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中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

2009 ANNUAL RESULTS

GROUP RESULTS

The Board 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 2009 with comparative figures for the corresponding year of 2008 as follows:

A. Prepared under International Financial Reporting Standards**CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
TURNOVER			
Air traffic revenue	3	48,091,643	50,536,695
Other operating revenue	4	3,301,548	2,371,466
		51,393,191	52,908,161
OPERATING EXPENSES			
Jet fuel costs		(14,466,065)	(22,613,935)
Movements in fair value of fuel derivative contracts		2,758,224	(7,899,205)
Take-off, landing and depot charges		(5,788,687)	(5,538,092)
Depreciation		(7,051,272)	(6,365,275)
Aircraft maintenance, repair and overhaul costs		(1,767,808)	(1,804,416)
Employee compensation costs	5	(6,627,408)	(5,843,887)
Air catering charges		(1,518,912)	(1,443,855)
Aircraft and engine operating lease expenses		(2,319,211)	(2,400,060)
Other operating lease expenses		(477,716)	(448,406)
Other flight operation expenses		(4,532,145)	(4,665,630)
Selling and marketing expenses		(3,085,184)	(2,602,904)
General and administrative expenses		(1,016,051)	(1,089,467)
		(45,892,235)	(62,715,132)
PROFIT/(LOSS) FROM OPERATIONS	6	5,500,956	(9,806,971)
Finance revenue	7	139,620	1,584,437
Finance costs	7	(1,198,283)	(2,049,313)
Share of profits and losses of associates		623,992	(1,183,513)
Gain on disposal of subsidiaries and an associate		–	477,680
PROFIT/(LOSS) BEFORE TAX		5,066,285	(10,977,680)
Tax	8	(263,234)	1,610,650
PROFIT/(LOSS) FOR THE YEAR		4,803,051	(9,367,030)

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Attributable to:			
Equity holders of the Company		4,854,234	(9,255,822)
Minority interests		(51,183)	(111,208)
		<u>4,803,051</u>	<u>(9,367,030)</u>
Dividends:			
Interim		—	—
Proposed final		—	—
		<u>—</u>	<u>—</u>
Earnings/(loss) per share attributable to equity holders of the Company:			
Basic and diluted	<i>11</i>	<u>41.01 cents</u>	<u>(78.01 cents)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
PROFIT/(LOSS) FOR THE YEAR		4,803,051	(9,367,030)
Share of reserve movements of associates		347,437	(233,207)
Exchange realignment		(28,324)	(610,972)
Others		(3,000)	61,420
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<i>12</i>	316,113	(782,759)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		5,119,164	(10,149,789)
Attributable to:			
Equity holders of the Company		5,170,315	(10,035,641)
Minority interests		(51,151)	(114,148)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	75,044,870	71,821,000
Lease prepayments	1,954,819	1,945,258
Intangible asset	49,267	60,147
Goodwill	346,845	346,845
Interests in associates	12,187,230	6,271,533
Advance payments for aircraft and related equipment	7,715,409	7,052,508
Deposits for aircraft under operating leases	253,815	229,899
Long term receivable from ultimate holding company	131,813	231,813
Available-for-sale investments	1,997	1,997
Deferred tax assets	1,682,203	2,022,652
	<u>99,368,268</u>	<u>89,983,652</u>
CURRENT ASSETS		
Aircraft held for sale	130,814	350,896
Inventories	1,384,706	1,242,597
Accounts receivable	2,054,265	1,850,289
Bills receivable	2,489	1,604
Prepayments, deposits and other receivables	1,230,794	1,555,908
Derivative financial instruments	–	253,406
Due from ultimate holding company	461,147	361,892
Due from related companies	10,194	7,537
Tax recoverable	4,840	55,625
Pledged deposits	564,747	1,750,460
Cash and cash equivalents	2,706,758	2,987,358
	<u>8,550,754</u>	<u>10,417,572</u>
TOTAL ASSETS	<u>107,919,022</u>	<u>100,401,224</u>
CURRENT LIABILITIES		
Air traffic liabilities	(2,434,353)	(2,262,338)
Accounts payable	(6,045,733)	(6,923,895)
Bills payable	(763,255)	(1,420,438)
Other payables and accruals	(4,645,406)	(4,689,649)
Derivative financial instruments	(2,274,627)	(7,727,918)
Tax payable	(39,073)	(10,332)
Obligations under finance leases	(3,454,233)	(4,064,038)
Interest-bearing bank and other borrowings	(17,160,442)	(15,330,837)
Provision for major overhauls	(268,418)	(232,926)
Due to related companies	(113,024)	(62,924)
	<u>(37,198,564)</u>	<u>(42,725,295)</u>

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
NET CURRENT LIABILITIES	(28,647,810)	(32,307,723)
TOTAL ASSETS LESS CURRENT LIABILITIES	70,720,458	57,675,929
NON-CURRENT LIABILITIES		
Obligations under finance leases	(15,366,475)	(16,480,784)
Interest-bearing bank and other borrowings	(27,321,078)	(17,342,868)
Provision for major overhauls	(1,318,708)	(1,262,921)
Provision for early retirement benefit obligations	(210,006)	(211,209)
Long term payables	(180,420)	(44,785)
Deferred income related to frequent-flyer programme	(790,883)	(689,233)
Deferred income related to government grant	(1,314,671)	(795,080)
Deferred tax liabilities	(263,750)	(392,543)
	(46,765,991)	(37,219,423)
NET ASSETS	23,954,467	20,456,506
EQUITY OF THE COMPANY ATTRIBUTABLE TO EQUITY HOLDERS		
Issued capital	12,251,362	12,251,362
Treasury shares	(2,319,879)	(1,353,714)
Reserves	13,984,413	9,045,204
	23,915,896	19,942,852
MINORITY INTERESTS	38,571	513,654
TOTAL EQUITY	23,954,467	20,456,506

Notes:

1 BASIS OF PREPARATION

The Group's 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 (the "IASB"), and International Accounting Standards ("IASs") 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.

