freight Tonne Kilometres (AFTKs) decreased by 10.66% over the same period of last year, with decrease in Revenue Freight Tonne Kilometres (RFTKs) of 1.27% while the freight and mail load factor increased by 5.58 percentage points and revenue increased by 6.54%.

ANALYSIS OF THE PROFITABILITY

For the six months ended 30 June 2008, the Group realized profit before tax of RMB1.407 billion, representing a decrease of RMB665 million or 32.1% from RMB2.072 billion in the same period in 2007. Profit attributable to shareholders was RMB1.244 billion, down RMB325 million or 20.7% from RMB1.569 billion in the same period in 2007 while earning per share was RMB0.105, representing a decrease of RMB0.027 or 20.5%.

The decrease in profit in the first half of the year was mainly due to an abrupt increase in jet fuel price, thus resulting in a loss in both operating revenue and share of profits of associates, representing a decrease of RMB1.703 billion and RMB574 million respectively as compared with the same period of last year. Among which, jet fuel cost increased RMB2.566 billion or 31.9% as compared with the same period of last year. On the other hand, benefiting from the appreciation of Renminbi against US dollar, an exchange gain of RMB1.923 billion was recorded for the first half of the year, representing an increase of RMB1.056 billion or 121.7% over the same period of 2007.

TURNOVER

For the six months ended 30 June 2008, the turnover of the Group was RMB25.646 billion, representing an increase of 9.82% as compared with the same period of 2007.

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

	For the six months ended 30 June		Change (%)
	2008	2007	
	<i>RMB'000</i>	<i>RMB'000</i>	
Airline operations	24,854,308	22,734,273	9.33
Engineering and maintenance services	325,659	229,641	41.81
Airport terminal services	297,994	256,808	16.04
Others	168,499	132,098	27.56
Total	25,646,460	23,352,820	9.82

For the six months ended 30 June 2008, the Group's revenue from airline operations increased 9.33%, mainly attributable to increase in yield per revenue tonne kilometer. Revenue from engineering services increased by 41.81%, mainly due to increase of engineering services provided to external parties.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June		Change (%)
	2008	2007	
	<i>RMB'000</i>	<i>RMB'000</i>	
Domestic	13,011,138	12,497,397	4.11
Hong Kong and Macau	1,397,400	1,317,013	6.10
Europe	4,423,972	3,224,386	37.20
North America	2,773,692	2,153,863	28.78
Japan and Korea	2,054,010	2,198,633	(6.58)
Asia Pacific and others	1,986,248	1,961,528	1.26
Total	25,646,460	23,352,820	9.82

OPERATING EXPENSES

For the six months ended 30 June 2008, the Group recorded operating expenses of RMB25.982 billion, representing an increase of RMB3.996 billion, or 18.18%, as compared with the same period of last year. The elements comprising the operating expenses are set out as follows:

(RMB'000) Items	For the six months ended 30 June				Change
	2008		2007		
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	10,608,221	40.83%	8,042,121	36.58%	31.91%
Take-off, landing and depot charges	2,785,661	10.72%	2,714,364	12.35%	2.63%
Depreciation	2,907,421	11.19%	2,696,361	12.26%	7.83%
Aircraft maintenance, repair and overhaul expenses	984,264	3.79%	946,615	4.31%	3.98%
Employee compensation costs	2,555,265	9.83%	1,989,282	9.05%	28.45%
Air catering expenses	739,434	2.85%	711,389	3.24%	3.94%
Operating lease expenses on aircraft and engines	1,214,134	4.67%	1,172,875	5.33%	3.52%

- Jet fuel costs**

During the first half of this year, the average purchase price of the jet fuel of the Group was RMB7,053 per tonne, representing an increase of RMB1,793 per tonne as compared with the same period of 2007, thereby resulting in an increase of jet fuel costs of RMB2.566 billion. In the first half of this year, the Group continued to adopt various fuel-saving measures, thus saving jet fuel costs of RMB245 million. The net income from fuel hedging was RMB313 million in the first six months, of which RMB215 million was realised. In addition, the Group recorded fuel surcharge income of RMB1.392 billion and RMB2.497 billion respectively in relation to domestic and international routes, representing an increase of RMB1.004 billion in aggregate as compared with the same period of last year, which partly offset the increased cost pressure from the increasing jet fuel price.

