AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

stock code: 753 HongKong 601111 Shanghai AIRC London

Annual Report 2010

Air China is the only national flag carrier of China and a member of the Star Alliance, the world's largest airline alliance. It is also the only Chinese civil aviation enterprise which is listed among "The World's 500 Most Influential Brands".

Air China is headquartered in Beijing, the capital of China, with Shanghai and Chengdu as its two increasingly important hubs. As at 31 December 2010, through the Star Alliance, the routes network of Air China could cover 1,160 destinations in 181 countries. Air China is dedicated to providing passengers with safe, convenient, comfortable and customised services.

The strategic objectives of Air China are to build up international competitive strength, continue to enhance development potentials, offer its customers unique and excellent experience and realise a sustainable growth so as to create value to all the relevant parties.

In addition, Air China also directly or indirectly holds interests in the following airlines: Air China Cargo Co., Ltd., Air Macau Company Limited, Shenzhen Airlines Company Limited, Cathay Pacific Airways Limited and Shandong Airlines Co., Ltd.

Contents

Corporate Information

REGISTERED CHINESE NAME
中國國際航空股份有限公司

ENGLISH NAME
Air China Limited

REGISTERED OFFICE
9/F, Blue Sky Mansion
28 Tianzhu Road
Zone A, Tianzhu Airport Economic Development Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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DIRECTORS
Kong Dong
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Sun Yude
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Sai Cheung Shiu, Ian
Cai Jianjiang
Fan Cheng
Jia Kang
Fu Yang
Li Shuang
Han Fangming

SUPERVISORS
Li Qinglin
Zhang Xueren
He Chaofan
Chen Bangmao
Su Zhiyong

LEGAL REPRESENTATIVE OF THE COMPANY
Kong Dong

JOINT COMPANY SECRETARIES
Huang Bin
Tam Shuit Mui

AUTHORISED REPRESENTATIVES
Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY
Haiwen & Partners *(as to PRC Law)*
Freshfields Bruckhaus Deringer
(as to Hong Kong and English Law)

INTERNATIONAL AUDITORS
Ernst & Young

H SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LISTING VENUES
Hong Kong, London and Shanghai

Summary of Financial Information

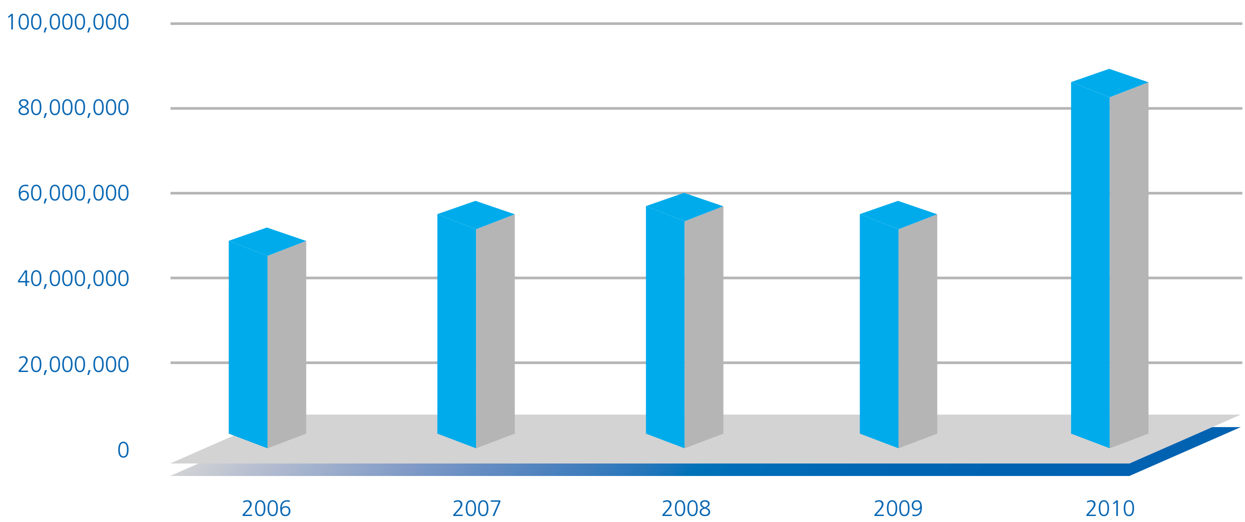
(RMB'000)

