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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)**

**(I) 2010 ANNUAL RESULTS**  
**(II) PROPOSED APPOINTMENT OF**  
**NEW INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**(III) RESIGNATION OF DIRECTOR**

The board of directors of Air China Limited hereby announces that a meeting of the Board was held on 29 March 2011 and passed resolutions relating to, among other things:

- I. results for the financial year ended 31 December 2010; and
- II. the proposed appointment of Mr. Yang Yuzhong as an independent non-executive director of the Company.

**(I) 2010 ANNUAL RESULTS**

**GROUP RESULTS**

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2010 with comparative figures for the corresponding year of 2009 as follows:

**A. Prepared under International Financial Reporting Standards**

**CONSOLIDATED INCOME STATEMENT**

|                                                                         |              | <b>2010</b>         | <b>2009</b>    |
|-------------------------------------------------------------------------|--------------|---------------------|----------------|
|                                                                         | <i>Notes</i> | <i>RMB'000</i>      | <i>RMB'000</i> |
| <b>TURNOVER</b>                                                         |              |                     |                |
| Air traffic revenue                                                     | 3            | <b>78,209,188</b>   | 48,091,643     |
| Other operating revenue                                                 | 4            | <b>4,278,351</b>    | 3,301,548      |
|                                                                         |              | <b>82,487,539</b>   | 51,393,191     |
| <b>OPERATING EXPENSES</b>                                               |              |                     |                |
| Jet fuel costs                                                          |              | <b>(24,096,078)</b> | (14,466,065)   |
| Movements in fair value of fuel derivative contracts                    |              | <b>1,954,071</b>    | 2,758,224      |
| Take-off, landing and depot charges                                     |              | <b>(7,707,019)</b>  | (5,788,687)    |
| Depreciation                                                            |              | <b>(8,569,370)</b>  | (7,051,272)    |
| Aircraft maintenance, repair and overhaul costs                         |              | <b>(2,577,185)</b>  | (1,767,808)    |
| Employee compensation costs                                             | 5            | <b>(9,851,935)</b>  | (6,627,408)    |
| Air catering charges                                                    |              | <b>(2,044,359)</b>  | (1,518,912)    |
| Aircraft and engine operating lease expenses                            |              | <b>(3,488,014)</b>  | (2,319,211)    |
| Other operating lease expenses                                          |              | <b>(712,005)</b>    | (477,716)      |
| Other flight operation expenses                                         |              | <b>(8,227,555)</b>  | (4,532,145)    |
| Selling and marketing expenses                                          |              | <b>(4,602,745)</b>  | (3,085,184)    |
| General and administrative expenses                                     |              | <b>(1,637,824)</b>  | (1,016,051)    |
|                                                                         |              | <b>(71,560,018)</b> | (45,892,235)   |
| <b>PROFIT FROM OPERATIONS</b>                                           | 6            | <b>10,927,521</b>   | 5,500,956      |
| Finance revenue                                                         | 7            | <b>1,980,015</b>    | 139,620        |
| Finance costs                                                           | 7            | <b>(1,449,249)</b>  | (1,198,283)    |
| Share of profits and losses of associates                               |              | <b>3,375,325</b>    | 623,992        |
| <b>PROFIT BEFORE TAX</b>                                                |              | <b>14,833,612</b>   | 5,066,285      |
| Tax                                                                     | 8            | <b>(2,497,748)</b>  | (263,234)      |
| <b>PROFIT FOR THE YEAR</b>                                              |              | <b>12,335,864</b>   | 4,803,051      |
| <b>Attributable to:</b>                                                 |              |                     |                |
| Owners of the parent                                                    | 9            | <b>12,005,004</b>   | 4,854,234      |
| Non-controlling interests                                               |              | <b>330,860</b>      | (51,183)       |
|                                                                         |              | <b>12,335,864</b>   | 4,803,051      |
| <b>Dividends:</b>                                                       | 10           |                     |                |
| Interim                                                                 |              | —                   | —              |
| Proposed final                                                          |              | <b>1,523,829</b>    | —              |
|                                                                         |              | <b>1,523,829</b>    | —              |
| <b>Earnings per share attributable to equity holders of the parent:</b> | 11           |                     |                |
| Basic and diluted                                                       |              | <b>103 cents</b>    | 41.01 cents    |

# **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|                                                                          | <i>Notes</i> | <b>2010</b><br><b>RMB'000</b> | 2009<br><i>RMB'000</i> |
|--------------------------------------------------------------------------|--------------|-------------------------------|------------------------|
| <b>PROFIT FOR THE YEAR</b>                                               |              | <b>12,335,864</b>             | 4,803,051              |
| <b>OTHER COMPREHENSIVE INCOME/<br/>(LOSSES)</b>                          | <i>12</i>    |                               |                        |
| Share of other comprehensive income/(losses)<br>of associates            |              | <b>(47,303)</b>               | 347,437                |
| Exchange realignment                                                     |              | <b>(546,911)</b>              | (28,324)               |
| Others                                                                   |              | <b>(1,150)</b>                | (3,000)                |
| <b>OTHER COMPREHENSIVE INCOME/<br/>(LOSSES) FOR THE YEAR, NET OF TAX</b> |              | <b>(595,364)</b>              | 316,113                |
| <b>TOTAL COMPREHENSIVE INCOME<br/>FOR THE YEAR, NET OF TAX</b>           |              | <b>11,740,500</b>             | 5,119,164              |
| <b>Attributable to:</b>                                                  |              |                               |                        |
| Owners of the parent                                                     |              | <b>11,412,599</b>             | 5,170,315              |
| Non-controlling interests                                                |              | <b>327,901</b>                | (51,151)               |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                                    | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|----------------------------------------------------|------------------------|------------------------|
| <b>NON-CURRENT ASSETS</b>                          |                        |                        |
| Property, plant and equipment                      | 96,152,542             | 75,044,870             |
| Lease prepayments                                  | 2,163,649              | 1,954,819              |
| Intangible asset                                   | 41,076                 | 49,267                 |
| Goodwill                                           | 1,657,675              | 346,845                |
| Interests in associates                            | 14,189,469             | 12,187,230             |
| Advance payments for aircraft and flight equipment | 18,946,626             | 7,715,409              |
| Deposits for aircraft under operating leases       | 391,600                | 253,815                |
| Long term receivable from ultimate holding company | 31,813                 | 131,813                |
| Available-for-sale investments                     | 27,182                 | 1,997                  |
| Deferred tax assets                                | 2,193,002              | 1,682,203              |
|                                                    | <u>135,794,634</u>     | <u>99,368,268</u>      |
| <b>CURRENT ASSETS</b>                              |                        |                        |
| Aircraft and flight equipment held for sale        | 77,682                 | 130,814                |
| Inventories                                        | 1,608,951              | 1,384,706              |
| Accounts receivable                                | 3,095,494              | 2,054,265              |
| Bills receivable                                   | 14,295                 | 2,489                  |
| Prepayments, deposits and other receivables        | 2,284,230              | 1,230,794              |
| Financial assets                                   | 27,379                 | —                      |
| Due from ultimate holding company                  | 617,140                | 461,147                |
| Due from related companies                         | 3,244                  | 10,194                 |
| Tax recoverable                                    | 6,171                  | 4,840                  |
| Pledged deposits                                   | 843,065                | 564,747                |
| Cash and cash equivalents                          | 14,401,714             | 2,706,758              |
|                                                    | <u>22,979,365</u>      | <u>8,550,754</u>       |
| <b>TOTAL ASSETS</b>                                | <u>158,773,999</u>     | <u>107,919,022</u>     |
| <b>CURRENT LIABILITIES</b>                         |                        |                        |
| Air traffic liabilities                            | (3,608,700)            | (2,434,353)            |
| Accounts payable                                   | (8,245,153)            | (6,045,733)            |
| Bills payable                                      | (387,327)              | (763,255)              |
| Other payables and accruals                        | (9,259,833)            | (4,645,406)            |
| Financial liabilities                              | (427,329)              | (2,274,627)            |
| Due to related companies                           | (40,789)               | (113,024)              |
| Tax payable                                        | (2,210,372)            | (39,073)               |
| Obligations under finance leases                   | (2,223,240)            | (3,454,233)            |
| Interest-bearing bank loans and other borrowings   | (25,482,725)           | (17,160,442)           |
| Provision for major overhauls                      | (503,628)              | (268,418)              |
|                                                    | <u>(52,389,096)</u>    | <u>(37,198,564)</u>    |
| <b>NET CURRENT LIABILITIES</b>                     | <u>(29,409,731)</u>    | <u>(28,647,810)</u>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>       | <u>106,384,903</u>     | <u>70,720,458</u>      |