- EMPLOYEE COMPENSATION COSTS**

During the first half of this year, the employee compensation costs of the Group was RMB2.555 billion, an increase of RMB566 million or 28.5% as compared with the same period of 2007. The main reason for the increase was the inclusion of corporate annuity and the increase in compensation pursuant to the employee compensation reform for the current reporting period and such costs were not included in last year's presentation.

ANALYSIS OF ASSETS

As at 30 June 2008, the Group had total assets of RMB97.139 billion, representing an increase of 6.68% from 31 December 2007, in which current assets accounted for 11.32% of the total assets, or RMB10.996 billion, representing an increase of 11.85% from 31 December 2007; while non-current assets accounted for 88.68% of the total assets, or RMB86.143 billion, representing an increase of 6.05% from 31 December 2007.

Of the current assets, cash and cash equivalents constituted RMB4.592 billion, representing an increase of 17.54% from 31 December 2007; accounts receivable was RMB2.664 billion, similar with that as at 31 December 2007. Of the non-current assets, properties, plant and equipment amounted to RMB66.227 billion, representing an increase of 7.35% from 31 December 2007.

PLEDGED ASSETS

As at 30 June 2008, the Group pledged certain assets with an aggregate carrying amount of approximately RMB42.099 billion (compared with RMB41.968 billion as at 31 December 2007) pursuant to certain loan and lease agreements, among which the book value of aircraft and building construction accounted for RMB36.776 billion, bank deposits accounted for RMB108 million and certain number of shares in an associated company with an aggregate market value of accounted for approximately RMB5.215 billion.

DEBT STRUCTURE OF THE GROUP

(RMB'000)	Bank loans, other loans and corporate bonds		Obligations under financial leases	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
Repayable within one year	13,602,765	10,978,835	2,841,739	2,216,680
Repayable after one year	17,403,931	16,615,291	14,117,596	13,328,193
Total	31,006,696	27,594,126	16,959,335	15,544,873

CAPITAL COMMITMENTS

As at 30 June 2008, capital commitments of the Group, 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, was approximately RMB74.351 billion, which is an increase of 26.28% from RMB58.878 billion as at 31 December 2007.

CAPITAL EXPENDITURE

For the six months ended 30 June 2008, the capital expenditure of the Company amounted to RMB5.76 billion in total. Of the capital expenditure of the Company, the total investment in aircraft was RMB3.807 billion, including prepayments of RMB1.347 billion for the purchases of aircraft for the second half of 2008 and onwards.

Other capital expenditure amounted to RMB1.953 billion, which were mainly for the purposes of construction of infrastructure, construction of information system, purchase of ground facilities, as well as the cash portion of long-term investment projects.

CASH FLOW ANALYSIS

For the six months ended 30 June 2008, the Group's net cash inflow from operating activities decreased by RMB713 million or 23.18% from the same period of 2007 to RMB2.361 billion, primarily due to the substantial rise in operating costs. Net cash outflow from investment activities of the Group during the period decreased by RMB4.948 billion or 66.91% to RMB2.448 billion. The reason for the substantial cash outflow in the same period in 2007 was primarily due to the expenses of the Group arising from the privatization of CNAC. The Group recorded a net cash inflow from financing activities of RMB2.192 billion, representing a decrease of RMB1.193 billion or 35.24%, primarily due to more loans due for repayment during the current accounting period.

RISKS ANALYSIS

- **Risk associated with the fluctuation in the jet fuel price**

For the six months ended 30 June 2008, the aviation industry worldwide was hardly hit as a result of rising international crude oil price and increasing jet fuel price. Since March 2001, the Group has been engaging in fuel hedging transactions in order to hedge substantial increases in jet fuel prices. The hedging instruments used were mainly Singapore Kerosene and derivatives of Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. In the first six months, the Group applied hedging to 17.6% of the spot jet fuel procured during the period. The Group will continue to adopt hedging in future in order to monitor its risk exposure to fluctuation in jet fuel price.

- **Risk associated with capital structure**

As at 30 June 2008, the Group's gearing ratio, which represents total liabilities divided by total assets, was 67.4%, representing an increase of 2 percentage points from 65.4% as at 31 December 2007, 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 moved slightly upwards, its solvency position in the long term was relatively strong and 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.