	2010	2009	2008	2007	2006
Turnover	**82,487,539**	51,393,191	52,908,161	51,081,667	44,936,606
Profit from operations	**10,927,521**	5,500,956	(9,806,971)	3,912,123	2,630,929
Profit before tax	**14,833,612**	5,066,285	(10,977,680)	5,448,165	3,929,221
Profit after tax (including profit attributable to non-controlling interests)	**12,335,864**	4,803,051	(9,367,030)	3,935,552	3,305,097
Profit attributable to non-controlling interests	**330,860**	(51,183)	(111,208)	(110,661)	617,256
Profit attributable to owners of the Company	**12,005,004**	4,854,234	(9,255,822)	4,046,213	2,687,841
EBITDA(1)	**19,496,891**	12,552,228	(3,441,696)	9,466,566	7,926,457
EBITDAR(2)	**23,696,910**	15,349,155	(593,230)	12,017,187	10,319,848
Earnings per share attributable to equity holders of the Company (RMB)	**1.03**	0.41	(0.78)	0.34	0.26
Return on equity attributable to owners of the Company (%)	**28.97**	20.30	(46.41)	13.22	9.04

(1) EBITDA represents earnings before finance revenue, finance costs, enterprise income taxes, share of profits and losses of associates, depreciation and amortisation as computed under the International Financial Reporting Standards.

(2) EBITDAR represents EBITDA before deducting operating lease expenses on aircraft and engines as well as other operating lease expenses.

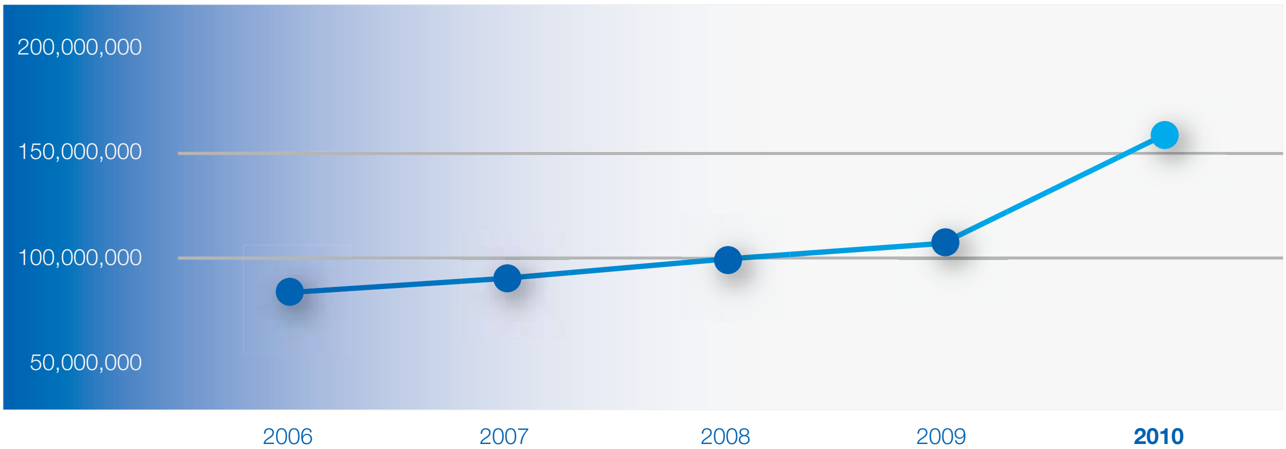
Turnover (RMB'000)



Summary of Financial Information

	31 December 2010	31 December 2009	31 December 2008	31 December 2007	31 December 2006
					(RMB'000)
Total assets	**158,773,999**	107,919,022	100,401,224	91,300,277	84,477,536
Total liabilities	**117,402,762**	83,964,555	79,944,718	60,548,027	52,741,843
Non-controlling interests	**(66,717)**	38,571	513,654	138,050	2,011,435
Equity attributable to owners of the Company (excluding non-controlling interests)	**41,437,954**	23,915,896	19,942,852	30,614,200	29,724,258
Equity attributable to owners of the Company per share (RMB)	**3.56**	2.02	1.68	2.58	2.43

Total Assets (RMB'000)



Summary of Operating Data

The following summary includes the operating data of the Company, Air China Cargo, Air Macau, Shenzhen Airlines (including Kunming Airlines).