|                                                        | 2010<br><i>RMB'000</i>   | 2009<br><i>RMB'000</i>   |
|--------------------------------------------------------|--------------------------|--------------------------|
| <b>NON-CURRENT LIABILITIES</b>                         |                          |                          |
| Obligations under finance leases                       | (16,061,352)             | (15,366,475)             |
| Interest-bearing bank loans and other borrowings       | (42,159,439)             | (27,321,078)             |
| Provision for major overhauls                          | (2,105,150)              | (1,318,708)              |
| Provision for early retirement benefit obligations     | (220,236)                | (210,006)                |
| Long term payables                                     | (265,159)                | (180,420)                |
| Deferred income                                        | (3,196,103)              | (2,105,554)              |
| Deferred tax liabilities                               | (1,006,227)              | (263,750)                |
|                                                        | <u>(65,013,666)</u>      | <u>(46,765,991)</u>      |
| <b>NET ASSETS</b>                                      | <u><b>41,371,237</b></u> | <u><b>23,954,467</b></u> |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF<br/>THE PARENT</b> |                          |                          |
| Issued capital                                         | 12,891,955               | 12,251,362               |
| Treasury shares                                        | (2,613,232)              | (2,319,879)              |
| Reserves                                               | <u>31,159,231</u>        | <u>13,984,413</u>        |
|                                                        | <u>41,437,954</u>        | <u>23,915,896</u>        |
| <b>NON-CONTROLLING INTERESTS</b>                       | <u>(66,717)</u>          | <u>38,571</u>            |
| <b>TOTAL EQUITY</b>                                    | <u><b>41,371,237</b></u> | <u><b>23,954,467</b></u> |

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 2010, the Group's net current liabilities amounted to approximately RMB29,410 million, which comprised current assets of approximately RMB22,979 million and current liabilities of approximately RMB52,389 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 and flight equipment held for sale, which have been stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### 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 IFRSs has had no significant effect on these financial statements.

|                                                                                  |                                                                                                                                                  |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 1 (Revised)                                                                 | <i>First-time Adoption of IFRSs</i>                                                                                                              |
| IFRS 1 Amendments                                                                | <i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>   |
| IFRS 2 Amendments                                                                | <i>Amendments to IFRS 2 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                                                                 | <i>Amendment to IAS 39 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 issued in May 2008</i> | <i>Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i> |
| <i>Improvements to IFRSs (issued in April 2009)</i>                              |                                                                                                                                                  |

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), and amendments to IAS 7 included in Improvements to IFRSs issued in April 2009, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

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

- (a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations. The changes affect the initial measurement 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 year, the Company acquired additional equity interests in Shenzhen Airlines and achieved business combination in stages. These changes by IFRS 3 (Revised) has had an impact on the amount of goodwill recognised and the reported results of the Group for the year.

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 various standards, including but not limited 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) affect future loss of control of subsidiaries and transactions with non-controlling interests. As the Group has no such transaction during the year, these changes has had no impact on the Group.

The changes introduced by these standards are applied prospectively and affect the accounting of acquisitions, loss of control and transaction with non-controlling interests after 1 January 2010.

- (b) *Improvements to IFRSs 2009* issued in April 2009 set 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 results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group.
- (c) *Improvements to IFRSs 2009* issued in May 2009 set out amendments to a number of IFRSs. There are separate transitional provisions for each standard. 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. IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities. The adoption of the standard will result in the changes of presentation of the financial statements.

## 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 Amendment    | Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>                                                                                                  |
| IFRS 1 Amendments   | Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Replacement of ‘fixed dates’ for certain exceptions with ‘the date of transition to IFRSs’ and additional exemption for entities ceasing to suffer from severe hyperinflation</i> <sup>4</sup> |
| IFRS 7 Amendments   | Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>4</sup>                                                                                                                                                                                 |
| IFRS 9              | <i>Financial Instruments</i> <sup>6</sup>                                                                                                                                                                                                                                                   |
| IAS 12              | Amendments to IAS 12 <i>Income taxes – Deferred Tax Recovery of Underlying Assets</i> <sup>5</sup>                                                                                                                                                                                          |
| IAS 24 (Revised)    | <i>Related Party Disclosures</i> <sup>3</sup>                                                                                                                                                                                                                                               |
| IAS 32 Amendment    | Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>                                                                                                                                                                               |
| IFRIC 14 Amendments | Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>                                                                                                                                                                                                     |
| IFRIC 19            | <i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>                                                                                                                                                                                                             |

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3, IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34, IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the “Additions”). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change

in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting derecognition and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

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.

The management is in the process of evaluating the impact of IAS 24 (Revised) on the Group.

*Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. 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. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) *IFRS 3 Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *IAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) *IAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

## **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 "other operations" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

In determining the Group's geographical information, 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 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third party 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 2010 and 2009:

#### Year ended 31 December 2010

|                                  | <b>Airline<br/>operations<br/>RMB'000</b> | <b>Other<br/>operations<br/>RMB'000</b> | <b>Eliminations<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|----------------------------------|-------------------------------------------|-----------------------------------------|---------------------------------|--------------------------|
| <b>REVENUE</b>                   |                                           |                                         |                                 |                          |
| Sales to external customers      | <b>80,927,043</b>                         | <b>35,634</b>                           | <b>–</b>                        | <b>80,962,677</b>        |
| Intersegment sales               | <b>–</b>                                  | <b>935,326</b>                          | <b>(935,326)</b>                | <b>–</b>                 |
| Total revenue                    | <b>80,927,043</b>                         | <b>970,960</b>                          | <b>(935,326)</b>                | <b>80,962,677</b>        |
| <b>SEGMENT PROFIT BEFORE TAX</b> | <b>14,858,562</b>                         | <b>166,500</b>                          | <b>–</b>                        | <b>15,025,062</b>        |

#### Year ended 31 December 2009

|                                  | <b>Airline<br/>operations<br/>RMB'000</b> | <b>Other<br/>operations<br/>RMB'000</b> | <b>Eliminations<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|----------------------------------|-------------------------------------------|-----------------------------------------|---------------------------------|--------------------------|
| <b>REVENUE</b>                   |                                           |                                         |                                 |                          |
| Sales to external customers      | 50,974,898                                | 120,471                                 | –                               | 51,095,369               |
| Intersegment sales               | –                                         | 527,504                                 | (527,504)                       | –                        |
| Total revenue                    | 50,974,898                                | 647,975                                 | (527,504)                       | 51,095,369               |
| <b>SEGMENT PROFIT BEFORE TAX</b> | <b>5,240,341</b>                          | <b>74,340</b>                           | <b>–</b>                        | <b>5,314,681</b>         |

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CAS as at 31 December 2010 and 31 December 2009:

|                                                                | <b>Airline<br/>operations<br/>RMB'000</b> | <b>Other<br/>operations<br/>RMB'000</b> | <b>Eliminations<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|----------------------------------------------------------------|-------------------------------------------|-----------------------------------------|---------------------------------|--------------------------|
| <b>SEGMENT ASSETS</b>                                          |                                           |                                         |                                 |                          |
| <b>As at 31 December 2010</b>                                  | <b>153,816,518</b>                        | <b>2,968,976</b>                        | <b>(1,565,881)</b>              | <b>155,219,613</b>       |
| As at 31 December 2009                                         | 105,239,001                               | 2,367,196                               | (1,442,990)                     | 106,163,207              |
|                                                                | <b>Airline<br/>operations<br/>RMB'000</b> | <b>Other<br/>operations<br/>RMB'000</b> | <b>Eliminations<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
| <b>SEGMENT LIABILITIES</b>                                     |                                           |                                         |                                 |                          |
| <b>As at 31 December 2010</b>                                  | <b>114,166,219</b>                        | <b>919,955</b>                          | <b>(1,565,881)</b>              | <b>113,520,293</b>       |
| As at 31 December 2009                                         | 82,653,223                                | 991,531                                 | (1,442,990)                     | 82,201,764               |
|                                                                | <b>Airline<br/>operations<br/>RMB'000</b> | <b>Other<br/>operations<br/>RMB'000</b> | <b>Eliminations<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
| <b>OTHER SEGMENT INFORMATION</b>                               |                                           |                                         |                                 |                          |
| <b>Year ended 31 December 2010</b>                             |                                           |                                         |                                 |                          |
| Share of profits and losses of associates and joint ventures   | 3,305,658                                 | 99,916                                  | –                               | 3,405,574                |
| Impairment losses in assets recognised in the income statement | 2,098,127                                 | 129                                     | –                               | 2,098,256                |
| Finance revenue                                                | 1,942,202                                 | 12,394                                  | –                               | 1,954,596                |
| Finance costs                                                  | 1,413,283                                 | 1,788                                   | –                               | 1,415,071                |
| Tax                                                            | 2,554,237                                 | 16,067                                  | –                               | 2,570,304                |
| Interests in associates and joint ventures                     | 13,803,512                                | 1,716,881                               | –                               | 15,520,393               |
| Capital expenditure*                                           | 17,371,014                                | 5,410                                   | –                               | 17,376,424               |
| Depreciation and amortisation                                  | 8,568,096                                 | 6,608                                   | –                               | 8,574,704                |

|                                                                      | Airline<br>operations<br><i>RMB'000</i> | Other<br>operations<br><i>RMB'000</i> | Eliminations<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|----------------------------------------------------------------------|-----------------------------------------|---------------------------------------|--------------------------------|-------------------------|
| Year ended 31 December 2009                                          |                                         |                                       |                                |                         |
| Share of profits and losses of<br>associates and joint ventures      | 566,866                                 | 39,739                                | –                              | 606,605                 |
| Impairment losses in assets<br>recognised in the income<br>statement | 161,161                                 | 86                                    | –                              | 161,247                 |
| Finance revenue                                                      | 128,638                                 | 4,092                                 | –                              | 132,730                 |
| Finance costs                                                        | 1,338,180                               | 481                                   | –                              | 1,338,661               |
| Tax                                                                  | 328,945                                 | 7,468                                 | –                              | 336,413                 |
| Interests in associates and joint<br>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               |

\* Capital expenditure consists of additions to property, plant and equipment, and intangible assets.

