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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)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2010, with comparative figures for the corresponding period of the last year, as follows:

FINANCIAL INFORMATION

A. Prepared under International Financial Reporting Standards (“IFRSs”)

Unaudited Interim Condensed Consolidated Income Statement

		For the six months ended	
		30 June 2010	30 June 2009
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
TURNOVER			
Air traffic revenue	3	33,089,570	21,209,451
Other operating revenue	4	1,691,405	1,900,288
		34,780,975	23,109,739
OPERATING EXPENSES			
Jet fuel costs		(10,612,980)	(6,098,289)
Movements in fair value of derivative contracts		720,801	1,449,791
Take-off, landing and depot charges		(3,559,424)	(2,706,284)
Depreciation		(4,005,588)	(3,405,580)
Aircraft maintenance, repairs and overhaul costs		(1,038,642)	(879,252)
Employee compensation costs		(4,150,838)	(2,936,752)
Air catering charges		(853,590)	(694,285)
Aircraft and engine operating lease expenses		(1,495,065)	(1,139,662)
Other operating lease expenses		(766,736)	(235,418)
Other flight operation expenses		(2,654,431)	(1,959,590)
Selling and marketing expenses		(1,796,598)	(1,322,048)
General and administrative expenses		(466,681)	(362,105)
		(30,679,772)	(20,289,474)
PROFIT FROM OPERATIONS	5	4,101,203	2,820,265
Finance revenue	6	294,561	260,215
Finance costs	6	(648,846)	(729,335)
Share of profits of associates		1,718,893	315,720
PROFIT BEFORE TAX		5,465,811	2,666,865
Tax	7	(755,746)	150,384
PROFIT FOR THE PERIOD		4,710,065	2,817,249
Attributable to:			
Owners of the parent		4,612,900	2,878,224
Non-controlling interests		97,165	(60,975)
		4,710,065	2,817,249
Earnings per share attributable to equity holders of the parent:			
Basic	9	39.8 cents	24.3 cents
Diluted		N/A	N/A

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

	For the six months ended	
	30 June 2010	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>4,710,065</u>	<u>2,817,249</u>
Share of other comprehensive income of associates	550	36,106
Exchange realignment	(145,548)	(13,176)
Others	<u>—</u>	<u>(3,000)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(144,998)</u>	<u>19,930</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u><u>4,565,067</u></u>	<u><u>2,837,179</u></u>
Attributable to:		
Owners of the parent	4,467,995	2,899,200
Non-controlling interests	<u>97,072</u>	<u>(62,021)</u>
	<u><u>4,565,067</u></u>	<u><u>2,837,179</u></u>

Unaudited Interim Condensed Consolidated Statement of Financial Position

	30 June 2010 <i>RMB'000</i> (Unaudited)	31 December 2009 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	95,214,981	75,044,870
Lease prepayments	2,044,358	1,954,819
Intangible asset	47,477	49,267
Goodwill	1,651,165	346,845
Interests in associates	13,341,065	12,187,230
Advance payments for aircraft and related equipment	13,509,848	7,715,409
Deposits for aircraft under operating leases	383,306	253,815
Long term receivable from ultimate holding company	81,813	131,813
Available-for-sale investments	37,182	1,997
Deferred tax assets	1,913,701	1,656,453
	<u>128,224,896</u>	<u>99,342,518</u>
CURRENT ASSETS		
Aircraft and flight equipment held for sale	74,123	130,814
Inventories	1,504,273	1,384,706
Accounts receivable	3,196,936	2,054,265
Bills receivable	4,705	2,489
Prepayments, deposits and other receivables	2,378,667	1,230,794
Derivative financial instruments	3,766	—
Financial assets held for trading	19,307	—
Due from the ultimate holding company	427,387	461,147
Due from related companies	5,407	10,194
Tax recoverable	—	4,840
Pledged deposits	1,577,971	564,747
Cash and cash equivalents	5,674,461	2,706,758
	<u>14,867,003</u>	<u>8,550,754</u>
TOTAL ASSETS	<u>143,091,899</u>	<u>107,893,272</u>
CURRENT LIABILITIES		
Air traffic liabilities	(3,564,604)	(2,434,353)
Accounts payable	(8,298,352)	(6,045,733)
Bills payable	(325,401)	(763,255)
Other payables and accruals	(8,264,642)	(4,645,406)
Derivative financial instruments	(1,678,477)	(2,274,627)
Due to related companies	(87,864)	(113,024)
Tax payable	(545,886)	(39,073)
Obligations under finance leases	(3,467,353)	(3,454,233)
Interest-bearing bank and other borrowings	(24,940,927)	(17,160,442)
Provision for major overhauls	(449,644)	(268,418)
	<u>(51,623,150)</u>	<u>(37,198,564)</u>
NET CURRENT LIABILITIES	<u>(36,756,147)</u>	<u>(28,647,810)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>91,468,749</u>	<u>70,694,708</u>

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Obligations under finance leases	(15,910,784)	(15,366,475)
Interest-bearing bank and other borrowings	(41,169,025)	(27,321,078)
Provision for major overhauls	(2,058,959)	(1,318,708)
Provision for early retirement benefit obligations	(230,726)	(210,006)
Long term payables	(264,416)	(180,420)
Deferred income	(3,108,436)	(2,105,554)
Deferred tax liabilities	(932,020)	(238,000)
	<u>(63,674,366)</u>	<u>(46,740,241)</u>
NET ASSETS	<u>27,794,383</u>	<u>23,954,467</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Issued capital	12,251,362	12,251,362
Treasury shares	(2,593,276)	(2,319,879)
Reserves	<u>18,452,281</u>	<u>13,984,413</u>
	28,110,367	23,915,896
NON-CONTROLLING INTERESTS	<u>(315,984)</u>	<u>38,571</u>
TOTAL EQUITY	<u>27,794,383</u>	<u>23,954,467</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 2010 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 Stock Exchange of Hong Kong Limited.