- **Risk associated with liquidity**

As at 30 June 2008, the Group's current ratio, which represents current assets divided by current liabilities, was 0.3605, representing a decrease of 0.51 percentage point from 0.3656 as at 31 December 2007, while its EBITDA interest cover was 2.87 times, representing a decrease of 39.96% from 4.78 times as at 31 December 2007. The Company is in the process of optimizing both its long-term and short-term debt structures step by step to align them with the changes in the financial market. The Group has already obtained bank facilities with an aggregate amount of up to RMB80.172 billion from a number of banks in the PRC and is therefore in a position to fully meet its own demand on current capital. Meanwhile, the Company has also strengthened its financial centralization management system and increased the utilisation of Renminbi and other foreign currencies deposit.

- **Risk associated with foreign exchange and interest rate**

As at 30 June 2008, 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 movement of exchange rate of Renminbi to US dollar may greatly affect the exchange gain of the Company. The Company 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.

To manage risks associated with interest rates, the Group entered into certain standard contracts with counterparties in relation to interest rate hedging in the first half of the year. The Company will continue to attempt to make use of the swap transactions and other derivative products coupled with the use of 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 30 June 2008, the Group recorded losses for all air carriers that the Group had invested in, except Shandong Airlines. Despite the repurchase of 25% equity interests in Air China Cargo and the disposal of certain non-aviation interests held by CNAC in the first half of the year, there is still room for further consolidation and streamlining of the business of the investee companies and improve their financial situation and operating results.

Outlook for 2008

Looking forward, although there are uncertainties in the development of the aviation industry, the PRC economy is still experiencing continued and steady growth, the post-Olympics economy and the direct cross-strait flights will bring new opportunities to the PRC aviation industry. Concurrently, the changes which may be made to the industrial business landscape will also create new opportunities for us. Accordingly, the Company will timely follow and be guided by its strategies to proactively promote the establishment of Beijing as an aviation hub and build up the relevant network development. The Company will also forge its core competitive advantages, strengthen its marketing ability in the market, in particular the high-end market, and strengthen the innovation of products and services to better satisfy market demands. In addition, through management's Campaign on Income Increase and Cost Savings, the Company will also strive to reduce its energy consumption to improve its costs efficiency. The Company believes that, with the Company's clear strategic objectives, accurate judgement of the situations and active response measures, the Company will definitely be able to grasp opportunities, overcome the transient difficulties and maintain our leading position in the industry.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of the 2008.

INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2008. The undistributed profit will be accumulated for a one-off payment made after the end of the year. It is currently expected that the distribution percentage will range from 15% to 30% of the distributable profit.

POST BALANCE SHEET EVENTS

On 8 July 2008, the Company received the Official Reply Concerning the Approval of Offering New Shares by Air China Limited issued by China Securities Regulatory Commission (Zheng Jian Xu Ke 2008 No. 891) approving the Company to offer new A shares of not more than 400 million shares to the public. The approval shall be valid for a period of six months since the date of the Official Reply.

On 15 July 2008, the execution of an aircraft purchase agreement by the Company and Air China Import and Export Co. with Boeing Company for the purchase of 15 Boeing 777 and 30 Boeing 737 aircraft was approved at the fourteenth meeting of the second session of the board of directors of the Company.

On 13 August 2008, Ms. Wang Yinxiang was nominated as a candidate for the non-executive director of the Company at the sixteenth meeting of the second session of the board of directors of the Company and the nomination was proposed to be considered and approved at the shareholders' meeting. Mr. Yao Weiting resigned from his positions as a non-executive director and a member of the Audit and Risk Control Committee of the Company due to retirement.

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 (the "Code") contained in Appendix 14 to the Listing Rules throughout the first half of 2008.

2. Compliance with the Model Code

The Company adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiry, the Company confirms that all of its directors and supervisors have complied with the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules throughout the first half of 2008.

The Company's own code also applies to its supervisors and relevant employees.

DISCLOSURE REQUIRED BY HONG KONG STOCK EXCHANGE LISTING RULES

In compliance with paragraph 46 of Appendix 16 to the Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the existing information regarding the Company in relation to those matters set out in paragraph 46(3) of Appendix 16 to the Listing Rules from the information in relation to the matters disclosed in the 2007 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2008 and the Company's interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

By order of the Board
Air China Limited
Huang Bin Li Man Kit
Joint Company Secretaries

Beijing, 26 August 2008

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

** Independent non-executive Director of the Company*