The following tables present the reconciliations of reportable segment revenue, profit before tax, assets and liabilities to the Group's consolidated amounts under IFRSs:

|                                                 | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|-------------------------------------------------|------------------------|------------------------|
| <b>REVENUE</b>                                  |                        |                        |
| Total revenue for reportable segments           | <b>80,962,677</b>      | 51,095,369             |
| Business tax not included in segment revenue    | <b>(1,628,290)</b>     | (1,505,061)            |
| Other income not included in segment revenue    | <b>1,232,350</b>       | 1,168,656              |
| Effects of differences between IFRSs and CAS    | <b>1,920,802</b>       | 634,227                |
| Revenue for the year                            | <b>82,487,539</b>      | 51,393,191             |
| <b>PROFIT BEFORE TAX</b>                        |                        |                        |
| Total profit before tax for reportable segments | <b>15,025,062</b>      | 5,314,681              |
| Effects of differences between IFRSs and CAS    | <b>(191,450)</b>       | (248,396)              |
| Profit before tax for the year                  | <b>14,833,612</b>      | 5,066,285              |
| <b>ASSETS</b>                                   |                        |                        |
| Total assets for reportable segments            | <b>155,219,613</b>     | 106,163,207            |
| Effects of differences between IFRSs and CAS    | <b>3,554,386</b>       | 1,755,815              |
| Total assets                                    | <b>158,773,999</b>     | 107,919,022            |

|                                              | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|----------------------------------------------|------------------------|------------------------|
| <b>LIABILITIES</b>                           |                        |                        |
| Total liabilities for reportable segments    | <b>113,520,293</b>     | 82,201,764             |
| Effects of differences between IFRSs and CAS | <b>3,882,469</b>       | 1,762,791              |
| Total liabilities                            | <b>117,402,762</b>     | 83,964,555             |

### Geographical information

The following table presents the geographical information of the Group's consolidated revenue under IFRSs for the years ended 31 December 2010 and 2009:

#### Year ended 31 December 2010

|                                                  | Mainland<br>China<br><i>RMB'000</i> | Hong Kong,<br>Macau and<br>Taiwan<br><i>RMB'000</i> | Europe<br><i>RMB'000</i> | North<br>America<br><i>RMB'000</i> | Japan and<br>Korea<br><i>RMB'000</i> | Asia Pacific<br>and others<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|--------------------------------------------------|-------------------------------------|-----------------------------------------------------|--------------------------|------------------------------------|--------------------------------------|----------------------------------------------|-------------------------|
| Sales to external customers<br>and total revenue | <b>52,441,112</b>                   | <b>4,212,616</b>                                    | <b>9,848,721</b>         | <b>6,008,965</b>                   | <b>5,818,381</b>                     | <b>4,157,744</b>                             | <b>82,487,539</b>       |

#### Year ended 31 December 2009

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

### 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 during the year (2009: Nil).

## 3 AIR TRAFFIC REVENUE

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

|                | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Passenger      | <b>68,137,672</b>      | 42,695,432             |
| Cargo and mail | <b>10,071,516</b>      | 5,396,211              |
|                | <b>78,209,188</b>      | 48,091,643             |

The air traffic revenue for all domestic flights were subject to a business tax rate of 3%. Pursuant to the relevant business tax rules and regulations in Mainland China, all international, Hong Kong, Macau and Taiwan regional flights were exempted from business tax with effect from 1 January 2010. Business tax incurred and set off against air traffic revenue for the year ended 31 December 2010 amounted to approximately RMB1,544 million (2009: RMB1,467 million).

#### 4 OTHER OPERATING REVENUE

|                                                         | <b>Group</b>     |                |
|---------------------------------------------------------|------------------|----------------|
|                                                         | <b>2010</b>      | 2009           |
|                                                         | <b>RMB'000</b>   | <b>RMB'000</b> |
| Aircraft engineering income                             | <b>639,194</b>   | 611,158        |
| Ground service income                                   | <b>681,883</b>   | 594,102        |
| Government grants and subsidies:                        |                  |                |
| Refund of CAAC Infrastructure Development Fund          | –                | 830,418        |
| Recognition of deferred income                          | <b>83,277</b>    | 76,943         |
| Others                                                  | <b>702,995</b>   | 319,991        |
| Income from other travelling service                    | <b>439,219</b>   | –              |
| Service charges on return of unused flight tickets      | <b>417,130</b>   | 198,103        |
| Gains on disposal of property, plant and equipment, net | <b>159,011</b>   | 36,149         |
| Cargo handling service income                           | <b>164,407</b>   | 122,921        |
| Revaluation gain on acquisition of a subsidiary         | <b>150,628</b>   | –              |
| Rental income:                                          |                  |                |
| Aircraft and flight equipment                           | <b>76,342</b>    | 23,535         |
| Others                                                  | <b>45,382</b>    | 26,237         |
| Training service income                                 | <b>63,852</b>    | 15,775         |
| Sale of materials                                       | <b>21,953</b>    | 22,611         |
| Import and export service income                        | <b>16,427</b>    | 16,058         |
| Others                                                  | <b>616,651</b>   | 407,547        |
|                                                         | <b>4,278,351</b> | 3,301,548      |

#### 5 EMPLOYEE COMPENSATION COSTS

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

|                                           | <b>2010</b>      | 2009           |
|-------------------------------------------|------------------|----------------|
|                                           | <b>RMB'000</b>   | <b>RMB'000</b> |
| Wages, salaries and social security costs | <b>9,046,461</b> | 5,992,568      |
| Retirement benefit costs                  | <b>795,233</b>   | 629,189        |
| Share-based benefits                      | <b>10,241</b>    | 5,651          |
|                                           | <b>9,851,935</b> | 6,627,408      |

## 6 PROFIT FROM OPERATIONS

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

|                                                           | 2010<br>RMB'000 | 2009<br>RMB'000 |
|-----------------------------------------------------------|-----------------|-----------------|
| Auditors' remuneration                                    | 13,051          | 11,934          |
| Depreciation                                              | 8,569,370       | 7,051,272       |
| Impairment of property, plant and equipment               | 1,863,194       | 220,703         |
| Gains on disposal of property, plant and equipment, net   | 159,011         | —               |
| Losses on derecognition of property, plant and equipment  | 55,434          | 103,773         |
| Amortisation of lease prepayments                         | 87,039          | 40,045          |
| Minimum lease payments under operating leases:            |                 |                 |
| Aircraft and flight equipment                             | 3,483,180       | 2,319,211       |
| Land and buildings                                        | 600,296         | 477,716         |
| Impairment of aircraft and flight equipment held for sale | 185,992         | —               |
| Impairment of inventories                                 | 236,219         | 18,360          |
| Impairment of accounts receivable                         | 8,983           | 15,758          |
| Impairment of prepayment, deposits and other receivables  | 118,609         | —               |
|                                                           | <u>118,609</u>  | <u>—</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

|                     | 2010<br>RMB'000  | 2009<br>RMB'000 |
|---------------------|------------------|-----------------|
| Exchange gains, net | 1,919,415        | 109,642         |
| Interest income     | 60,307           | 24,410          |
| Others              | 293              | 5,568           |
|                     | <u>1,980,015</u> | <u>139,620</u>  |

### Finance costs

|                                                                                          | 2010<br>RMB'000  | 2009<br>RMB'000  |
|------------------------------------------------------------------------------------------|------------------|------------------|
| Interest on interest-bearing bank loans and other borrowings                             | 1,497,429        | 1,074,544        |
| Interest on finance leases                                                               | 110,903          | 337,380          |
| Losses on interest rate derivative contracts and forward foreign exchange contracts, net | 206,707          | —                |
|                                                                                          | <u>1,815,039</u> | <u>1,411,924</u> |
| Less: Interest capitalised                                                               | <u>(365,790)</u> | <u>(213,641)</u> |
|                                                                                          | <u>1,449,249</u> | <u>1,198,283</u> |

The interest capitalisation rates ranging from 0.8% to 7.1% (2009: 0.8% to 7.0%) per annum represent the costs of related borrowings during the year.