At 30 June 2010, the Group’s net current liabilities amounted to approximately RMB36,756 million, which comprised current assets of approximately RMB14,867 million and current liabilities of approximately RMB51,623 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 interim condensed consolidated financial statements for the six months ended 30 June 2010, the Directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfill 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 annual financial statements, and therefore should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2009.

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 2009, 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).

IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i>
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to IFRS 5 included in <i>Improvements to IFRSs</i> issued in May 2008	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
Improvements to IFRSs (issued in April 2009)	

(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 did 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 did not have any financial impact on the Group.

- (c) *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 did not have any significant implications on the Group's accounting for share-based payments.

- (d) *IFRS 3 (Revised) Business Combinations*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations. The changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combination achieved in stages. During the period, the Company acquired additional equity interest in Shenzhen Airlines and achieved business combination in stages. These changes by IFRS 3 (Revised) had an impact on the amount of goodwill recognised, the reported results of the Group in the period.

- (e) *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 has had no impact on goodwill, nor has it given 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 changes by IAS 27 (Revised) will affect future loss of control of subsidiaries and transactions with non-controlling interests.

- (f) *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. As the Group has not entered into any such hedges, the amendment did not have any financial impact on the Group.

- (g) *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 did not have any material financial impact on the Group.

- (h) *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 should 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 changes must be applied prospectively and did not have any material financial impact on the Group.

- (i) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, these amendments had no significant financial impact on the Group.

2. 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 flight equipment supporting the Group's worldwide transportation network, are mainly located in Mainland China. An analysis of assets of the Group by geographical distribution has therefore not been included in the interim condensed consolidated financial statements.

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 under China Accounting Standards for Business Enterprises ("CAS") by operating segment for the six months ended 30 June 2010 and 2009:

For the six months ended 30 June 2010

(Unaudited)	Airline Operations RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE				
Sales to external customers	34,270,125	37,548	–	34,307,673
Intersegment sales	–	359,907	(359,907)	–
Total revenue	<u>34,270,125</u>	<u>397,455</u>	<u>(359,907)</u>	<u>34,307,673</u>
SEGMENT PROFIT BEFORE TAX	<u>5,492,425</u>	<u>66,832</u>	<u>–</u>	<u>5,559,257</u>

For the six months ended 30 June 2009

(Unaudited)	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	22,362,259	42,766	–	22,405,025
Intersegment sales	–	222,412	(222,412)	–
Total revenue	<u>22,362,259</u>	<u>265,178</u>	<u>(222,412)</u>	<u>22,405,025</u>
SEGMENT PROFIT BEFORE TAX	<u>2,683,613</u>	<u>46,562</u>	<u>–</u>	<u>2,730,175</u>

The following tables present the segment assets of the Group's operating segments under the CAS as at 30 June 2010 and 31 December 2009:

	Airline Operations <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT ASSETS				
As at 30 June 2010 (Unaudited)	<u>138,597,124</u>	<u>2,383,431</u>	<u>(1,402,215)</u>	<u>139,578,340</u>
As at 31 December 2009 (Audited)	<u>105,239,001</u>	<u>2,367,196</u>	<u>(1,442,990)</u>	<u>106,163,207</u>

The following tables present the reconciliations of reportable segment revenue, profit and assets to the Group's interim condensed consolidated amounts:

	For the six months ended	
	30 June 2010	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
REVENUE		
Total revenue for reportable segments	34,307,673	22,405,025
Business tax not included in segment revenue	(671,630)	(543,663)
Other income not included in segment revenue	420,915	991,644
Effects of differences between IFRSs and CAS	<u>724,017</u>	<u>256,733</u>
Revenue for the period	<u>34,780,975</u>	<u>23,109,739</u>
PROFIT BEFORE TAX		
Total profit before tax for reportable segments	5,559,257	2,730,175
Effects of differences between IFRSs and CAS	<u>(93,446)</u>	<u>(63,310)</u>
Profit before tax for the period	<u>5,465,811</u>	<u>2,666,865</u>

	30 June 2010 RMB'000 (Unaudited)	30 June 2009 <i>RMB'000</i> (Unaudited)
ASSETS		
Total assets for reportable segments	139,578,340	106,163,207
Effects of differences between IFRS and CAS	3,513,559	1,730,065
Total assets	<u>143,091,899</u>	<u>107,893,272</u>

Geographical segments

The following tables present the Group's consolidated revenue under IFRS, by geographical segment for the six months ended 30 June 2010 and 2009:

For the six months ended 30 June 2010

(Unaudited)	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>
REVENUE							
Sales to external customers and total revenue	<u>20,445,640</u>	<u>2,057,114</u>	<u>4,436,706</u>	<u>3,024,711</u>	<u>2,806,724</u>	<u>2,010,080</u>	<u>34,780,975</u>

For the six months ended 30 June 2009

(Unaudited)	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>
REVENUE							
Sales to external customers and total revenue	<u>14,472,838</u>	<u>1,273,386</u>	<u>2,618,340</u>	<u>1,791,109</u>	<u>1,600,613</u>	<u>1,353,453</u>	<u>23,109,739</u>

3. AIR TRAFFIC REVENUE

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

	For the six months ended 30 June 2010 RMB'000 (Unaudited)	30 June 2009 <i>RMB'000</i> (Unaudited)
Passenger	28,627,073	19,242,976
Cargo and mail	<u>4,462,497</u>	<u>1,966,475</u>
	<u>33,089,570</u>	<u>21,209,451</u>

Business tax incurred and set off against air traffic revenue for the period ended 30 June 2010 amounted to approximately RMB639 million (six months ended 30 June 2009: RMB525 million).

4. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2010	30 June 2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Ground service income	319,637	280,271
Aircraft engineering income	334,425	317,681
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	–	823,598
Recognition of deferred income	54,178	38,472
Others	185,456	109,145
Service charges on return of unused flight tickets	143,536	90,074
Cargo handling service income	69,911	33,395
Training service income	24,879	7,349
Import and export service income	7,235	6,696
Sale of materials	10,430	10,684
Others	541,718	182,923
	1,691,405	1,900,288

5. PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2010	30 June 2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment, net	(3,635)	(3,861)
Loss on derecognition of property, plant and equipment	7,525	57,091
Minimum lease payments under operating leases:		
Aircraft and related equipment	1,459,593	1,139,662
Land and buildings	604,469	235,418
Amortisation of lease prepayments	21,794	23,149

6. FINANCE REVENUE AND FINANCE COSTS

	Group	
	For the six months ended	
	30 June 2010	30 June 2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	279,302	175,879
Interest income	15,259	13,049
Gain on interest rate derivative contracts, net	—	71,287
	<u>294,561</u>	<u>260,215</u>
Finance costs		
Interest on interest-bearing bank and other borrowings	512,027	605,607
Interest on finance leases	124,933	240,338
Loss on interest rate derivative contracts and forward foreign exchange contracts, net	138,457	—
	<u>775,417</u>	<u>845,945</u>
Less: Interest capitalised	<u>(126,571)</u>	<u>(116,610)</u>
	<u>648,846</u>	<u>729,335</u>

The interest capitalisation rates during the period ranges from 0.8% to 5.9% (six months ended 30 June 2009: 1% to 5%) per annum.

7. TAX

Under the relevant PRC Corporate Income Tax Law and the relevant regulations, except for certain of the Company's subsidiaries and joint venture, which are taxed at preferential rates ranging from 15% to 22% (six months ended 30 June 2009: 20%), the group companies located within Mainland China are subject to corporate income tax at a rate of 25% (six months ended 30 June 2009: 25%) during the period.

The subsidiary in Hong Kong is taxed at 16.5%. 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:

	For the six months ended	
	30 June 2010	30 June 2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
Mainland China	560,454	9,773
Hong Kong	492	—
Deferred income tax	<u>194,800</u>	<u>(160,157)</u>
Income tax charge/(credit) for the period	<u>755,746</u>	<u>(150,384)</u>

The share of tax charge attributable to associates amounting to RMB305,759,000 (six months ended 30 June 2009: share of tax charge of RMB63,083,000) is included in the share of profits of associates on the face of the interim condensed consolidated income statement for the six months ended 30 June 2010.

8. DIVIDEND

In accordance with the Company's articles of association, the profit after tax of the Company for the purpose of dividend distribution is based on the lesser of (i) the profit determined in accordance with CAS; and (ii) the profit determined in accordance with IFRSs.

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2010 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2010 of approximately RMB4,612,900,495, and the weighted average of approximately 11,579,847,377 ordinary shares in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding arrangement.

The calculation of basic earnings per share for the six months ended 30 June 2009 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2009 of approximately RMB2,878,224,000, and the weighted average of approximately 11,863,300,373 ordinary shares in issue during that period, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding arrangement.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2010 and 30 June 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both periods.