As at 31 December 2009, the Group's net current liabilities amounted to approximately RMB28,648 million, which comprised current assets of approximately RMB8,551 million and current liabilities of approximately RMB37,199 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, 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 consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The 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 additional disclosures, the adoption of these new and revised IFRS has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosure about Financial Instruments</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 18 Amendment	Amendment to Appendix to IAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
IFRIC 18	<i>Transfers of Assets from Customers</i>
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

The principal effects of adopting these new and revised IFRSs are as follows:

- (a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. IAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

- (b) Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

- (c) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 54 to the financial statements while the revised liquidity risk disclosures are presented in note 55 to the financial statements.

- (d) IFRS 8 *Operating Segments*

IFRS 8, which will replace IAS 14 Segment Reporting, 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 purposes 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. These revised disclosures, including the related revised comparative information, are shown in note 2 to the financial statements.

- (e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner 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, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

- (f) Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

- (g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require 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 costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

- (h) Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

- (i) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial assets out of the fair value through profit or loss category; and the assessment to be made on the basis of the circumstances that existed on the later of the date when the entity first became a party to the contract, and the date of a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract. IAS 39 is also amended to state that, if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

- (j) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

- (k) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

(l) IFRIC 18 *Transfers of Assets from Customers*

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognise such assets. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) The IASB issued its *first Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.
- IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.
- IAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

Impact of Issued but not yet effective IFRSs

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

IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i> ¹
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ⁴
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
IFRS 3 (Revised)	<i>Business Combinations</i> ¹
IFRS 9	<i>Financial Instruments</i> ⁶
IAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴

Amendments to IFRS 5
included in *Improvements
to IFRSs* issued in
October 2008

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued
Operations – Plan to sell the controlling interest in a subsidiary*¹

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

(a) IFRS 1 (Revised) *First-time Adoption of IFRSs*

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

(b) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

(c) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The IFRS 1 Amendments provide receive relief from providing comparative period disclosures required by the IFRS 7 Amendments as the current IFRS preparers. Consistent with their Basis for Conclusions on the IFRS 7 Amendments, the Board reasoned that to avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current IFRS preparers, first-time adopters should be permitted to use the same transitional provisions as current IFRS preparers, i.e. relief from providing comparative information for the disclosures required by the IFRS 7 Amendments. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

(d) Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

(e) IFRS 3 (Revised) *Business Combinations*

IFRS 3 (Revised) 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.

(f) IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

(g) IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The Group expects to adopt IFRS 9 from 1 January 2013. In accordance with the transitional provisions of IFRS 9, the Group is not required to restate prior period amounts

(h) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

(i) Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the Amendment to IAS 32 from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

(j) Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The IAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the IAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

(k) *Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement*

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

(l) *IFRIC 17 Distributions of Non-cash Assets to Owners*

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

(m) *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

(n) *Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*

The amendments to IFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

(o) *Improvements to IFRSs 2009* issued in May 2009 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2 OPERATING SEGMENT INFORMATION

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

- (a) the "airline operations" segment which comprises the provision of air passenger and air cargo services; and
- (b) the "others" segment which comprises the provision of aircraft engineering, ground 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. Assets, which consist principally of aircraft and ground equipment, supporting the entire worldwide transportation system, are mainly located in Mainland China. An analysis of assets of the Group by geographical distribution has therefore not been included.

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

Operating segments

The following tables present the Group's consolidated revenue and profit information regarding the Group's operating segments in accordance with China Accounting Standards for Business Enterprises (the "CAS") for the years ended 31 December 2009 and 2008:

Year ended 31 December 2009

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE				
Sales to external customers	50,974,898	120,471	–	51,095,369
Intersegment sales	–	527,504	(527,504)	–
Total revenue	<u>50,974,898</u>	<u>647,975</u>	<u>(527,504)</u>	<u>51,095,369</u>
SEGMENT PROFIT	<u>4,962,617</u>	<u>66,834</u>	<u>–</u>	<u>5,029,451</u>

Year ended 31 December 2008

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE				
Sales to external customers	52,890,066	79,932	–	52,969,998
Intersegment sales	–	488,629	(488,629)	–
Total revenue	<u>52,890,066</u>	<u>568,561</u>	<u>(488,629)</u>	<u>52,969,998</u>
SEGMENT PROFIT/(LOSS)	<u>(9,293,673)</u>	<u>144,593</u>	<u>–</u>	<u>(9,149,080)</u>

The following tables present the segment assets, liabilities and other information of the Group's operating segments in accordance with CAS as at 31 December 2009 and 31 December 2008:

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT ASSETS				
At 31 December 2009	<u>105,239,001</u>	<u>2,367,196</u>	<u>(1,442,990)</u>	<u>106,163,207</u>
At 31 December 2008	<u>97,533,686</u>	<u>3,231,135</u>	<u>(1,865,742)</u>	<u>98,899,079</u>

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT LIABILITIES				
At 31 December 2009	82,653,223	991,531	(1,442,990)	82,201,764
At 31 December 2008	79,220,600	1,256,679	(1,865,742)	78,611,537

Other Information

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2009				
Share of profits of associates and joint ventures	566,866	39,739	–	606,605
Gains from changes in fair value	2,759,580	–	–	2,759,580
Impairment losses in assets recognised in the income statement	161,161	86	–	161,247
Non-operating income	1,161,942	6,577	–	1,168,519
Non-operating expenses	66,595	462	–	67,057
Tax	328,945	7,468	–	336,413
Investment in associates and joint ventures	11,804,145	1,427,390	–	13,231,535
Capital expenditure	11,254,926	4,963	–	11,259,889
Depreciation and amortisation	6,900,911	12,576	–	6,913,487

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2008				
Share of profits and losses of associates and joint ventures	(1,273,306)	91,165	–	(1,182,141)
Loss from changes in fair value	(8,154,835)	–	–	(8,154,835)
Impairment losses in assets recognised in the income statement	258,860	28	–	258,888
Non-operating income	357,312	6,687	–	363,999
Non-operating expenses	144,964	52	–	145,016
Tax	(1,606,739)	14,841	–	(1,591,898)
Investment in associates and joint ventures	6,126,152	1,196,331	–	7,322,483
Capital expenditure	15,494,464	6,682	–	15,501,146
Depreciation and amortisation	6,259,190	8,201	–	6,267,391