## 8 TAX

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for a subsidiary and certain joint ventures of the Company which are taxed at the preferential rate of 22% (2009: 20%), all group companies located in the Mainland China are subject to a corporate income tax rate of 25% (2009: 25%). Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% (2009: 16.5%) and 12% (2009: 12%), respectively.

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

|                                | <b>Group</b>     |                |
|--------------------------------|------------------|----------------|
|                                | <b>2010</b>      | 2009           |
|                                | <b>RMB'000</b>   | <b>RMB'000</b> |
| Current income tax:            |                  |                |
| Mainland China                 | <b>2,506,846</b> | 51,578         |
| Hong Kong and Macau            | <b>1,197</b>     | –              |
|                                | <b>2,508,043</b> | 51,578         |
| Deferred income tax            | <b>(10,295)</b>  | 211,656        |
| Income tax charge for the year | <b>2,497,748</b> | 263,234        |

The Group's share of tax charge attributable to associates amounting to RMB548,527,000 (2009: RMB118,890,000) 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 and joint ventures are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

|                                                                               | <b>2010</b>       |              | <b>Group</b>     |            |
|-------------------------------------------------------------------------------|-------------------|--------------|------------------|------------|
|                                                                               | <b>RMB'000</b>    | <b>%</b>     | <b>2009</b>      | <b>%</b>   |
|                                                                               | <b>RMB'000</b>    |              | <b>RMB'000</b>   |            |
| Profit before tax                                                             | <b>14,833,612</b> |              | <b>5,066,285</b> |            |
| Tax at statutory tax rate                                                     | <b>3,708,403</b>  | <b>25.0</b>  | 1,266,571        | 25.0       |
| Tax effect of share of profits and losses of associates                       | <b>(843,832)</b>  | <b>(5.7)</b> | (155,998)        | (3.1)      |
| Lower income tax rates enacted by other territories                           | <b>(74,783)</b>   | <b>(0.5)</b> | 29,159           | 0.6        |
| Adjustment in respect of current income tax of previous periods               | <b>(55,249)</b>   | <b>(0.4)</b> | –                | –          |
| Income not subject to tax                                                     | <b>(33,208)</b>   | <b>(0.2)</b> | (20,005)         | (0.4)      |
| Expenses not deductible for tax                                               | <b>25,222</b>     | <b>0.2</b>   | 30,270           | 0.6        |
| Revaluation gain on acquisition of a subsidiary                               | <b>(37,657)</b>   | <b>(0.3)</b> | –                | –          |
| Utilisation of tax losses not recognised in prior years                       | <b>(21,669)</b>   | <b>(0.1)</b> | –                | –          |
| Utilisation of deductible temporary differences not recognised in prior years | <b>(169,479)</b>  | <b>(1.2)</b> | (947,230)        | (18.7)     |
| Deductible temporary differences and tax losses not recognised                | <b>–</b>          | <b>–</b>     | 60,467           | 1.2        |
| At the Group's effective income tax rate                                      | <b>2,497,748</b>  | <b>16.8</b>  | <b>263,234</b>   | <b>5.2</b> |

As at 31 December 2010, there was unrecognised deferred tax liability of 37,657,000 (2009: Nil) for taxes that would be payable on the disposal of a subsidiary as the Directors are of the view that the Company is able to control the timing of the disposal and they have no intention to dispose of this subsidiary in the foreseeable future.

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

## 9 PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to the owners of the parent for the year ended 31 December 2010 includes a profit of approximately RMB7,352 million (2009: RMB4,204 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB60 million (2009: RMB4 million) from the Company's total comprehensive income of approximately RMB7,412 million (2009: RMB4,208 million), that has been dealt with in the financial statements of the Company.

## 10 APPROPRIATIONS

|                         | <b>Company</b>   | 2009           |
|-------------------------|------------------|----------------|
|                         | <b>2010</b>      | <b>2009</b>    |
|                         | <b>RMB'000</b>   | <b>RMB'000</b> |
| Interim dividend        | —                | —              |
| Proposed final dividend | <b>1,523,829</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 transfers to reserves, profit after tax would be the amount determined under CAS. The transfers to reserves should 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); and
- (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 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.

## 11 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year ended 31 December 2010 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2010 of approximately RMB12,005 million, and the weighted average of 11,644,528,123 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific Airways Limited (“Cathay Pacific”) through reciprocal shareholding after considering the dilution effect caused by the additional issue of shares during the year.

The calculation of basic earnings per share for the year ended 31 December 2009 was 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 of 11,836,742,055 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding.

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both years.

## 12 NOTE TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                                          | <b>2010</b><br><b>RMB'000</b> | 2009<br><i>RMB'000</i> |
|------------------------------------------|-------------------------------|------------------------|
| Share of reserve movements of associates | <b>(47,303)</b>               | 347,437                |
| Exchange realignment                     | <b>(546,911)</b>              | (28,324)               |
| Others                                   | <b>(1,150)</b>                | (3,000)                |
|                                          | <b><u>(595,364)</u></b>       | <u>316,113</u>         |

**B. Prepared under China Accounting Standards for Business Enterprises**

|                                   | <b>31 December<br/>2010<br/>RMB'000</b> | <b>31 December<br/>2009<br/>RMB'000</b> |
|-----------------------------------|-----------------------------------------|-----------------------------------------|
| <b>ASSETS</b>                     |                                         |                                         |
| <b>CURRENT ASSETS</b>             |                                         |                                         |
| Cash and bank balances            | <b>15,011,027</b>                       | 3,201,568                               |
| Financial assets held for trading | <b>27,379</b>                           | —                                       |
| Bills receivable                  | <b>14,295</b>                           | 2,489                                   |
| Accounts receivable               | <b>3,180,638</b>                        | 2,201,172                               |
| Other receivables                 | <b>1,138,695</b>                        | 492,007                                 |
| Prepayments                       | <b>683,781</b>                          | 350,257                                 |
| Inventories                       | <b>932,317</b>                          | 931,271                                 |
| Total current assets              | <b>20,988,132</b>                       | 7,178,764                               |
| <b>NON-CURRENT ASSETS</b>         |                                         |                                         |
| Long term receivables             | <b>393,492</b>                          | 254,306                                 |
| Long term equity investments      | <b>15,522,585</b>                       | 13,235,575                              |
| Fixed assets                      | <b>88,224,954</b>                       | 69,147,527                              |
| Construction in progress          | <b>23,518,332</b>                       | 11,731,131                              |
| Intangible assets                 | <b>2,867,600</b>                        | 2,576,301                               |
| Goodwill                          | <b>1,449,030</b>                        | 349,055                                 |
| Long term deferred expenses       | <b>181,317</b>                          | 138,105                                 |
| Deferred tax assets               | <b>2,074,171</b>                        | 1,552,443                               |
| Total non-current assets          | <b>134,231,481</b>                      | 98,984,443                              |
| Total assets                      | <b>155,219,613</b>                      | 106,163,207                             |

|                                                      | 31 December<br>2010<br>RMB'000 | 31 December<br>2009<br>RMB'000 |
|------------------------------------------------------|--------------------------------|--------------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |                                |                                |
| <b>CURRENT LIABILITIES</b>                           |                                |                                |
| Short term loans                                     | 15,703,154                     | 8,870,400                      |
| Financial liabilities held for trading               | 427,329                        | 2,274,627                      |
| Bills payable                                        | 387,327                        | 763,255                        |
| Accounts payable                                     | 9,426,483                      | 7,113,031                      |
| Domestic air traffic liabilities                     | 1,582,868                      | 850,394                        |
| International air traffic liabilities                | 2,025,831                      | 1,583,959                      |
| Receipts in advance                                  | 125,088                        | 38,127                         |
| Employee compensations payable                       | 1,593,762                      | 726,567                        |
| Taxes payable                                        | 2,998,802                      | 720,295                        |
| Interest payable                                     | 310,029                        | 303,154                        |
| Other payables                                       | 4,630,782                      | 1,846,008                      |
| Non-current liabilities repayable within one year    | 11,421,643                     | 11,304,489                     |
| Total current liabilities                            | 50,633,098                     | 36,394,306                     |
| <b>NON-CURRENT LIABILITIES</b>                       |                                |                                |
| Long term loans                                      | 31,923,371                     | 18,321,078                     |
| Corporate bonds                                      | 9,000,000                      | 9,000,000                      |
| Long term payables                                   | 2,271,951                      | 1,499,128                      |
| Obligations under finance leases                     | 16,061,353                     | 15,366,476                     |
| Accrued liabilities                                  | 77,820                         | 94,438                         |
| Deferred income                                      | 2,546,860                      | 1,383,338                      |
| Deferred tax liabilities                             | 1,005,840                      | 143,000                        |
| Total non-current liabilities                        | 62,887,195                     | 45,807,458                     |
| Total liabilities                                    | 113,520,293                    | 82,201,764                     |
| <b>SHAREHOLDERS' EQUITY</b>                          |                                |                                |
| Issued capital                                       | 12,891,955                     | 12,251,362                     |
| Capital reserve                                      | 16,245,469                     | 10,823,906                     |
| Reserve funds                                        | 2,178,300                      | 1,563,914                      |
| Retained earnings                                    | 12,515,511                     | 921,848                        |
| Foreign exchange translation reserve                 | (2,178,610)                    | (1,638,158)                    |
| Equity attributable to equity holders of the Company | 41,652,625                     | 23,922,872                     |
| Non-controlling interests                            | 46,695                         | 38,571                         |
| Total shareholders' equity                           | 41,699,320                     | 23,961,443                     |
| Total liabilities and shareholders' equity           | 155,219,613                    | 106,163,207                    |