B. Prepared under China Accounting Standards for Business Enterprises

Unaudited Interim Consolidated Income Statement

	For the six months ended	
	30 June 2010	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from operations	34,307,673	22,405,025
Less: Cost of operations	26,951,413	18,975,773
Business taxes and surcharges	662,104	543,663
Selling expenses	2,421,755	1,640,424
General and administrative expenses	959,410	684,816
Finance costs/(revenue)	288,192	606,798
Impairment losses in assets	126,230	—
Add: Gains from movements in fair value	576,969	1,521,078
Investment income	1,890,209	311,125
Including: Investment income/(losses) from associates and joint ventures	1,739,454	311,125
Profit from operations	5,365,747	1,785,754
Add: Non-operating income	213,311	952,844
Less: Non-operating expenses	19,801	8,423
Including: Loss on disposal of non-current assets	10,056	4,248
Total Profit	5,559,257	2,730,175
Less: Tax	778,086	(134,500)
Net profit	4,781,171	2,864,675
Net profit attributable to equity holders of the Company	4,694,021	2,925,649
Non-controlling interests	87,150	(60,974)

Unaudited Interim Consolidated Balance Sheet

	30 June 2010 <i>RMB'000</i> (Unaudited)	31 December 2009 <i>RMB'000</i> (Audited)
ASSETS		
Current assets:		
Cash and bank balances	7,058,305	3,201,568
Financial assets held for trading	23,073	–
Bills receivable	4,705	2,489
Accounts receivable	3,189,761	2,201,172
Other receivables	1,486,765	492,007
Prepayments	573,464	350,257
Inventories	1,074,784	931,271
Total current assets	13,410,857	7,178,764
Non-current assets:		
Long term receivables	385,096	254,306
Long term equity investments	14,500,621	13,235,575
Fixed assets	86,846,388	69,147,527
Construction in progress	18,286,098	11,731,131
Intangible assets	2,768,263	2,576,301
Goodwill	1,449,030	349,055
Long term deferred expenses	128,297	138,105
Deferred tax assets	1,803,690	1,552,443
Total non-current assets	126,167,483	98,984,443
Total assets	139,578,340	106,163,207

30 June	31 December
2010	2009
RMB'000	RMB'000
(Unaudited)	(Audited)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Short term loans	14,151,056	8,870,400
Financial liabilities held for trading	1,678,477	2,274,627
Bills payable	325,401	763,255
Accounts payable	9,739,385	7,113,031
Domestic air traffic liabilities	1,516,644	850,394
International air traffic liabilities	2,047,960	1,583,959
Receipts in advance	80,597	38,127
Employee compensations payable	616,184	348,492
Taxes payable	1,343,926	720,295
Interest payable	267,979	303,154
Other payables	4,963,781	2,224,083
Non-current liabilities repayable within one year	13,443,379	11,304,489
Total current liabilities	50,174,769	36,394,306

Non-current liabilities:

Long term loans	30,698,057	18,321,078
Corporate bonds	9,000,000	9,000,000
Long term payables	2,309,099	1,499,128
Obligations under finance leases	15,910,785	15,366,476
Accrued liabilities	124,073	94,438
Deferred income	2,421,210	1,383,338
Deferred tax liabilities	869,020	143,000
Total non-current liabilities	61,332,244	45,807,458

Total liabilities	111,507,013	82,201,764

Shareholders' equity:

Share capital	12,251,362	12,251,362
Capital reserve	10,550,932	10,823,906
Reserve funds	1,563,914	1,563,914
Accumulated profit	5,615,869	921,848
Foreign exchange translation reserve	(1,781,211)	(1,638,158)

Equity attributable to equity holders of the Company	28,200,866	23,922,872
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Minority interests	(129,539)	38,571

Total shareholders' equity	28,071,327	23,961,443

Total liabilities and shareholders' equity	139,578,340	106,163,207

Effects of Significant Differences Between IFRS and CAS

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

	For the six months ended	
	30 June 2010	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net profit attributable to the equity holders of the Company under CAS	4,694,021	2,925,649
Deferred tax	38,000	21,000
Differences in value of fixed assets	(122,067)	(58,026)
Government grants	(7,469)	(8,056)
Others	10,415	(2,343)
Net profit attributable to equity holders of the Company under IFRSs	<u>4,612,900</u>	<u>2,878,224</u>
	30 June	31 December
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Equity attributable to the equity holders of the Company under CAS	28,200,866	23,922,872
Deferred tax	47,000	9,000
Differences in value of fixed assets	115,170	237,237
Government grants	(425,010)	(417,541)
Others	172,341	164,328
Equity attributable to equity holders of the Company under IFRSs	<u>28,110,367</u>	<u>23,915,896</u>

CHAIRMAN'S STATEMENT

In the first half of 2010, thanks to the gradual stabilisation and recovery of the global economy, in particular as a result of China's rapid economic growth and the stimulation provided by the World Exposition Shanghai China 2010, the Group's operating results hit historical high and increased significantly as compared with the same period last year. In this reporting period, the Group recorded an RMB5,466 million profit before tax, an RMB4,613 million profit attributable to equity holders and an RMB0.398 of earnings per share attributable to equity holders, representing an increase of 104.95%, 60.27% and 63.79%, respectively, from the same period last year.

In light of the strong demand in the aviation market in the first half of this year, the Group was able to seize market opportunities and, by introducing additional capacity and tapping the Group's potential, expand its total capacity by 24.51% from the same period last year. In the domestic market, the Group continued to increase its capacity in the relevant regions in North China and opened 13 routes including Beijing-to-Ulan Hot (Inner Mongolia), Beijing-to-Chaoyang (Liaoning Province) and Beijing-to-Jiuzhaigou (Sichuan Province) routes. In the international market, the Group increased its capacity on the routes to Japan and other Asia-Pacific regions, resumed Beijing-to-Sao Paulo route, and opened Beijing-to-Manila, Shanghai-to-Bangalore (via Chengdu) and other international routes. In the regional market, the Group continued to increase its capacity and opened Shanghai-to-Songshan (Taipei) route and Wuhan-to-Macau route.