The following tables present the reconciliations of reportable segment revenue, profit/(loss), assets and liabilities to the Group's consolidated amounts under IFRS:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
REVENUE		
Total revenue for reportable segments	51,095,369	52,969,998
Business tax not included in segment revenue	(1,505,061)	(1,085,137)
Other income not included in segment revenue	1,168,656	442,604
Effects of differences between IFRS and CAS	634,227	580,696
Revenue for the year	51,393,191	52,908,161
PROFIT/(LOSS)		
Total profit/(loss) for reportable segments	5,029,451	(9,149,080)
Effects of differences between IFRS and CAS	(175,217)	(106,742)
Profit/(loss) for the year	4,854,234	(9,255,822)
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
ASSETS		
Total assets for reportable segments	106,163,207	98,899,079
Effects of differences between IFRS and CAS	1,755,815	1,502,145
Total assets	107,919,022	100,401,224
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
LIABILITIES		
Total liabilities for reportable segments	82,201,764	78,611,537
Effects of differences between IFRS and CAS	1,762,791	1,333,181
Total liabilities	83,964,555	79,944,718

Geographical information

The following tables present the Group's consolidated revenue by geographical distribution for the years ended 31 December 2009 and 2008:

Year ended 31 December 2009

	Mainland China <i>RMB'000</i>	Hong Kong, Macau and Taiwan <i>RMB'000</i>	Europe <i>RMB'000</i>	North America <i>RMB'000</i>	Japan and Korea <i>RMB'000</i>	Asia Pacific and others <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers and total revenue	<u>31,361,693</u>	<u>2,799,148</u>	<u>6,521,619</u>	<u>4,276,895</u>	<u>3,574,775</u>	<u>2,859,061</u>	<u>51,393,191</u>

Year ended 31 December 2008

	Mainland China <i>RMB'000</i>	Hong Kong, Macau and Taiwan <i>RMB'000</i>	Europe <i>RMB'000</i>	North America <i>RMB'000</i>	Japan and Korea <i>RMB'000</i>	Asia Pacific and others <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers and total revenue	<u>27,272,415</u>	<u>3,559,564</u>	<u>8,971,139</u>	<u>5,708,150</u>	<u>4,205,811</u>	<u>3,191,082</u>	<u>52,908,161</u>

Information about a major customer

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue.

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 2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Passenger	<u>42,695,432</u>	43,352,020
Cargo and mail	<u>5,396,211</u>	<u>7,184,675</u>
	<u>48,091,643</u>	<u>50,536,695</u>

Pursuant to the relevant business tax rules and regulations in Mainland China, the air traffic revenue for all domestic and international flights is subject to business tax at a rate of 3% during the year ended 31 December 2009 (all inbound international, Hong Kong and Macau regional flights are exempted from business tax during the year ended 31 December 2008). Business tax incurred and set off against air traffic revenue for the year ended 31 December 2009 amounted to approximately RMB1,467 million (2008: RMB1,047 million).

4 OTHER OPERATING REVENUE

	Group	
	2009	2008
	RMB'000	RMB'000
Aircraft engineering income	611,158	613,784
Ground service income	594,102	547,571
Air catering income	–	86,234
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	830,418	–
Recognition of deferred income related to government grant	76,943	76,943
Others	319,991	331,358
Service charges on return of unused flight tickets	198,103	186,002
Cargo handling service income	122,921	129,167
Sale of materials	22,611	20,415
Import and export service income	16,058	8,784
Training service income	15,775	23,955
Rental income:		
Aircraft and related equipment	23,535	14,952
Others	26,237	24,974
Gain on disposal of property, plant and equipment, net	36,149	29,624
Others	407,547	277,703
	3,301,548	2,371,466

5 EMPLOYEE COMPENSATION COSTS

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

	Group	
	2009	2008
	RMB'000	RMB'000
Wages, salaries and social security costs	5,992,568	5,424,748
Retirement benefit costs	629,189	439,733
Share-based benefits	5,651	(20,594)
	6,627,408	5,843,887

6 PROFIT/(LOSS) FROM OPERATIONS

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

	Group	
	2009	2008
	RMB'000	RMB'000
Auditors' remuneration	11,934	13,789
Depreciation	7,053,212	6,365,275
Impairment of property, plant and equipment	220,703	74,835
Loss on derecognition of property, plant and equipment	103,773	26,300
Amortisation of lease prepayments	40,045	28,656
Minimum lease payments under operating leases:		
Aircraft and related equipment	2,319,211	2,400,060
Land and buildings	477,716	444,483
Impairment of aircraft held for sale	–	206,566
Impairment of inventories	18,360	36,135
Impairment of accounts receivable	15,758	653
	<u>15,758</u>	<u>653</u>

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	
	2009	2008
	RMB'000	RMB'000
Exchange gains, net	109,642	1,486,746
Interest income	24,410	97,389
Dividend income from available-for-sale investments	4,212	302
Gain on interest rate derivative contracts, net	1,356	–
	<u>139,620</u>	<u>1,584,437</u>

Finance costs

	Group	
	2009	2008
	RMB'000	RMB'000
Interest on interest-bearing bank and other borrowings	1,074,544	1,531,015
Interest on finance leases	337,380	580,447
Loss on interest rate derivative contracts, net	–	255,630
	<u>1,411,924</u>	<u>2,367,092</u>
Less: Interest capitalised	<u>(213,641)</u>	<u>(317,779)</u>
	<u>1,198,283</u>	<u>2,049,313</u>

The interest capitalisation rates ranging from 0.8% to 7.0% (2008: 2.3% to 7.0%) per annum represent the cost of related borrowings during the year.

8 TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain of the Company's subsidiaries and joint ventures, which are taxed at preferential rate of 20% (2008: 12.5% to 18%), the PRC entities within the Group are subject to corporate income tax at a rate of 25% (2008: 25%) during the year.

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the territories/countries in which the relevant companies within the Group operate, based on existing legislation, interpretations and practices in respect thereof.

The determination of current and deferred income taxes was based on the enacted tax rates. Major components of income tax charge/(credit) are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Current income tax – Mainland China:		
Provision for the year	51,578	38,121
Overprovision in prior years	<u>–</u>	<u>(541,865)</u>
	51,578	(503,744)
Deferred income tax	<u>211,656</u>	<u>(1,106,906)</u>
Income tax charge/(credit) for the year	<u>263,234</u>	<u>(1,610,650)</u>

The Group's share of tax credit attributable to associates amounting to RMB118,890,000 (2008: share of tax charge of RMB239,425,000) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement.