|                                                                            | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|----------------------------------------------------------------------------|------------------------|------------------------|
| Revenue from operations                                                    | 80,962,677             | 51,095,369             |
| Less: Cost of operations                                                   | 61,004,800             | 41,947,116             |
| Business taxes and surcharges                                              | 1,607,734              | 1,505,062              |
| Selling expenses                                                           | 5,503,427              | 3,812,512              |
| General and administrative expenses                                        | 2,340,040              | 1,620,311              |
| Finance costs                                                              | (539,525)              | 1,205,931              |
| Impairment losses in assets                                                | 2,098,256              | 161,247                |
| Add: Gains from changes in fair value                                      | 1,743,515              | 2,759,580              |
| Investment income                                                          | 3,572,863              | 610,449                |
| Including: Share of profits and losses of<br>associates and joint ventures | 3,405,574              | 606,605                |
| Profit from operations                                                     | 14,264,323             | 4,213,219              |
| Add: Non-operating income                                                  | 847,901                | 1,168,519              |
| Less: Non-operating expenses                                               | 87,162                 | 67,057                 |
| Including: Loss on disposal of non-current assets                          | 45,801                 | 55,545                 |
| Profit before tax                                                          | 15,025,062             | 5,314,681              |
| Less: Tax                                                                  | 2,570,304              | 336,413                |
| Net profit                                                                 | 12,454,758             | 4,978,268              |
| Net profit attributable to equity holders of<br>the Company                | 12,208,049             | 5,029,451              |
| Non-controlling interests                                                  | 246,709                | (51,183)               |
| Earnings per share ( <i>RMB</i> )<br>Basic and diluted                     | 1.05                   | 0.42                   |
| Other comprehensive income/(loss)                                          | (589,481)              | 316,836                |
| Total comprehensive income                                                 | 11,865,277             | 5,295,104              |
| Attributable to:                                                           |                        |                        |
| Equity holders of the Company                                              | 11,620,294             | 5,346,253              |
| Non-controlling interests                                                  | 244,983                | (51,149)               |

## C. Effects of Significant Differences between IFRS and CAS

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

|                                                                          | <b>2010</b><br><b>RMB'000</b> | 2009<br><i>RMB'000</i> |
|--------------------------------------------------------------------------|-------------------------------|------------------------|
| Net profit attributable to the equity holders of the Company under CAS   | <b>12,208,049</b>             | 5,029,451              |
| Deferred tax                                                             | <b>105,613</b>                | 95,000                 |
| Differences in value of fixed assets                                     | <b>(387,353)</b>              | (244,813)              |
| Government grants                                                        | <b>(18,264)</b>               | (22,315)               |
| Others                                                                   | <b>96,959</b>                 | (3,089)                |
|                                                                          | <hr/>                         | <hr/>                  |
| Net profit attributable to the equity holders of the Company under IFRSs | <b>12,005,004</b>             | 4,854,234              |
|                                                                          | <hr/> <hr/>                   | <hr/> <hr/>            |
|                                                                          | <b>2010</b><br><b>RMB'000</b> | 2009<br><i>RMB'000</i> |
| Equity attributable to the equity holders of the Company under CAS       | <b>41,652,625</b>             | 23,922,872             |
| Deferred tax                                                             | <b>114,613</b>                | 9,000                  |
| Differences in value of fixed assets                                     | <b>(150,116)</b>              | 237,237                |
| Government grants                                                        | <b>(435,805)</b>              | (417,541)              |
| Others                                                                   | <b>256,637</b>                | 164,328                |
|                                                                          | <hr/>                         | <hr/>                  |
| Equity attributable to the equity holders of the Company under IFRSs     | <b>41,437,954</b>             | 23,915,896             |
|                                                                          | <hr/> <hr/>                   | <hr/> <hr/>            |

## 2010 REVIEW

In 2010, the Group adhered to its working guidelines of maintaining stable operations and sustainable growth. By fully capitalizing on the stable recovery of the global economy and the rapid growth of the domestic economy as well as opportunities arising from the Shanghai World Expo and the Guangzhou Asian Games, the Group was able to further optimize its networks, intensify its operations and marketing efforts, strengthen its cost control and enhance the consolidation of its resources. While taking safety as its first priority, the Group achieved the best-ever operating results in its history which were also ahead of the industry, thus realizing a significant step forward. The Group recorded profit attributable to owners of the Company of RMB12,005 million and earnings per share attributable to owners of the Company of RMB1.03.

In light of the rapidly increasing demand in the aviation market in 2010, the Group was able to seize market opportunities and, through introducing additional capacity in a timely manner, expanded its passenger capacity by 33.92% from the previous year. To grasp opportunities arising from the Shanghai World Expo, the Group allocated more services in the Shanghai market. As a result, the Group expanded its network by introducing three additional domestic and regional routes (including the Shanghai Hongqiao-to-Taipei Sungshan and Shanghai Hongqiao-to-Yinchuan routes), and adjusted the operations on the Beijing-to-Shanghai express route, the Shanghai-to-Tokyo route and the Shanghai-to-Osaka route by operating with wide-body aircraft. The Group also grasped market opportunities to resume and moderately improve its services in international and regional routes, with increased flights to various destinations including Vancouver, Madrid, Stockholm, Australia and Taipei.

The Group continued to improve its operating efficiency for passenger operations. In 2010, the Group recorded 105,695 million revenue passenger kilometers, carried 60,006,200 passengers with a load factor of 80.03%, representing an increase of 40.04%, 45.37% and 3.50 percentage points, respectively, over the previous year. During the year, the Group generated revenues of RMB68,138 million from its passenger operations, representing an increase of 59.59% over the previous year. The Group's passenger yield increased by 12.28% when compared with the previous year, to RMB0.64.

The Group seized opportunities brought by the recovery of the air cargo market. Through optimizing operational management and enhancing its operational support capability, the Group effectively improved its operational efficiency and increased its profitability significantly. During the year, the Group put 7,852 million available freight tonne kilometres into its air cargo operations, realized 4,841 million revenue freight tonne kilometres, and carried 1,347,300 tonnes of cargo and mail with a load factor of 61.65%, representing increases of 20.68%, 37.20%, 38.32% and 7.42 percentage points over the previous year, respectively.

The Group continued to tap the cost potential and was able to maintain its cost advantage. By taking various measures such as improving the budget management system, strengthening the management of operational efficiency, exploring financing channels and tapping management potential, the Group maintained its overall cost advantage in China's civil aviation industry, despite the impact of a 40% increase in the price of jet fuel in the previous year.

In 2010, 30 new aircraft were introduced into the Company and 10 aircraft retired from its fleet. The optimization of the fleet structure has created favorable conditions for the Group to cope with market change and to improve operational efficiency.

The Company continued to execute its hub strategy and further enhanced its operational capacity at the hub markets. During the year, at the Beijing hub alone, the number of transit passengers reached 4,817,000, representing an increase of 2.00% over the previous year. The Chengdu hub has introduced through check-in services for 35 cities. Meanwhile, in Shanghai, the Group has made progress in building up the international gateway support capability and its support capability for flight, operations and maintenance is taking clearer shape.

The Group proceeded with service integration towards the establishment of a full-process seamless service system, while ensuring consistency of service products and normalization of service standards to enhance the fundamental management of service. We also advanced the construction of our e-commerce system to provide channels for improving service efficiency and customer satisfaction, while improving and taking advantage of the functions developed in our service quality evaluation and analysis system, and supporting internal initiatives for

employees to improve their service by setting quantitative criteria in respect of performance assessment. During the year, the Company added through check-in services to 11 terminals and launched online check-in services in 18 cities in China and abroad, with the online global luggage enquiry system covering 73 cities across the world. As a result, the Company's overall service quality has been further improved.

In respect of capital market activities, the Company raised RMB6.5 billion through a successful non-public issuance of shares in the market, and thus optimized its capital structure, reduced its financing costs and enhanced its strength for sustainable development.

The Group made new progress in its strategic resource integration. The Group increased its shareholdings in Shenzhen Airlines and became its controlling shareholder in the first half of 2010. Taking control of Shenzhen Airlines enables the Group to strengthen its market position in southern China, effectively optimize its route network structure, and vigorously support its hub strategy. The strong performance of the Group's strategic partner Cathay Pacific further promoted the Group's results. In addition, the cargo joint venture project set up by the Group with Cathay Pacific progressed smoothly.