The Group continued to improve its operating efficiency for passenger operation. In the first half of this year, the Group recorded 47,214 million revenue passenger kilometers, carried 26.27 million passengers with a load factor of 78.89%, representing an increase of 32.13%, 34.54% and 4.55 percentage points, respectively, from the same period last year. In this reporting period, the Group generated RMB28,627 million from its passenger operation, representing an increase of 48.77% from the same period last year. The revenue from the sale of first class and business class increased significantly, in particular the first class and business class sale relating to Europe, America and Australia increased by 48% from the same period last year. The Group's passenger yield increased by 12.46% from the same period last year to RMB0.61.

In the first half of this year, the cargo market saw strong growth, in particular, the Asia-Pacific regions, especially China. The Group allocated 3,725 million available freight tonne kilometers to its cargo operation, representing an increase of 21.23% from the same period last year. The increased capacity were mainly allocated to Europe and America. In the first half of this year, the Group realised 2,215 million revenue tonne kilometers and carried 603,400 tonnes of cargo and mail with a load factor of 59.45%, which represented an increase of 45.93%, 42.56% and 10.06 percentage points, respectively, from the same period last year. The Group recorded revenue of RMB4,462 million from its cargo operation, representing an increase of 126.93% from the same period last year. The revenue from international and regional routes increased remarkably by 162.47% and 76.21%, respectively, from the same period last year. The Group's cargo yield increased by 44.49% to RMB1.87 and the profit for cargo business hit historical high.

The Group's fuel cost increased substantially in the first half of this year with the purchase price of international fuel increased by 41.33% and the purchase price of domestic fuel increased by 34.54%, from the same period last year. The share of fuel cost in the total operating costs increased from 30.06% of the same period last year to 34.59%. Although the fuel surcharge, to some extent, eased our cost pressure, the upward trend of fuel costs remains a major challenge to the Group. As of 30 June 2010, the Group recorded a net gain of RMB721 million as a result of the changes in the fair value of the Group's fuel derivative contracts.

As of 30 June 2010, the Group owned 381 aircraft. In the first half of this year, 26 new aircraft which are more fuel-efficient, mainly A321, A320, B737-800, A330-300 aircraft, were introduced. In the mean time, 7 aircraft which are relatively old models, including B757-200, B737-300 and B747-200F aircraft, retired from our fleet. Accordingly, the Group's fleet structure continued to be optimised and the fleet became younger.

The Group continued to improve its hub operations. The transfer passengers of Beijing hub reached 2.51 million, representing an increase of 8% from the same period last year. The available connections for Chengdu hub rose by 28% from the same period last year. In Chengdu hub, although the passengers for domestic to domestic transfers dropped slightly, transfer passengers for other sectors increased by 71% from the same period last year. The Group's transfer passengers in Shanghai, a traffic gateway, were 0.24 million in the first half of this year, representing an increase of 30% from the same period last year. The completion of the Shanghai Hongqiao Airport T2 transition provided significant supplemental resources for the construction of Shanghai as a gateway. The acquisition of the controlling position in Shenzhen Airlines Limited ("Shenzhen Airlines") strengthened the Group's operations in Beijing, Chengdu and Shanghai as well as its route network coverage.

The Group continued to put great emphasis on its service and product innovation and service consistency in an effort to improve its service. In this reporting period, the Group launched the marketing and service product of super-economy class, and enhanced the diversification of its service products. The Group's Frequent Flyer Service Centre offered 24-hour service and expanded the products and services for its members. The Group launched self-service of baggage check-in in Beijing in order to gradually improve its customer services. In Shanghai, the Group achieved self-running of full-process ground handling at its two airports and improved its service interface and service efficiency.

In light of market changes, the Group actively implemented its strategic deployment and resource integration. The Company increased its equity interest in Shenzhen Airlines and became its controlling shareholder in the first half of this year. This would facilitate further integration of aviation resources and synergy and had long-term strategic significance in terms of market deployment and resource allocation.

The Group fully leveraged its strategic partnership with Cathay Pacific Airways Limited ("Cathay Pacific") by increasing synergy from their passenger and cargo businesses. The two companies accelerated the establishment of the cargo joint venture so as to seize the rare growth opportunities in the cargo market and create new growth benefit for their cooperation.

The recovery of the global aviation market has injected great vitality into the cooperation between the members of Star Alliance. In the first half of this year, the contribution to the Group's sales by the members of Star Alliance increased by more than 50% from the same period last year and the synergy among the members of Star Alliance became more apparent.

The global aviation industry is facing various uncertainties in the second half of this year. Rising oil price, exchange rate fluctuations and natural disasters would have considerable impact on the aviation industry. The Group will continue to adhere to its prudent operation strategy, actively seek new market growth opportunities, endeavor to improve its service and strengthen and expand its competitive strengths, and strive to make better returns to its shareholders and the society.

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

The following discussion and analysis are based on the Group's interim condensed consolidated financial statements and its notes prepared in accordance with IFRSs 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.