	2010	2009	Increase/ (decrease)
Traffic			
RPK (in millions)	**105,694.99**	75,473.77	40.04%
International	**33,206.63**	27,543.73	20.56%
Domestic	**67,839.75**	44,140.45	53.69%
Hong Kong, Macau and Taiwan	**4,648.61**	3,789.59	22.67%
RFTK (in millions)	**4,840.90**	3,528.37	37.20%
International	**3,583.74**	2,605.90	37.52%
Domestic	**1,154.99**	819.38	40.96%
Hong Kong, Macau and Taiwan	**102.17**	103.09	(0.89%)
Passengers carried (in thousands)	**60,006.20**	41,278.71	45.37%
International	**6,944.98**	5,560.08	24.91%
Domestic	**50,185.69**	33,369.15	50.40%
Hong Kong, Macau and Taiwan	**2,875.53**	2,349.48	22.39%
Cargo and mail carried (tonnes)	**1,347,267.42**	974,044.97	38.32%
Kilometers flown (in millions)	**767.37**	558.19	37.47%
Block hours (in thousands)	**1,218.36**	888.28	37.16%
Number of flights	**435,371**	318,793	36.57%
International	**48,551**	42,086	15.36%
Domestic	**362,107**	254,784	42.12%
Hong Kong, Macau and Taiwan	**24,713**	21,923	12.73%
RTK (in millions)	**14,294.41**	10,293.56	38.87%
Capacity			
ASK (in millions)	**132,074.76**	98,624.71	33.92%
International	**41,476.98**	35,706.86	16.16%
Domestic	**84,370.14**	57,524.61	46.67%
Hong Kong, Macau and Taiwan	**6,227.64**	5,393.25	15.47%
AFTK (in millions)	**7,852.31**	6,506.89	20.68%
International	**5,256.11**	4,267.20	23.17%
Domestic	**2,375.50**	2,010.00	18.18%
Hong Kong, Macau and Taiwan	**220.70**	229.70	(3.92%)
ATK (in millions)	**19,740.75**	15,414.72	28.06%

Summary of Operating Data

	2010	2009	Increase/ (decrease)
Load factor			
Passenger load factor (RPK/ASK)	80.03%	76.53%	3.50ppt
International	80.06%	77.14%	2.92ppt
Domestic	80.41%	76.73%	3.68ppt
Hong Kong, Macau and Taiwan	74.64%	70.27%	4.37ppt
Cargo and mail load factor (RFTK/AFTK)	61.65%	54.23%	7.42ppt
International	68.18%	61.07%	7.11ppt
Domestic	48.62%	40.77%	7.85ppt
Hong Kong, Macau and Taiwan	46.29%	44.88%	1.41ppt
Yield			
Yield per RPK (RMB)	0.64	0.57	12.28%
International	0.57	0.48	18.75%
Domestic	0.67	0.60	11.67%
Hong Kong, Macau and Taiwan	0.79	0.66	19.70%
Yield per RFTK (RMB)	1.85	1.53	20.92%
International	1.64	1.47	11.56%
Domestic	2.29	1.54	48.70%
Hong Kong, Macau and Taiwan	5.01	2.93	70.99%
Fleet			
Total number of aircraft in service at year end	393	274	119
Daily utilisation (block hours per day per aircraft)	9.71	9.65	0.06 hour
Unit cost			
Operating cost per ASK (RMB)	0.54	0.47	14.89%
Operating cost per ATK (RMB)	3.46	2.98	16.11%

Note: The significant increase of the operating data for 2010 as compared to those of 2009 was mainly due to the fact that the Company had achieved a controlling position in Shenzhen Airlines with the completion of the capital injection in April 2010. The operating data of the Group for 2010 included the data of Shenzhen Airlines (including Kunming Airlines) on and after 20 April 2010.

Kong Dong
Chairman of the Board

Dear Shareholders,

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.

Chairman's Statement

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.

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.

Kong Dong
Chairman

Beijing, PRC
March 29, 2011

BUSINESS REVIEW OF PASSENGER SERVICE OPERATION

In 2010, the Company's ASKs reached 107,423 million, representing an increase of 12.53% from 2009. Its passenger traffic in 2010 was 86,212 million RPKs, representing an increase of 17.53% from 2009, among which the passenger traffic of domestic routes increased by 16.48%, that of international routes increased by 18.07%, and that of Hong Kong, Macau and Taiwan routes increased by 32.15%. The number of passengers carried by the Company was 46.2426 million in 2010, representing an increase of 16.09% from 2009. The Company recorded a passenger load factor of 80.25%, representing an increase of 3.42 percentage points from 2009.