In December 2010, with a brand value of RMB40,629 million, the Group was listed among the "World's Top Five Hundred Brands" for the fourth consecutive year.

## **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 IFRSs and are designed to assist the readers in understanding the information provided in this announcement further so as to better understand the financial performance of the Group as a whole.

### **Profit Analysis**

In 2010, the Group's profit from operations was RMB10,928 million and the profit attributable to owners of the Company was RMB12,005 million with earnings per share of RMB1.03. In 2009, the profit from operations was RMB5,501 million and the profit attributable to owners of the Company was RMB4,854 million with earnings per share of RMB0.41.

In 2010, benefiting from the sustained and rapid growth of the macro-economy of China and the stabilization and recovery of the global economy, the Company was able to seize the market opportunity of a strong demand for both air passenger and cargo transportation services. The Company achieved a substantial increase in its profit from operations for the year of 2010 through active operation management, effective marketing and further exploration of its cost potential. In addition, the increase of gains from the Company's equity investments in airlines such as Cathay Pacific and Shenzhen Airlines also contributed to the growth of the Company's results.

## Turnover

In 2010, the Group's total turnover (net of business taxes and surcharges) was RMB82,488 million, an increase of RMB31,094 million or 60.50% as compared with the previous year. Among the Group's total turnover, air traffic revenue was RMB78,209 million, an increase of RMB30,118 million or 62.63% from 2009, primarily due to the strong demand from the air passenger and cargo transportation markets as well as the effect of the consolidation of Shenzhen Airlines during the year. Other recorded operating revenue was RMB4,278 million, an increase of RMB977 million or 29.59% from the previous year, primarily attributable to the effect of the consolidation of Shenzhen Airlines.

## Revenue Contribution by Geographical Segment

| (RMB'000)                      | 2010              |                | 2009              |                | Change        |
|--------------------------------|-------------------|----------------|-------------------|----------------|---------------|
|                                | Amount            | Percentage     | Amount            | Percentage     |               |
| Mainland China                 | 52,441,112        | 63.57%         | 31,361,693        | 61.02%         | 67.21%        |
| Hong Kong, Macau<br>and Taiwan | 4,212,616         | 5.11%          | 2,799,148         | 5.45%          | 50.50%        |
| Europe                         | 9,848,721         | 11.94%         | 6,521,619         | 12.69%         | 51.02%        |
| North America                  | 6,008,965         | 7.28%          | 4,276,895         | 8.32%          | 40.50%        |
| Japan and Korea                | 5,818,381         | 7.05%          | 3,574,775         | 6.96%          | 62.76%        |
| Asia Pacific and others        | 4,157,744         | 5.05%          | 2,859,061         | 5.56%          | 45.42%        |
| Total                          | <u>82,487,539</u> | <u>100.00%</u> | <u>51,393,191</u> | <u>100.00%</u> | <u>60.50%</u> |

## Air Passenger Revenue

In 2010, the Group's realised air passenger revenue was RMB68,138 million, an increase of RMB25,442 million from 2009. Among the Group's air passenger revenue, increase in traffic capacity (including the increase in capacity arising from the consolidation of Shenzhen Airlines during the year) and passenger load factor contributed to an increase in revenue of RMB14,539 million and RMB2,613 million, respectively, while the increase in passenger yield caused an RMB8,290 million increase in revenue. The Group's 2010 traffic capacity, passenger load factor and unit yield of the air passenger operations are as follows:

|                                              | 2010    | 2009   | Change   |
|----------------------------------------------|---------|--------|----------|
| Available seat kilometres ( <i>million</i> ) | 132,075 | 98,625 | 33.9%    |
| Passenger load factor (%)                    | 80.03   | 76.53  | 3.50 ppt |
| Yield per RPK ( <i>RMB</i> )                 | 0.64    | 0.57   | 12.28%   |

## Air Passenger Revenue Contributed by Geographical Segment

| (RMB'000)                      | 2010              |                | 2009              |                | Change        |
|--------------------------------|-------------------|----------------|-------------------|----------------|---------------|
|                                | Amount            | Percentage     | Amount            | Percentage     |               |
| Mainland China                 | 45,515,250        | 66.80%         | 26,796,926        | 62.76%         | 69.85%        |
| Hong Kong, Macau<br>and Taiwan | 3,661,208         | 5.37%          | 2,497,087         | 5.85%          | 46.62%        |
| Europe                         | 6,348,204         | 9.32%          | 4,619,598         | 10.82%         | 37.42%        |
| North America                  | 4,052,842         | 5.95%          | 3,108,237         | 7.28%          | 30.39%        |
| Japan and Korea                | 4,910,183         | 7.21%          | 3,170,873         | 7.43%          | 54.85%        |
| Asia Pacific and others        | 3,649,985         | 5.35%          | 2,502,711         | 5.86%          | 45.84%        |
| Total                          | <u>68,137,672</u> | <u>100.00%</u> | <u>42,695,432</u> | <u>100.00%</u> | <u>59.59%</u> |

## Air Cargo and Mail Revenue

In 2010, the Group's air cargo and mail revenue was RMB10,072 million, an increase of RMB4,675 million from the previous year. Among the Group's air cargo and mail revenue, increase in traffic capacity (including the increase in capacity arising from the consolidation of Shenzhen Airlines) contributed to an increase in revenue of RMB1,862 million, while the increase in cargo and mail load factor and increase in cargo yield caused an increase in revenue of RMB1,081 million and RMB1,732 million, respectively. The traffic capacity, cargo and mail load factor and unit yield of the cargo and mail operations in 2010 are as follows:

|                                                       | 2010     | 2009     | Change   |
|-------------------------------------------------------|----------|----------|----------|
| Available freight tonne kilometres ( <i>million</i> ) | 7,852.31 | 6,506.89 | 20.68%   |
| Cargo and mail load factor (%)                        | 61.65    | 54.23    | 7.42 ppt |
| Yield per RFTK (RMB)                                  | 1.85     | 1.53     | 20.92%   |

## Air Cargo and Mail Revenue Contributed by Geographical Segment

| (RMB'000)                      | 2010              |                | 2009             |                | Change        |
|--------------------------------|-------------------|----------------|------------------|----------------|---------------|
|                                | Amount            | Percentage     | Amount           | Percentage     |               |
| Mainland China                 | 2,647,511         | 26.29%         | 1,263,219        | 23.41%         | 109.58%       |
| Hong Kong, Macau<br>and Taiwan | 551,408           | 5.47%          | 302,061          | 5.60%          | 82.55%        |
| Europe                         | 3,500,517         | 34.76%         | 1,902,021        | 35.25%         | 84.04%        |
| North America                  | 1,956,123         | 19.42%         | 1,168,658        | 21.66%         | 67.38%        |
| Japan and Korea                | 908,198           | 9.02%          | 403,902          | 7.48%          | 124.86%       |
| Asia Pacific and others        | 507,759           | 5.04%          | 356,350          | 6.60%          | 42.49%        |
| Total                          | <u>10,071,516</u> | <u>100.00%</u> | <u>5,396,211</u> | <u>100.00%</u> | <u>86.64%</u> |

## Operating Expenses

In 2010, the Group's operating expenses were RMB71,560 million, an increase of 55.93% from RMB45,892 million of 2009. The breakdown of the operating expenses is set out below:

| (RMB'000)                                           | 2010                     |                       | 2009                     |                       | Change               |
|-----------------------------------------------------|--------------------------|-----------------------|--------------------------|-----------------------|----------------------|
|                                                     | Amount                   | Percentage            | Amount                   | Percentage            |                      |
| Jet fuel costs                                      | <b>24,096,078</b>        | <b>33.67%</b>         | 14,466,065               | 31.52%                | 66.57%               |
| Movement in fair value of fuel derivative contracts | <b>(1,954,071)</b>       | <b>(2.73%)</b>        | (2,758,224)              | (6.01%)               | (29.15%)             |
| Take-off, landing and depot charges                 | <b>7,707,019</b>         | <b>10.77%</b>         | 5,788,687                | 12.61%                | 33.14%               |
| Depreciation                                        | <b>8,569,370</b>         | <b>11.97%</b>         | 7,051,272                | 15.36%                | 21.53%               |
| Aircraft maintenance, repair and overhaul costs     | <b>2,577,185</b>         | <b>3.60%</b>          | 1,767,808                | 3.85%                 | 45.78%               |
| Employee compensation costs                         | <b>9,851,935</b>         | <b>13.77%</b>         | 6,627,408                | 14.44%                | 48.65%               |
| Air catering charges                                | <b>2,044,359</b>         | <b>2.86%</b>          | 1,518,912                | 3.31%                 | 34.59%               |
| Selling and marketing expenses                      | <b>4,602,745</b>         | <b>6.43%</b>          | 3,085,184                | 6.72%                 | 49.19%               |
| General and administrative expenses                 | <b>1,637,824</b>         | <b>2.29%</b>          | 1,016,051                | 2.21%                 | 61.20%               |
| Other                                               | <b>12,427,574</b>        | <b>17.37%</b>         | 7,329,072                | 15.99%                | 69.57%               |
| <b>Total</b>                                        | <b><u>71,560,018</u></b> | <b><u>100.00%</u></b> | <b><u>45,892,235</u></b> | <b><u>100.00%</u></b> | <b><u>55.93%</u></b> |