ANALYSIS OF PROFITABILITY

For the six months ended 30 June 2010, the Group recorded a profit before tax of RMB5,466 million, and the profit attributable to shareholders of the Company was RMB4,613 million with basic earnings per share of RMB0.398, representing an increase of 104.95%, 60.27% and 63.79% respectively as compared with the same period of 2009.

The substantial increase of profit in the first half of 2010 as compared with the same period of the previous year was mainly attributable to the higher growth in the profit from operation of the Company and the airline companies invested by the Company due to the rebound of the global air traffic market, particularly the rapid growth in demand in domestic air passenger and cargo markets, as well as the Group's effective operational management, marketing and cost control.

TURNOVER

For the six months ended 30 June 2010, the Group's total turnover (including air traffic revenue and other operating revenue, net of business taxes and surcharges) was RMB34,781 million, representing an increase of RMB11,671 million or 50.50% from the same period of 2009, among which, air traffic revenue amounted to RMB33,090 million, representing an increase of RMB11,880 million or 56.01% from the same period of 2009; and other operating revenue was RMB1,691 million, representing a decrease of RMB209 million from the same period of 2009, which was primarily attributable to the refund of RMB824 million from CAAC Infrastructure Development Fund recognised in the same period of the previous year. Such policy was repealed on 30 June 2009.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June				Change (%)
	2010		2009		
	Amount	Percentage	Amount	Percentage	
International	12,278,221	35.30%	7,363,515	31.86%	66.74
Domestic	20,445,640	58.79%	14,472,838	62.63%	41.27
Hong Kong, Macau and Taiwan	2,057,114	5.91%	1,273,386	5.51%	61.55
Total	34,780,975	100.00%	23,109,739	100.00%	50.50

AIR PASSENGER REVENUE

For the six months ended 30 June 2010, the Group recorded air passenger revenue of RMB28,627 million, representing an increase of RMB9,384 million from the same period of 2009, among which, the increase in traffic capacity, passenger load factor and passenger yield contributed to an increase in revenue of RMB4,748 million, RMB1,464 million and RMB3,172 million, respectively.

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June				Change (%)
	2010		2009		
	Amount	Percentage	Amount	Percentage	
International	8,542,833	29.84%	6,097,544	31.69%	40.10
Domestic	18,389,147	64.24%	12,004,816	62.38%	53.18
Hong Kong, Macau and Taiwan	<u>1,695,093</u>	<u>5.92%</u>	<u>1,140,616</u>	<u>5.93%</u>	48.61
Total	<u>28,627,073</u>	<u>100%</u>	<u>19,242,976</u>	<u>100%</u>	48.77

AIR CARGO REVENUE

For the six months ended 30 June 2010, the Group's air cargo and mail revenue was RMB4,462 million, representing an increase of RMB2,496 million from the same period of 2009, among which, the increase in traffic capacity, cargo load factor and cargo yield contributed to an increase in revenue of RMB571 million, RMB551 million and RMB1,374 million, respectively.

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June				Change (%)
	2010		2009		
	Amount	Percentage	Amount	Percentage	
International	3,322,739	74.46%	1,265,970	64.38%	162.47
Domestic	905,805	20.30%	567,735	28.87%	59.55
Hong Kong, Macau and Taiwan	233,953	5.24%	132,770	6.75%	76.21
Total	4,462,497	100.00%	1,966,475	100.00%	126.93

OPERATING EXPENSES

For the six months ended 30 June 2010, the Group's operating expenses amounted to RMB30,680 million, representing an increase of RMB10,390 million or 51.21% from the same period of 2009. The breakdown of the operating expenses is set out below:

(in RMB'000)	For the six months ended 30 June				Change (%)
	2010		2009		
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	10,612,980	34.59%	6,098,289	30.06%	74.03
Movements in fair value of fuel derivative contracts	-720,801	-2.35%	-1,449,791	-7.15%	-50.28
Take-off, landing and depot charges	3,559,424	11.60%	2,706,284	13.34%	31.52
Depreciation	4,005,588	13.06%	3,405,580	16.78%	17.62
Aircraft maintenance, repair and overhaul costs	1,038,642	3.39%	879,252	4.33%	18.13
Employee compensation costs	4,150,838	13.53%	2,936,752	14.47%	41.34
Air catering charges	853,590	2.78%	694,285	3.42%	22.95
Selling and marketing expenses	1,796,598	5.86%	1,322,048	6.52%	35.90
General and administrative expenses	466,681	1.52%	362,105	1.78%	28.88
Others	4,916,232	16.02%	3,334,670	16.45%	47.43
Total	30,679,772	100%	20,289,474	100%	51.21

- Jet fuel costs increased by 74.03% to RMB10,613 million for the six months ended 30 June 2010 as compared with RMB6,098 million for the six months ended 30 June 2009, which accounted for 34.59% of total operating expenses as compared with 30.06% for the same period of 2009. The substantial increase in the Group's jet fuel costs was mainly due to the consolidation of Shenzhen Airlines, the growing jet fuel consumption as a result of the increase in flight hours and the rising jet fuel price.
- Gains due to the movements in fair value of fuel derivative contracts for the six months ended 30 June 2010 was RMB721 million, including a recovery of RMB735 million in the fair value of the derivative contracts and changes in fair value of RMB14 million resulting from the effective settlement of the derivative contracts.
- Take-off, landing and depot charges increased because more aircraft take-offs and landings take place as well as increased expenditures arising from the consolidation of Shenzhen Airlines.
- Depreciation expenses increased mainly due to the increase in assets and the number of self-owned and finance leased aircraft resulting from the consolidation of Shenzhen Airlines.
- Aircraft maintenance, repair and overhaul costs increased mainly due to the consolidation of Shenzhen Airlines.
- Employee compensation costs increased during the current reporting period due to the increases in flight hours and basic income of employees as well as the consolidation of Shenzhen Airlines.