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rate for Mainland China in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	2009 RMB'000	Group %	2008 RMB'000	%
Profit/(loss)before tax	5,066,285		(10,977,680)	
Tax at the statutory tax rate	1,266,571	25.0	(2,744,420)	25.0
Tax effect of share of profits and losses of associates, net	(155,998)	(3.1)	295,815	(2.7)
Lower income tax rates enacted by other territories	29,159	0.6	28,038	(0.3)
Adjustment in respect of current income tax of previous periods	–	–	(142,802)	1.3
Income not subject to tax	(20,005)	(0.4)	(134,807)	1.3
Expenses not deductible for tax	30,270	0.6	35,333	(0.3)
Tax losses recognised from previous periods	–	–	(19,511)	0.2
Deductible temporary differences and tax losses not recognised	60,467	1.2	1,071,704	(9.8)
Utilisation of deductible temporary differences not recognised in previous periods	(947,230)	(18.7)	–	–
At the Group's effective income tax rate	263,234	5.2	(1,610,650)	14.7

As at 31 December 2009, there was no significant unrecognised deferred tax liability (2008: 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.

9 PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of approximately RMB4,204 million (2008: a loss of RMB8,375 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB4 million (2008: RMB159 million) from the Company's total comprehensive income of approximately RMB4,208 million (2008: total comprehensive loss of RMB8,216 million) that has been dealt with in the financial statements of the Company.

10 APPROPRIATIONS

	Company 2009 RMB'000	2008 RMB'000
Proposed final dividend – Nil (2008: Nil)	–	–

(a) No proposed final dividend has been proposed for 2009 (2008: Nil).

- (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 allowances 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 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 Company for 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.

11 EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of approximately RMB4,854 million, and the weighted average number of ordinary shares of 11,836,742,055 in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited ("Cathay") through reciprocal shareholding.

The calculation of basic loss per share for the year ended 31 December 2008 was based on the loss attributable to equity holders of the Company for the year ended 31 December 2008 of approximately RMB9,256 million, and the weighted average number of ordinary shares of 11,864,209,374 in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay through reciprocal shareholding.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

12 OTHER COMPREHENSIVE INCOME

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Share of reserve movements of associates during the year		
Gains arising during the year	347,437	(227,830)
Less: Reclassification adjustment upon disposal of subsidiaries and an associate	—	(5,377)
	<u>347,437</u>	<u>(233,207)</u>

B. Prepared under China Accounting Standards for Business Enterprises

	2009 RMB'000	2008 RMB'000
Revenue from operations	51,095,369	52,969,998
Less: Cost of operations	41,947,116	48,606,512
Business taxes and surcharges	1,505,062	1,085,137
Selling expenses	3,812,512	3,281,648
General and administrative expenses	1,620,311	1,574,236
Finance costs	1,205,931	375,713
Impairment losses in assets	161,247	258,888
Add: Gains/(loss) from changes in fair value	2,759,580	(8,154,835)
Investment income/(loss)	610,449	(704,198)
Including: Share of profits and losses of associates and joint ventures	606,605	(1,182,141)
Profit/(loss) from operations	4,213,219	(11,071,169)
Add: Non-operating income	1,168,519	363,999
Less: Non-operating expenses	67,057	145,016
Including: Loss on disposal of non-current assets	55,545	14,549
Profit/(loss) before tax	5,314,681	(10,852,186)
Less: Tax	336,413	(1,591,898)
Net profit/(loss)	4,978,268	(9,260,288)
Net profit/(loss) attributable to equity holders of the Company	5,029,451	(9,149,080)
Minority interests	(51,183)	(111,208)
Earnings/(loss) per share (RMB)		
Basic and diluted	0.43	(0.77)
Other comprehensive income/(loss)	316,836	(783,259)
Total comprehensive income/(loss)	5,295,104	(10,043,547)
Attributable to:		
Equity holders of the Company	5,346,253	(9,929,399)
Minority interests	(51,149)	(114,148)

	31 December 2009 RMB'000	31 December 2008 RMB'000
ASSETS		
CURRENT ASSETS		
Cash and bank balances	3,201,568	4,663,792
Financial assets held for trading	–	253,406
Bills receivable	2,489	1,604
Accounts receivable	2,201,172	2,074,178
Other receivables	492,007	1,110,524
Prepayments	350,257	309,945
Inventories	931,271	812,941
Total current assets	7,178,764	9,226,390
NON-CURRENT ASSETS		
Long term receivables	254,306	229,474
Long term equity investments	13,235,575	7,326,523
Fixed assets	69,147,527	66,244,815
Construction in progress	11,731,131	10,887,225
Intangible assets	2,576,301	2,563,887
Goodwill	349,055	349,055
Long term deferred expenses	138,105	141,601
Deferred tax assets	1,552,443	1,930,109
Total non-current assets	98,984,443	89,672,689
Total assets	106,163,207	98,899,079

	31 December 2009 RMB'000	31 December 2008 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term loans	8,870,400	9,379,700
Financial liabilities held for trading	2,274,627	7,727,918
Bills payable	763,255	1,493,815
Accounts payable	7,113,031	7,792,638
Domestic air traffic liabilities	850,394	744,804
International air traffic liabilities	1,583,959	1,517,530
Receipts in advance	38,127	56,022
Employee compensations payable	348,492	163,918
Taxes payable	720,295	300,198
Interest payable	303,154	303,066
Other payables	2,224,083	3,031,546
Non-current liabilities repayable within one year	11,304,489	10,186,078
Total current liabilities	36,394,306	42,697,233
NON-CURRENT LIABILITIES		
Long term loans	18,321,078	14,109,828
Corporate bonds	9,000,000	3,000,000
Long term payables	1,499,128	1,307,706
Obligations under finance leases	15,366,476	16,480,784
Accrued liabilities	94,438	112,754
Deferred income	1,383,338	689,232
Deferred tax liabilities	143,000	214,000
Total non-current liabilities	45,807,458	35,914,304
Total liabilities	82,201,764	78,611,537
SHAREHOLDERS' EQUITY		
Issued capital	12,251,362	12,251,362
Capital reserve	10,823,906	11,676,739
Reserve funds	1,563,914	1,563,914
Retained earnings/(accumulated losses)	921,848	(4,107,603)
Foreign exchange translation reserve	(1,638,158)	(1,610,522)
Equity attributable to equity holders of the Company	23,922,872	19,773,890
Minority interests	38,571	513,652
Total shareholders' equity	23,961,443	20,287,542
Total liabilities and shareholders' equity	106,163,207	98,899,079

C. Effects of Significant Differences between IFRS and CAS

The consolidated income statement and consolidated statement of financial position set out in Section A were prepared in accordance with IFRS.