- Jet fuel costs increased by 66.57% to RMB24,096 million in 2010 as compared with RMB14,466 million in 2009. Jet fuel costs accounted for 33.67% of the operating expenses in 2010 as compared with 31.52% in 2009. The sharp increase in jet fuel costs was primarily due to the effect of the consolidation of Shenzhen Airlines, the increase of fuel consumption as a result of the increase in flying hours and the rise of fuel prices.
- In 2010, gains on fair value changes of fuel derivative contracts amounted to RMB1,954 million, in which there was a recovery of fair value of RMB1,968 million with a deduction of RMB14 million in the recovery of fair value due to the actual settlement of fuel derivative contracts.
- In 2010, take-off, landing and depot charges amounted to RMB7,707 million, an increase of RMB1,918 million or 33.14% as compared with 2009 primarily due to the effect of the consolidation of Shenzhen Airlines as well as an increase in the number of takeoffs and landings.
- Depreciation expenses increased due to an increase in the number of self-owned and finance leased aircraft as well as the effect of the consolidation of Shenzhen Airlines during the year.

- Aircraft maintenance, repair and overhaul costs increased primarily due to the effect of the consolidation of Shenzhen Airlines.
- Employee compensation costs also increased due to an increase in the number of flying hours and the basic income of employees as well as the effect of the consolidation of Shenzhen Airlines during the year.
- Air catering charges increased primarily due to an increase in the number of passengers carried as well as the effect of the consolidation of Shenzhen Airlines.
- Selling and marketing expenses increased by RMB1,518 million from the previous year primarily due to the effect of the consolidation of Shenzhen Airlines as well as an increase of sales commissions as a result of the increase in revenue.
- General and administrative expenses increased by RMB622 million from the previous year primarily due to the effect of the consolidation of Shenzhen Airlines.
- Other operating expenses primarily included aircraft and engines operating lease expenses, civil aviation fund and daily expenses arising from our core air traffic business not included in the aforesaid items.

## **Financial Revenue and Financial Costs**

In 2010, the Group recorded a net exchange gain of RMB1,919 million, an increase of RMB1,810 million or 1,650.62% from last year primarily due to a significant appreciation of Renminbi against US dollars. Interest expenses for the year amounted to RMB1,243 million, an RMB44 million increase from last year. If excluding the effect of the consolidation of Shenzhen Airlines, interest expense decreased by RMB248 million from the previous year, 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 (London Interbank Offered Rate) would lead to reduced interest expenses.

## **Share of Profits and Losses of Associates**

In 2010, the Group's share of profits and losses of its associates was RMB3,375 million, as compared with RMB624 million in 2009, mainly due to the recognition of gains on investment in Cathay Pacific of RMB3,003 million by way of equity accounting in this reporting period, as compared with the RMB723 million recognised gains on investment in Cathay Pacific in 2009.

## **Analysis of Assets Structure**

As at 31 December 2010, the Group's total assets amounted to RMB158,774 million, an increase of 47.12% from last year, of which, current assets accounted for RMB22,979 million, representing 14.47% of total assets, while non-current assets accounted for RMB135,795 million, representing 85.53% of total assets.

Among the current assets, cash and cash equivalents were RMB14,402 million, an increase of 432.07% from the previous year, mainly because of the substantial increase in sales revenue during the year, the non-utilization of the remaining proceeds from the issuance of shares together with the consolidation of Shenzhen Airlines during the reporting period,

and accounts receivable amounted to RMB3,095 million, representing an increase of 50.69 % from 2009, mainly attributable 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 was RMB96,153 million, representing an increase of 28.13% from 2009, which was mainly attributable to the consolidation of Shenzhen Airlines and the increase in the number of self-owned and finance leased aircraft.

### **Assets Mortgage**

As at 31 December 2010, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged: certain aircraft and premises with an aggregate net book value of approximately RMB55,885 million (compared with approximately RMB37,113 million as at 31 December 2009), a number of shares in its associates with a market value of approximately RMB7,287 million (compared with approximately RMB5,161 million as at 31 December 2009), and land use rights with a net book value of approximately RMB40 million (compared with approximately RMB35 million as at 31 December 2009). At the same time, the Group has approximately RMB843 million (compared with approximately RMB565 million as at 31 December 2009) in bank deposits pledged as partial security in respect of certain bank loans, operating leases and financial derivatives of the Group.

### **Capital Expenditure**

In 2010, the Company's capital expenditure amounted to an aggregate of RMB15,315 million, of which the total investment in aircraft and engines was RMB12,841 million, including prepayment of RMB9,201 million for aircraft to be introduced from 2011 and onwards.

Other capital expenditure amounted to RMB2,474 million, mainly used for high-cost rotables, aircraft modifications, flight simulators, infrastructure construction, information system building, purchase of ground equipment and cash component of the long-term investments.

### **Equity Investment**

As at 31 December 2010, the Group's aggregate amount of equity investment in its associates was RMB14,189 million, an increase of 16.43% as compared with the previous year. Among such investment, the investments in Cathay Pacific and Shandong Aviation Group Co., Ltd. were RMB12,824 million and RMB648 million representing profits of RMB12,162 million and RMB357 million, respectively, for 2010.

### **Debt Structure Analysis**

As at 31 December 2010, the Group's total liabilities were RMB117,403 million, representing an increase of 39.82% from the previous year, of which current liabilities were RMB52,389 million and non-current liabilities were RMB65,014 million, representing 44.62% and 55.38% of total liabilities, respectively.

Under the current liabilities, payables in respect of derivative financial instruments were RMB427 million, a decrease of RMB1,847 million as compared with 2009; interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB28,093 million, a 31.41% increase from 2009; other advances and payables amounted to RMB23,869 million, a 76.21% increase from 2009, which was mainly attributable to the consolidation of Shenzhen Airlines.

Under the non-current liabilities, interests-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB58,221 million, a 36.39% increase from 2009 which was mainly due to the increase in debts arising from the consolidation of Shenzhen Airlines.

### **Commitments and Contingent Liabilities**

The Group's capital commitment as at 31 December 2010 was RMB122,085 million, representing a significant increase as compared with RMB62,037 million recorded as at 31 December 2009, primarily used for the purchase of certain aircraft and related equipment to be delivered in the coming years and for the investments in construction of certain properties. As at 31 December 2010, the Group had operating lease commitments of RMB19,120 million, representing an increase of 36.06% from 2009, which was primarily used for leasing aircraft, office premises and related equipment. As at 31 December 2010, the Group had investment commitments of RMB239 million, representing an increase of RMB188 million from 31 December 2009, which was mainly the investment commitments made by Shenzhen Airlines, a subsidiary of the Group, to its associate and joint venture.

Details of the Group's contingent liabilities are set out in note 49 to the financial statements contained in the 2010 annual report of the Company.

### **Gearing Ratio**

As at 31 December 2010, the Group's gearing ratio (total liabilities divided by total assets) was 73.94%, a 3.86 percentage points decrease from the gearing ratio of 77.8% recorded on 31 December 2009. This was primarily attributable to the significant increase in shareholders' equity from the previous year as a result of the issuance of shares by way of private placement and improved profitability during the reporting period. Considering that the prevailing gearing ratios of air carriers in the aviation industry were at a relatively high level, the Group continues to maintain a relatively better position in the domestic aviation industry in terms of its gearing ratio. The Group's long-term insolvency risks are also within control.

### **Working Capital and Its Sources**

As at 31 December 2010, the Group's net current liabilities (current liabilities minus current assets) were RMB29,410 million, an increase of RMB762 million as compared with 2009 primarily due to the effect of the consolidation of Shenzhen Airlines. The current ratio, which represents current assets divided by current liabilities, was 0.44, representing an increase by 0.21 from 0.23 as at 31 December 2009 as the growth in current assets was much higher than that of the current liabilities.

The Group met its working capital needs mainly through the proceeds from its operating activities and external financing activities. In 2010, the Group's net cash inflow from operating activities was RMB18,366 million, an increase of 236.05% from RMB5,465 million in 2009. This was primarily attributable to the overall impact 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 RMB14,058 million, representing an increase of 10.99% from RMB12,666 million in 2009, primarily due to the consolidation of Shenzhen Airlines. The Group's net cash inflow from financing activities was RMB7,463 million, representing an increase of RMB515 million from RMB6,948 million in 2009, primarily due to the issuance of shares by way of private placement as well as the increase in the total amounts of new loans from that of the previous year during the reporting period. In 2010, the Group's balance of cash and cash equivalents was RMB14,376 million, an increase

of approximately RMB11,700 million from the previous year. The Company obtained bank facilities with an aggregate maximum amount of RMB125,071 million from a number of banks in the PRC, of which approximately RMB46,365 million was utilized, sufficient to meet our 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 operations. International jet fuel prices have historically been, 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 at protecting 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 its cost, the Group will continue to utilize the hedging instruments to manage and control the risk in relation to rising fuel prices.