- Air catering charges increased primarily due to the increase in the number of passengers carried and the consolidation of Shenzhen Airlines.
- Selling and marketing expenses increased mainly due to the consolidation of Shenzhen Airlines and the increase in sales commission.
- Other operating expenses mainly included the aircraft and engines operating lease expenses, CAAC Infrastructure Development Fund and the daily expenses arising from air traffic business not included in the items specifically set forth above.

FINANCE REVENUE AND FINANCE COSTS

For the six months ended 30 June 2010, the Group recorded RMB279 million of net gains from foreign exchange, representing an increase of RMB103 million or 58.80% from the same period of 2009, was mainly as a result of the continuous appreciation of Renminbi against US dollars. For the current reporting period, the Group recorded a net fair value loss on interest rate derivative contracts of RMB138 million. The Group also recorded interest expenses of RMB637 million, which represented a decrease of RMB209 million from same period of 2009 mainly due to the fact that most of the Group's interest-bearing debts were those with floating interest rates such that the decrease of LIBOR would lead to reduced interest expenses.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

For the six months ended 30 June 2010, the Group's share of profits of its associates was RMB1,719 million, representing an increase of RMB1,403 million or 443.99% as compared with the same period of 2009, which was mainly due to the share of profit of in Cathay Pacific of RMB1,600 million by way of equity accounting, representing an increase of RMB1,387 million from the same period of 2009.

ANALYSIS OF ASSETS STRUCTURE

As at 30 June 2010, the total assets of the Group amounted to RMB143,092 million, representing an increase of 32.62% as compared with 31 December 2009, among which the current assets were RMB14,867 million, accounting for 10.39% of the total assets, while the non-current assets were RMB128,225 million, accounting for 89.61% of the total assets.

For the current assets, cash and cash equivalents amounted to RMB5,674 million, representing an increase of 109.64% from 31 December 2009, which was mainly attributable to the consolidation of Shenzhen Airlines and good sales performance; while accounts receivable increased by 55.62% to RMB3,197 million from 31 December 2009, which was mainly due to the consolidation of Shenzhen Airlines and the growth in sales.

For the non-current assets, the net book value of property, plant and equipment as at 30 June 2010 was RMB95,215 million, representing an increase of 26.88% from 31 December 2009, which was mainly attributable to the consolidation of Shenzhen Airlines and the increase in the number of self-owned and finance leased aircraft. Advance payments for aircraft and related equipment was RMB13,510 million, representing an increase of 75.10% from 31 December 2009.

ASSETS MORTGAGE

As at 30 June 2010, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB57,456 million (compared with RMB37,113 million as at 31 December 2009), certain number of shares in its associated Company with an aggregate market value of approximately RMB5,399 million (compared with approximately RMB5,161 million as at 31 December 2009), and land use rights with an aggregate net book value of approximately RMB41 million (compared with approximately RMB41 million as at 31 December 2009) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group of approximately RMB1,578 million (compared with approximately RMB565 million as at 31 December 2009) were pledged as security in respect of certain bank loans, operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

For the six months ended 30 June 2010, the total project investment completed by the Company amounted to RMB6,127 million. The total investment in aircraft and engines was RMB5,811 million, including prepayment of RMB3,480 million for the purchase of aircraft for 2010 and onwards. The total investment and purchase in aircraft modifications and additions, flight simulators and expensive parts and components was RMB171 million. Other project investment completed by the Company amounted to RMB316 million.

EQUITY INVESTMENT

As at 30 June 2010, the equity investments in the Group's associates increased by RMB1,154 million to RMB13,341 million, representing an increase of 9.47% from 31 December 2009, of which the equity investments in Cathay Pacific and Shandong Airlines Co. Limited were RMB12,197 million and RMB233 million. Cathay Pacific and Shandong Airlines Co. Limited recorded a profit of RMB6,074 million and RMB209 million, respectively, for the six months ended 30 June 2010.

DEBT STRUCTURE ANALYSIS

As at 30 June 2010, the total liabilities of the Group amounted to RMB115,298 million, representing an increase of 37.36% from 31 December 2009, of which current liabilities were RMB51,623 million, accounting for 44.77% of the total liabilities, and non-current liabilities were RMB63,674 million, accounting for 55.23% of the total liabilities.