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Net profit/(loss) attributable to the equity holders of the Company under CAS	5,029,451	(9,149,080)
Deferred tax	95,000	39,000
Additional depreciation from restatement of costs of fixed assets	(134,169)	(150,481)
Reversal of depreciation and amortisation arising on revaluation	7,170	278,195
Government grants	(22,315)	15,016
Effect of component accounting	(117,814)	(288,463)
Others	(3,089)	(9)
Net profit/(loss) attributable to the equity holders of the Company under IFRS	4,854,234	(9,255,822)
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Equity attributable to the equity holders of the Company under CAS	23,922,872	19,773,890
Deferred tax	9,000	(86,000)
Restatement of costs of fixed assets	433,036	567,205
Reversal of revaluation of surplus	(326,550)	(333,720)
Government grants	(417,541)	(395,226)
Effect of component accounting	130,751	248,565
Others	164,328	168,138
Equity attributable to the equity holders of the Company under IFRS	23,915,896	19,942,852

2009 REVIEW

In 2009, driven by the rapid recovery of China's economy and the gradual stabilisation of the international economy in the second half of 2009, the demand in China's domestic air passenger market soared. At the same time, both the air cargo market and the international air passenger market bottomed out and then rebounded. In response to the market changes, the Group proactively allocated its resources between the international and domestic markets so as to grasp market opportunities. While continuing to improve its flight safety and service quality, the Group made a turnaround following the loss in 2008, and its operating results hit a record high. In 2009, the Group realised profits attributable to equity holders of RMB4,854 million and earnings per share attributable to equity holders of RMB0.41, or profits before tax (net of the fair value gain or loss of fuel derivative contracts) of RMB2,308 million.

In 2009, to tap the rapidly growing demand in the domestic air passenger market, the Group allocated more resources to its domestic routes in a timely manner, and increased the annual domestic capacity to 57,525 million available seat kilometres and realized 44,140 million revenue passenger kilometres, representing an increase of 18.46% and 19.26%, respectively, as compared with the previous year. Meanwhile, in view of the weak demand in the international and regional markets, the Group's capacity allocations to these markets were reduced accordingly. During 2009, the Group allocated 35,707 million available seat kilometres to the international routes and realised 27,544 million revenue passenger kilometres, representing a decrease of 5.51% and 1.26%, respectively, as compared with the previous year. During 2009, the Group allocated 5,393 million available seat kilometres to the regional routes and realised 3,790 million revenue passenger kilometres, representing a decrease of 1.22% and 1.24%, respectively, as compared with the previous year. In 2009, the Group carried 41.28 million passengers with passenger load factor of 76.53%, representing an increase of 14.23% and 1.65 percentage points, respectively, as compared with the previous year.

During 2009, the Group put 6,507 million available freight tonne kilometres into its air cargo operations and realised 3.53 billion revenue tonne kilometres, and carried 974,000 tonnes of cargo and mail with a load factor of 54.23%, representing an increase of 2.38%, a decrease of 2.28%, 0.62% and 2.58 percentage points, respectively, as compared with the previous year, which is primarily attributable to the significant drop in cargo demand at the beginning of the year. During the second half of the year, the Group grasped the opportunity of the cargo market's apparent recovery and enhanced its profitability by the implementation of a range of proactive and effective initiatives such as network optimization, improved products and strengthened yield management, which resulted in the segment achieving a profit in 2009.

The Group recorded a net gain of RMB2,758 million for the year as a result of the sharp decline in fair value loss of the Group's fuel derivative contracts as at 31 December 2009 as compared with the end of 2008 due to the rebound of international oil price. Though the Group's total jet fuel cost dropped by 36% as compared with the previous year due to the decline in annual average oil price, its revenue from fuel surcharge decreased by 56.28% as compared with the previous year. In view of the upward oil price trend, jet fuel cost pressure remains huge for the Group.

While adjusting to the changing market conditions and striving to drive up its revenue, the Group improved its cost efficiency through balancing capacity deployment and market demand. The Group reduced fuel consumption and implemented the energy efficiency and emission reduction plans through a series of measures such as routes optimization and aircraft weight reduction. The Group strengthened its financing and debts restructuring in order to reduce financial costs. In addition, the Group strictly implemented a human resources plan adopted at the beginning of the year to achieve “zero growth in the total number of staff except for pilots and air crew” and controlled the increment in staff costs through productivity improvement. Thus, the Group managed to maintain its cost advantages over its peers.

The Group has maintained a strategy of prudence and steadiness in fleet expansion and has effectively controlled the expansion of fleet in response to the changing market conditions. In 2009, a total of 30 new aircraft were introduced, primarily comprising narrow-body aircraft such as A321/320 and B737-800. At the same time, 12 obsolete aircraft such as B767, B737-300/600 and B747-200F retired from the fleet. The flexibility in optimizing fleet composition and disposing of aircraft has placed the Group in a favorable position to respond to market changes and improve its operational efficiency.

The Group continued to execute its hub strategy and further enhanced its control over the hub markets. The market share of revenue passenger kilometres at Beijing Hub reached 52.2% while the market share at Chengdu Hub rose steadily, with transit passengers of Beijing Hub and Chengdu Hub increased by 34% and 74%, respectively, as compared with the previous year. The market share in Shanghai was stable with transit passengers increasing by 10% as compared with the previous year.

The Group continued to place an emphasis on service innovation by introducing seven express routes, including those from Beijing to Chengdu, from Beijing to Chongqing to provide more convenient services to passengers. The Group also launched new services, including the Business Travel Card, the Star Alliance Mileage Upgrade, Departure Mileage Upgrade and Mobile Phone Service to diversify the choices available to customers, and proceeded with “full-process service improvement plan” to achieve a comprehensive improvement in service quality.