As at 31 December 2010, the total amount of interest-bearing debts of the Group was RMB86,314 million, accounting for 73.52% of the Group's total liabilities, most of which were foreign debts and mainly denominated in US dollars, Hong Kong dollars and Euros. In addition, the Group also had sales revenue and expenses denominated in foreign currencies. The Group endeavoured to minimise any risks relating to the fluctuations 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.

### **OUTLOOK FOR 2011**

Looking forward on 2011, the rapid and steady growth of the Chinese economy will continue to give impetus to China's civil aviation industry, and the recovery of the global economy will bring along more opportunities for international aviation industry, where the Group will see valuable development opportunities for the industry. However, the recovery of the global economy will result in greater competition in the international market, and the sustained high prices of jet fuel as well as the uncertainties in interest rates and exchange rates will continue to put pressure on the Group's operations. In addition, insufficient support resources remain one of the Group's pressing concerns. The construction of high-speed railway may also have impact on certain air passenger markets. The economic development still has uncertainties. The Company will, with the aim of "developing into a large network airline with international competitive strength", be devoted to the effective implementation of its strategy, so as to maintain leading profitability, improve and enhance service quality, and achieve sustainable and healthy development of the Company.

## SHARE CAPITAL

As at 31 December 2010, the total share capital of the Company was RMB12,891,954,673 divided into 12,891,954,673 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 2010:

| Category of Shares | Number of shares | Percentage of the total share capital |
|--------------------|------------------|---------------------------------------|
| A Shares           | 8,329,271,309    | 64.61%                                |
| H Shares           | 4,562,683,364    | 35.39%                                |
| Total              | 12,891,954,673   | 100%                                  |

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, without taking into account any issuance of new securities. For this purpose, the term "securities" has the meaning ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules.

## CORPORATE GOVERNANCE

### 1. Compliance with the Code on Corporate Governance Practices

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year of 2010.

### 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 to 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 2010.

## DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.1182 per share for the year ended 31 December 2010, totalling approximately RMB1,523.83 million based on the Company's total issued shares of 12,891,954,673. A resolution for the dividend payment will be submitted for consideration at the 2010 annual general meeting of the Company. The dividend will be denominated and declared in RMB.

## SERVICE CONTRACTS OF THE DIRECTORS

Each of the directors was appointed by the Company for a term of not more than three years which shall end upon the fourth session of the Board 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 2010 containing all information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) as well as the website of the Company ([www.airchina.com.cn](http://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 2010 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 2010 annual results of the Company have been reviewed by the audit and risk control committee of the Board.

## **MISCELLANEOUS**

Reference is made to the circular of the Company dated 8 April 2010 in respect of the framework agreement and the relevant agreements between the Company, Cathay Pacific and other parties pursuant to which they agreed to establish a jointly owned cargo airline by way of Cathay Pacific's acquisition of a 25% equity interest in Air China Cargo through its wholly owned subsidiary Cathay Pacific China Cargo Holdings Limited (the “**JV Transaction**”). On 18 March 2011, the State Administration for Industry and Commerce of the PRC approved the shareholding change in Air China Cargo as a result of the JV Transaction and the change of business registration was completed on the same date. Upon the completion of the shareholding change pursuant to the JV Transaction, the shareholders of Air China Cargo are the Company, Fine Star and Cathay Pacific China Cargo Holdings Limited with a shareholding of 51%, 24% and 25%, respectively. Air China Cargo has become a connected person of the Company by virtue of being a non-wholly owned subsidiary of the Company in which Cathay Pacific, as a substantial shareholder of the Company, holds more than 10% of the voting rights. For details of the continuing connected transactions between the Group and Air China Cargo, please refer to the circular of the Company dated 8 April 2010. Such transactions are governed by existing written agreements between the Group and Air China Cargo. Upon the expiry, variation or renewal of such agreements, the Company will comply with the relevant reporting, announcement and independent shareholders' approval requirements as set out in the Listing Rules for the continuing connected transactions where applicable.

## **(II) PROPOSED APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Company is pleased to announce that the Board resolved to propose that Mr. Yang Yuzhong (“**Mr. Yang**”) be appointed as an independent non-executive director of the Company. An ordinary resolution to consider and approve the appointment of Mr. Yang will be proposed at the 2010 annual general meeting of the Company.

Mr. Yang Yuzhong, aged 67, graduated from Beijing Aeronautical Institute (北京航空學院) majoring in aircraft design and manufacturing. From July 1997 to July 2006, Mr. Yang served as the deputy general manager of China Aviation Industry Corporation I (中國航空工業第一集團公司), during which period he was also the head of Chinese Aeronautical Establishment (中國航空研究院) and the chairman of AVIC1 Commercial Aircraft Co., Ltd. (中航商用飛機有限公司). In addition, Mr. Yang has been a consultant of Aviation Industry Corporation of China (中國航空工業集團公司) since August 2006. He served as an independent non-executive director of China National Materials Company Limited (中國中材股份有限公司) from June 2007 to December 2009. Mr. Yang has been an independent non-executive director of China South Locomotive & Rolling Stock Corporation Limited (中國南車股份有限公司) since December 2007 and an external director of China National Materials Group Corporation Ltd. (中國中材集團有限公司) since December 2009.

The director’s fee of Mr. Yang, if any, will be RMB100,000 per year (before tax) subject to an ordinary resolution being passed at the 2010 annual general meeting of the Company approving the proposed emoluments of the independent non-executive directors of the Company. The term of Mr. Yang’s office shall commence on the date of approval by the shareholders of his appointment and shall end on the expiry of the term of the current session of the Board.

Save as disclosed above, Mr. Yang has not held any other directorships in public companies the securities of which are listed in any securities market in Hong Kong or overseas or taken up a position in any affiliated companies of the Company over the past three years. Mr. Yang does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholder of the Company. As at the date of this announcement, Mr. Yang does not have any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). There is no information to be disclosed on items from (h) to (v) in Rule 13.51(2) of the Listing Rules, and there are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the proposed appointment of Mr. Yang.

## **(III) RESIGNATION OF DIRECTOR**

In accordance with recent PRC regulatory measures providing that officers above the deputy department level of the Ministry of Finance, save for working requirements, should not hold office in any economic entities, Mr. Jia Kang (“**Mr. Jia**”) has resigned as an independent non-executive director of the Company with effect from the date of approval by the shareholders of the appointment of a new independent non-executive director. Mr. Jia has confirmed that he has no disagreement with the Board and the Company and that he is not aware of any matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

The Board wishes to take this opportunity to express its gratitude to Mr. Jia for his contribution to the Company during his term of service.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

|                            |                                                                                                                                                                                                                                                                                                |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Air China Cargo”          | Air China Cargo Co., Ltd., a company with limited liability incorporated in the PRC and a subsidiary of the Company. The principal activity of Air China Cargo is the operation of cargo airline services                                                                                      |
| “Board”                    | the board of directors of the Company                                                                                                                                                                                                                                                          |
| “Cathay Pacific”           | Cathay Pacific Airways Limited                                                                                                                                                                                                                                                                 |
| “Company”                  | Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange |
| “Euros”                    | The single currency of the participating member states of the European Union                                                                                                                                                                                                                   |
| “Fine Star”                | Fine Star Enterprises Corporation, a company incorporated in the British Virgin Islands, which holds 25% equity interest in the registered capital of Air China Cargo as at the date of this announcement                                                                                      |
| “Group”                    | the Company, its subsidiaries and joint ventures                                                                                                                                                                                                                                               |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                                                                        |
| “Listing Rules”            | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                       |
| “RMB”                      | Renminbi, the lawful currency of the PRC                                                                                                                                                                                                                                                       |
| “RFTK(s)”                  | revenue freight tonne kilometres, the revenue cargo and mail load in tonnes multiplied by the kilometres flown                                                                                                                                                                                 |
| “RPK(s)”                   | revenue passenger kilometres, the number of revenue passengers carried multiplied by the kilometres flown                                                                                                                                                                                      |
| “Shenzhen Airlines”        | Shenzhen Airlines Company Limited                                                                                                                                                                                                                                                              |

“USD” or “US dollars”

United States dollars, the lawful currency of the United States

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

Beijing, PRC, 29 March 2011

*As at the date of this announcement, the directors of the Company are Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Cao Jianxiong, Mr. Sun Yude, Mr. Christopher Dale Pratt, Mr. Ian Sai Cheung Shiu, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Jia Kang\*, Mr. Fu Yang\*, Mr. Li Shuang\* and Mr. Han Fangming\*.*

\* *Independent non-executive director of the Company*