For the current liabilities, the liabilities under derivative financial instruments amounted to RMB1,678 million, representing a decrease of RMB596 million from 31 December 2009. The interests-bearing debts (including bank loans and other loans, obligations under finance leases and bills payables) amounted to RMB28,734 million, representing an increase of 34.41% from 31 December 2009, which was mainly attributable to interests-bearing debts arising from the consolidation of Shenzhen Airlines. Other payables and accruals amounted to RMB8,265 million, representing an increase of 77.91% from 31 December 2009, which was mainly attributable to the consolidation of Shenzhen Airlines.

For the non-current liabilities, the interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB57,080 million, representing an increase of 33.72% as compared with 31 December 2009, which was mainly due to the increase in debts arising from the consolidation of Shenzhen Airlines.

COMMITMENTS AND CONTINGENT LIABILITIES

The capital commitment of the Group as at 30 June 2010 was RMB87,793 million, representing a substantial increase as compared with RMB62,037 million recorded as at 31 December 2009, which was primarily used for the purchase of certain aircraft and related equipment to be delivered in the coming years and for the construction of certain properties. The Group had operating lease commitments of RMB19,443 million, representing an increase of 38.35% from 31 December 2009, which was primarily used for leasing aircraft, office premises and related equipment. The Group had investment commitments of RMB402 million, representing an increase of RMB351 million from 31 December 2009, which was mainly the investment commitments made by Shenzhen Airlines, a subsidiary of the Group, to its associates and joint ventures.

As at 30 June 2010, the Group's contingent liabilities in respect of guarantees to bank loans provided to its associates were RMB26 million. Details of the contingent liabilities of the Group are set out in note 24 to the Group's interim condensed consolidated financial statements for 2010.

GEARING RATIO

As at 30 June 2010, the Group's gearing ratio (total liabilities divided by total assets) was 80.58%, representing an increase of 2.78 percentage points as compared with 77.80% recorded as at 31 December 2009, which was primarily due to the consolidation of Shenzhen Airlines. Meanwhile, the Group recorded profits in the current reporting period which increased shareholders' equity from RMB23,954 million as at 31 December 2009 to RMB27,794 million as at 30 June 2010. Considering that the prevailing gearing ratios of other air carriers in the aviation industry were at a relatively high level, the Group continues to maintain the leading position in the domestic aviation industry in terms of gearing ratio and its long-term insolvency risks are also under its control.

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2010, the net current liabilities of the Group (i.e. the current liabilities minus the current assets) were RMB36,756 million, representing an increase of RMB8,108 million from 31 December 2009. The Group's current ratio, which represents current assets divided by current liabilities, was 0.29, representing an increase of 0.06 from 0.23 as at 31 December 2009. The increase of the net current liabilities was mainly due to the consolidation of Shenzhen Airlines.

The Group meets its working capital needs mainly through its operating activities and external financing activities. For the first half of 2010, the Group's net cash inflow from operating activities was RMB6,909 million, representing an increase of 481.26% from RMB1,189 million for the same period of 2009. This was primarily due to a mix of the consolidation of Shenzhen Airlines and the substantial increase in revenue from the Group's principal business. Net cash outflow from investment activities was RMB5,041 million, representing an increase of 157.53% from RMB1,958 million for the same period in 2009, primarily due to the consolidation of Shenzhen Airlines and construction of fixed assets incurred during the current reporting period as compared with the same period of the previous year. The Group recorded a net cash inflow from financing activities of RMB716 million, representing a decrease of RMB288 million from RMB1,004 million for the same period in 2009, primarily due to relatively more debt repayments made by the Group during the current reporting period. The Group's net increase in cash and cash equivalents for the first half of 2010 was RMB2,583 million, representing an increase of approximately RMB2,348 million from the same period in 2009. The Company obtained bank facilities up to RMB122,421 million from a number of banks in the PRC, of which approximately RMB49,741 million was utilised, and the remaining portion is fully capable of meeting the working capital requirements and future capital commitments of the Company.

OBJECTIVES AND POLICIES OF FINANCIAL RISKS 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 are 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 sensitivity towards 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.

As at 30 June 2010, the total amount of interest-bearing debts of the Group were RMB85,814 million, accounting for 74.43% of the Group's total liabilities, most of which were foreign debts and mainly denominated in US dollars and Hong Kong dollars. In addition, the Group also had revenue and expenses denominated in foreign currencies. The Group endeavoured to minimise any risks relating to the fluctuation in interest rates and exchange rates primarily by adjusting the structure of the interest rates and currency denomination of its debts and by making use of financial derivatives.

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 2010.

INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2010.

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 (the "Listing Rules") throughout the six months ended 30 June 2010.

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

After making specific enquiries, the Company confirmed that each director and each supervisor of the Company have complied with the required standards of the Model Code as set out in Appendix 10 of the Listing Rules throughout the six months ended 30 June 2010.

DISCLOSURE REQUIRED BY THE LISTING RULES

In compliance with paragraph 46 of Appendix 16 to the Listing Rules, the Company confirms that in relation to those matters set out in paragraph 46(3) of Appendix 16 to the Listing Rules, save as disclosed herein, there has been no material change in the Company's existing information from the relevant disclosure in the 2009 Annual Report of the Company.

REVIEW BY AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company's interim report for the six months ended 30 June 2010, 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 Tam Shuit Mui
Joint Company Secretaries

Beijing, the PRC, 25 August 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. 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*