In terms of market resources integration, the Group has set up Hubei branch and brought it into operation in an efficient manner, thereby creating a platform for the Group to expand in Central China and improve its route network. The Group has also set up the Shanghai branch in order to integrate its market resources in Eastern China and improve its competitiveness in that market. The Group increased its shareholding in Cathay Pacific to 29.99%, which reinforced the foundation for strategic collaboration between the Group and Cathay Pacific. The Group completed the acquisition of minority interest in Air China Cargo, making the subsequent launch of cargo joint venture possible.

In June 2009, the Group, with its brand valued at RMB31,723 million, ranked 25th among China’s Top 500 Most Valuable Brands published by the World Brand Laboratory. In 2009, it was selected as one of “the 60 Most Influential Brands on China’s League Table of Top 100 Enterprises for the 60th anniversary of the People’s Republic of China” in December 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

The following discussion and analysis are based on the Group's consolidated financial statements and its notes 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 better understand the financial performance of the Group as a whole.

Profit Analysis

In 2009, the Group's realised profit from operations was RMB5,501 million and profit attributable to equity holders of the Company was RMB4,854 million with a profit per share of RMB0.41. In 2008, the loss from operations was RMB9,807 million and the loss attributable to equity holders of the Company was RMB9,256 million with loss per share of RMB0.78.

The turnaround from loss to profit this year was mainly attributable to the rapid growth in demand from domestic air passenger market, the implementation of industry relevant responsive measures designed to cope with the financial crisis, the change in international jet fuel prices, and the adoption by the Group of effective operational management and cost control measures.

Turnover

In 2009, the Group's total turnover (net of business taxes and surcharges) was RMB51,393 million, a decrease of RMB1,515 million or 2.86% as compared with the previous year. Among which, air traffic revenue was RMB48,092 million, a decrease of RMB2,445 million or 4.84% from 2008, primarily due to the overall decreased demand from international air passenger and cargo markets caused by the global economic crisis. Other recorded operating revenue was RMB3,301 million, an increase of RMB930 million or 39.22% from last year, primarily attributed to a revenue refund of RMB830 million from CAAC Infrastructure Development Fund in the year.

Revenue Contribution by Geographical Segment

(RMB'000)	2009		2008		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	31,361,693	61.02%	27,272,415	51.55%	14.99%
Hong Kong, Macau and Taiwan	2,799,148	5.45%	3,559,564	6.73%	(21.36%)
Europe	6,521,619	12.69%	8,971,139	16.96%	(27.30%)
North America	4,276,895	8.32%	5,708,150	10.79%	(25.07%)
Japan and Korea	3,574,775	6.96%	4,205,811	7.95%	(15.00%)
Asia Pacific and others	2,859,061	5.56%	3,191,082	6.02%	(10.40%)
Total	<u>51,393,191</u>	<u>100.00%</u>	<u>52,908,161</u>	<u>100.00%</u>	<u>(2.86%)</u>

Air Passenger Revenue

In 2009, the Group's realised air passenger revenue was RMB42,695 million, a decrease of RMB657 million from 2008. Among which, increase in traffic capacity and passenger load factor contributed to an increase in revenue of RMB3,218 million and RMB1,024 million respectively, while the decrease in passenger yield caused a RMB4,899 million decrease in revenue. The Group's 2009 traffic capacity, passenger load factor and revenue per seat kilometre are as follows:

	2009	2008	Change
Available seat kilometres (<i>million</i>)	98,625	91,810	7.42%
Passenger load factor (%)	76.53	74.88	1.65 percentage points
Yield per PRK (<i>RMB</i>)	0.57	0.63	(9.52%)

Air Passenger Revenue Contributed by Geographical Segment

<i>(RMB'000)</i>	2009		2008		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	26,796,926	62.76%	23,498,230	54.20%	14.04%
Hong Kong, Macau and Taiwan	2,497,087	5.85%	2,872,176	6.63%	(13.06%)
Europe	4,619,598	10.82%	6,450,513	14.88%	(28.38%)
North America	3,180,237	7.28%	3,934,709	9.08%	(21.00%)
Japan and Korea	3,170,873	7.43%	3,664,419	8.45%	(13.47%)
Asia Pacific and others	2,502,711	5.86%	2,931,973	6.76%	(14.64%)
Total	<u>42,695,432</u>	<u>100.00%</u>	<u>43,352,020</u>	<u>100.00%</u>	<u>(1.51%)</u>

Air Cargo Revenue

In 2009, the Group's air cargo and mail revenue was RMB5,396 million, a decrease of RMB1,788 million from the previous year. Among which, increase in traffic capacity contributed to an increase in revenue of RMB171 million, while the decrease in cargo load factor and cargo yield caused a decrease in revenue of RMB334 million and RMB1,625 million respectively. The traffic capacity, cargo load factor and revenue per freight tonne kilometre of the cargo and mail operations in 2009 are as follows:

	2009	2008	Change
Available freight tonne kilometres (<i>million</i>)	6,506.89	6,355.89	2.38%
Cargo load factor (%)	54.23	56.81	(2.58) percentage points
Cargo yield per tonne kilometre (<i>RMB</i>)	1.53	1.99	(23.12%)

Air Cargo Revenue Contributed by Geographical Segment

(RMB'000)	2009		2008		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	1,263,219	23.41%	1,402,720	19.52%	(9.95%)
Hong Kong, Macau and Taiwan	302,061	5.60%	687,388	9.57%	(56.06%)
Europe	1,902,021	35.25%	2,520,626	35.08%	(24.54%)
North America	1,168,658	21.66%	1,773,441	24.68%	(34.10%)
Japan and Korea	403,902	7.48%	541,392	7.54%	(25.40%)
Asia Pacific and others	356,350	6.60%	259,108	3.61%	37.53%
Total	<u>5,396,211</u>	<u>100.00%</u>	<u>7,184,675</u>	<u>100.00%</u>	<u>(24.89%)</u>

Operating Expenses

In 2009, the Group's operating expenses were RMB45,892 million, a decrease of 26.82% from RMB62,715 million of 2008. The breakdown of the operating expenses is set out below:

(RMB'000)	2009		2008		Change
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	14,466,065	31.52%	22,613,935	36.06%	(36.03%)
(Gain)/loss on fair value changes of fuel derivative contracts	(2,758,224)	(6.01%)	7,899,205	12.59%	134.92%
Take-off, landing and depot charges	5,788,687	12.61%	5,538,092	8.83%	4.52%
Depreciation	7,051,272	15.36%	6,365,275	10.15%	10.78%
Aircraft maintenance, repair and overhaul costs	1,767,808	3.85%	1,804,416	2.88%	(2.03%)
Employee compensation costs	6,627,408	14.44%	5,843,887	9.32%	13.41%
Air catering charges	1,518,912	3.31%	1,443,855	2.30%	5.2%
Sales expenses	3,085,184	6.72%	2,602,904	4.15%	18.53%
Administration management expenses	1,016,051	2.21%	1,089,467	1.74%	(6.74%)
Other	7,329,072	15.99%	7,514,096	11.98%	(2.46%)
Total	<u>45,892,235</u>	<u>100.00%</u>	<u>62,715,132</u>	<u>100.00%</u>	<u>(26.82%)</u>

- Jet fuel costs decreased by 36.03% to RMB14,466 million in 2009 as compared with RMB22,614 million in 2008. Jet fuel costs accounted for 31.52% of operating expenses in 2009 as compared with 36.06% in 2008. The sharp decrease in jet fuel costs was mainly attributable to the decrease in average fuel prices in 2009 as compared with the previous year.
- In 2009, gains on fair value changes of fuel derivative contracts amounted to RMB2,758 million, which was RMB2,656 million lower than the recovery amount of RMB5,414 million in fair value due to settlement of fuel derivative contracts.

- In 2009, take-off, landing and depot charges amounted to RMB5,789 million, an increase of RMB251 million or 4.52%, mainly due to the increase in the number of flights in 2009 as compared with 2008.
- In 2009, depreciation expenses increased due to a larger number of planes owned and finance leased.
- Aircraft maintenance, repair and overhaul costs were approximately the same as that incurred in 2008.
- Employee compensation costs also increased in 2009 because of (i) increase in the number of employees in special posts such as pilots and flight crew, (ii) reform of flight crew compensation that started in March 2008 and (iii) expansion of operation scale.
- Air catering charges increased primarily due to an increase in the number of passengers carried.
- Sales expenses increased 18.53% from same time last year mainly because of the increase in commission paid to our ticket agents to cope with the sharp drop in international market demand and increasing competition.
- Administrative management expenses decreased by 6.74% mainly due to strict control of daily administrative expenses.
- Other operating expenses mainly included aircraft and engines operating lease expenses, civil aviation infrastructure construction fund and daily expenses arising from our core air traffic business not included in the aforesaid items.

Financial Revenue and Financial Costs

In 2009, the Group recorded an exchange gain of RMB110 million, a decrease of RMB1,377 million or 92.63% from last year primarily due to the US dollar value being more stable as compared to the rapid depreciation in the previous year. Interest expenses for the year amounted to RMB1,412 million, a RMB699 million decrease from last year because most of the Group's interest-bearing debt had floating interest rates and as LIBOR dropped, the interest expenses decreased.

Share of Profits and Losses of Associates

In 2009, the Group's share of profits of its associates was RMB624 million, compared with a loss of RMB1,184 million in 2008, mainly due to the RMB723 million in revenue from investment in Cathay Pacific recognised by way of equity accounting during this reporting period, whereas the Group recorded a loss in the investment in Cathay Pacific of RMB1,188 million in 2008.

Analysis of Assets Structure

As at 31 December 2009, the Group's total assets amounted to RMB107,919 million, an increase of 7.49% from last year, of which, current assets accounted for RMB8,551 million, representing 7.92% of total assets, while non-current assets accounted for RMB99,368 million, representing 92.08% of total assets.

Among the current assets, cash and cash equivalents were RMB2,707 million, a decrease of 9.39% from last year, whereas accounts receivable increased by 11.02% to RMB2,054 million as compared to 2008. Within non-current assets, the net book value of property, plant and equipment was RMB75,045 million, a 4.49% increase from last year.

Assets Mortgage

As at 31 December 2009, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged: (i) certain aircraft and premises with an aggregate net book value of approximately RMB37,113 million (compared with RMB35,336 million as at 31 December 2008), (ii) a number of shares in its associated companies with market value of approximately RMB5,161 million (compared with approximately RMB3,071 million as at 31 December 2008), and (iii) land use rights with a net book value of approximately RMB35 million (compared with approximately RMB36 million as at 31 December 2008). At the same time, the Group has approximately RMB565 million (compared with approximately RMB1,746 million as at 31 December 2008) in bank deposits pledged as partial security in respect of certain bank loans, operating leases and financial derivatives of the Group.

Capital Expenditure

In 2009, the Company's capital expenditure amounted to an aggregate of RMB13,838 million, of which the total investment in aircraft and engines was RMB7,045 million, including prepayment of RMB3.2 billion for the purchase of aircraft for 2010 and on.

Other capital expenditure amounted to RMB6,793 million, mainly used for flight simulator purchases and modification, aircraft modification, high-cost parts and components used in aircraft, Air China flight training base, Chengdu Shuangliu Airport environmental upgrade, SOC peripherals and training, Beijing ground service station equipment, equity and capital increase project of Sichuan Snecma Aero-engine Maintenance Co., Ltd., Shanghai ground service joint venture company (上海地服合資公司) project, air cargo joint venture company (航空貨運合資公司) project, and increase in shareholding in Cathay Pacific.

Equity Investment

As at 31 December 2009, the Group's aggregate amount of equity investment in its associates was RMB12,187 million, an increase of 94.33% as compared with the previous year. Among which, the investments in Cathay Pacific and Shandong Airlines were RMB11,246 million and RMB494 million respectively, representing profits of RMB4,286 million and RMB212 million respectively for 2009.

Debt Structure Analysis

For the year ended 31 December 2009, the Group's total liabilities was RMB83,965 million, representing an increase of 5.03% from last year, of which current liabilities were RMB37,199 million and non-current liabilities were RMB46,766 million, representing 44.3% and 55.7% of total liabilities respectively.

Of the current liabilities: payable derivative financial instruments were RMB2,275 million, a decrease of RMB5,453 million as compared to 2008; interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB21,378 million, a 2.70% increase from 2008; other advances and payables amounted to RMB13,546 million, a 4.48% decrease from 2008.

Of the non-current liabilities, interests-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) represented RMB42,687 million, a 26.21% increase from 2008.

Commitments and Contingent Liabilities

The Group's capital commitment as at 31 December 2009 was RMB62,037 million, representing a significant decrease as compared with RMB70,279 million recorded as at 31 December 2008, primarily used for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years and for the construction of certain properties. The Group had operating lease commitments of RMB14,052 million, representing an increase of 3.5% as compared to 2008, primarily used for leasing aircraft, office premises and related equipments. The Group had investment commitment of RMB51 million, approximately on the same level as at 31 December 2008.

As at 31 December 2009, the Group's contingent liabilities in respect of guarantees to bank loans provided to its associates were RMB131 million. Details of the Group's contingent liabilities are set out in note 50 to the Group's 2009 financial statements.

Gearing Ratio

As at 31 December 2009, the Group's gearing ratio (total liabilities divided by total assets) was 77.8%, a 1.82 percentage point decrease from the recorded 79.63% as at 31 December 2008. This was primarily attributable to the greater profits recorded in the year, which increased shareholders' equity from RMB20,457 million as at 31 December 2008 to RMB23,954 million as at 31 December 2009. Considering that the prevailing gearing ratios of air carriers in the aviation industry were at a relatively high level, the Group continues to maintain the relatively better position in the domestic industry in terms of gearing ratio. The Group's long-term insolvency risks are also within control.

Working Capital and its Sources

As at 31 December 2009, the Group's net current liabilities (current liabilities minus current assets) were RMB28,648 million, a decrease of RMB3,660 million as compared to 2008. The current ratio, which represents current assets divided by current liabilities, was 0.23, representing one percentage point decrease from 0.24 as at 31 December 2008. The decrease in net current liabilities was mainly due to the decrease in the Group's current liabilities.

The Group met its working capital needs mainly through its operating activities and external financing activities. In 2009, the Group's net cash inflow from operating activities was RMB5,465 million, an increase of 9.43% from RMB4,994 million in 2008. This was primarily attributable to a drop in jet fuel costs which led to a decrease in cash outflow on purchase of jet fuel as compared to the previous year. Net cash outflow from investment activities was RMB12,666 million, representing an increase of 75.87% from RMB7,202 million in 2008, primarily due to the RMB6,335 million cash payment for purchase of Cathay Pacific shares in 2009. The Group recorded net cash inflow from financing activities was RMB6,948 million, representing an increase of RMB4,078 million from RMB2,870 million in 2008, primarily due to higher cash inflow from borrowings in 2009 as compared to 2008. In 2009, the Group's balance of cash and cash equivalents was RMB2,676 million, a decrease of approximately RMB273 million from last year. The Group obtained bank facilities with an aggregate maximum amount of RMB84,148 million from a number of banks in the PRC, of which approximately RMB32,692 million was utilised, enough to meet working capital demand and future capital commitments.

Objectives and Policies of Financial Risk Management

The Group is exposed to the risk of fluctuations in jet fuel prices in its daily operation. International jet fuel prices have historically, and will continue to be, subject to market volatility and fluctuations in supply and demand. The Group's strategy for managing jet fuel price risk aims to protect itself against sudden and significant price increases. 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. Considering the high volatility of international fuel prices and its high impact on the Company's cost, the Company will continue to utilise the hedging instruments to manage and control the risk in relation to rising fuel prices.

For the year ended 31 December 2009, the Group's total amount of interest-bearing debt was RMB64,065 million, accounting for 76.30% of the Group's total liabilities, of which most were foreign debt and mainly denominated in US dollars, Hong Kong dollars and Japanese Yen. In addition, the Group also had sales revenue and expense denominated in foreign currencies. The Group endeavoured to minimise any risks related to interest rates and exchange rates by adjusting the structure of interest rates and currency denomination of its debts, and by making use of financial derivatives.

OUTLOOK FOR 2010

Over the past year, the Group has withstood the severe tests of the market and further improved its abilities to cope with operation risks. Facing the market environment in 2010, we are aware that the rapid growth in domestic traffic capacity may lead to traffic overcapacity, and the growing traffic capacity input in China made by foreign airline companies who are optimistic about the PRC airline market, coupled with the slow recovery of sales the first class and business class sales, have and will put much pressure on the improvement of our operating results. The expansion in the Group's fleet and production scale calls for enhanced management. Furthermore, as compared with passengers' expectations, our service quality still has room for improvement and a fundamental enhancement in which requires us to make painstaking efforts. Looking ahead, we believe that we can deliver satisfactory operating results to our shareholders despite the challenging operating environment by taking advantage of the fast growth of the domestic market, leveraging the collaboration with our strategic partners and gradually strengthening our own operational capabilities in the international market with the concerted and dedicated efforts of all our staff.

SHARE CAPITAL

As at 31 December 2009, 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 2009:

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	<u>12,251,362,273</u>	<u>100%</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2009, 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 2009.

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 2009.

DIVIDENDS

Although the Group recorded retained profits in the consolidated financial statements of 2009, the Company still recorded accumulated losses in its financial statements and therefore, in accordance with the relevant PRC laws and regulations, the Company does not have profits to distribute to its shareholders for year 2009. For that reason, the Board of the Company does not recommend the payment of any final dividend in respect of the year ended 31 December 2009. The relevant resolution will be proposed for the approval of the shareholders at the 2009 annual general meeting of the Company.

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 its existing shareholders in proportion to their existing shareholdings.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the directors was appointed by the Company for a term of not more than three years and shall end upon the third session of the Board of Directors being elected.

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 2009 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 2009 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 AND RISK CONTROL COMMITTEE

The 2009 annual results of the Company have been reviewed by the audit and risk control committee of the Board of Directors of the Company.

By order of the Board
Air China Limited
Huang Bin Tam Shuit Mui
Joint Company Secretaries

Beijing, PRC, 22 April 2010

As at the date of this announcement, the Directors of the Company are Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Wang Shixiang, Mr. Cao Jianxiong, Mr. Christopher Dale Pratt, Mr. Chen Nan Lok, Philip, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Hu Hung Lick, Henry, Mr. Zhang Ke*, Mr. Jia Kang* and Mr. Fu Yang*.*

* *Independent non-executive Director of the Company*