In 2010, Air Macau's ASKs reached 3,106 million, representing a decrease of 1.71% from 2009. Its passenger traffic in 2010 was 2,185 million RPKs, representing an increase of 2.96% from 2009. The number of passengers carried by Air Macau was 1.3645 million in 2010, representing a decrease of 5.67% from 2009. Air Macau recorded a passenger load factor of 70.35%, representing an increase of 3.19 percentage points from 2009.

The ASKs of Shenzhen Airlines (including Kunming Airlines) reached 30,400 million, representing an increase of 11.27% from 2009. Its passenger traffic in 2010 was 24,387 million RPKs, representing an increase of 14.68% from 2009. The number of passengers carried by Shenzhen Airlines (including Kunming Airlines) was 17.5681 million in 2010, representing an increase of 12.25% from 2009. Shenzhen Airlines (including Kunming Airlines) recorded a passenger load factor of 80.22%, representing an increase of 2.38 percentage points from 2009.

BUSINESS REVIEW OF CARGO SERVICE OPERATION

In 2010, the AFTKs of Air China Cargo, including its freighters and the bellyhold space of its passenger aircraft, increased by 15.20% from 2009 to 7,429 million. Its cargo and mail traffic was 4,531 million RFTKs, representing an increase of 29.59% from 2009, among which the traffic of domestic routes increased by 8.95% from 2009, that of international routes increased by 36.88%, and that of Hong Kong, Macau and Taiwan routes increased by 2.29%. In 2010, 1.1482 million tonnes of cargo and mail were carried, representing an increase of 21.71% from 2009, while cargo and mail load factor was 60.99%, representing an increase of 6.78 percentage points from 2009.

In 2010, Air Macau's AFTKs reached 76 million, representing an increase of 30.61% from 2009. Its cargo and mail traffic increased by 21.63% from 2009 to 39 million RFTKs. The amount of cargo and mail carried decreased by 13.25% from 2009 to approximately 26,600 tonnes and the cargo and mail load factor decreased by 3.82 percentage points from 2009 to 51.78% in 2010.

The AFTKs of Shenzhen Airlines (including Kunming Airlines) reached 525 million, representing a decrease of 0.71% from 2009. In total, 371 million RFTKs of cargo and mail were carried, representing an increase of 17.77% from 2009. The amount of cargo and mail carried by Shenzhen Airlines (including Kunming Airlines) was 236,800 tonnes in 2010, representing an increase of 18.46% from 2009, while cargo and mail load factor was 70.70%, representing an increase of 11.14 percentage points from 2009.

FLEET

Details of the fleet of the Group, as at 31 December 2010, are set out in the table below:

	Number of aircraft			
Type of aircraft	**Owned**	**Finance leased**	**Operating leased**	**Sub-total**
Passenger aircraft	176	84	117	377
Among which: Boeing series	*107*	*33*	*78*	*218*
Airbus series	*69*	*51*	*39*	*159*
Freighters	8	0	4	12
Business jet	0	0	4	4
Total	184	84	125	393

As at 31 December 2010, the Company operated a fleet of 272 aircraft in total, including 268 passenger aircraft and four business jets, while Air China Cargo operated a fleet of 10 aircraft in total, all being freighters. Air Macau operated a fleet of 12 aircraft, including 10 passenger aircraft and two freighters. Shenzhen Airlines (including Kunming Airlines) has a fleet of 99 aircraft (all being passenger aircraft) in its list.

As at 31 December 2010, the Company wet leased three A321 aircraft and one A320 aircraft from Air Macau and six B737-800 aircraft from Shandong Airlines.

AVIATION HUB AND ROUTE NETWORK

In 2010, the Company continued to strengthen its foothold in aviation hubs and optimise its route network, using these as the basic strategies to expand its market share. By increasing its traffic capacity and deploying more resources into hub and gateway markets, the Company made new progress in the implementation of its hub network strategies.

In 2010, the Company continued to increase its traffic capacity for the Beijing hub. The number of aircraft serving the Beijing hub amounted to 168, representing an increase of 18 aircraft from 2009, while the number of flights to and from Beijing increased by 6.2% and the number of passengers increased by 13.1% from 2009. The Company's market share in terms of passenger throughput and RPKs in the Beijing Capital Airport was 45.9% and 52.1%, respectively, while its transit passengers increased by 2% from 2009, among which the international transit passengers increased by 60% from 2009. The number of effective connecting flights (within two hours) increased by 12.5% from 2009. The Company launched ten new domestic/international routes including those from Beijing to Manila, Wulanhaote and Jiuzhaigou, thus further expanding the route network coverage of the Beijing hub.

In 2010, the number of aircraft serving Chengdu increased by 8 from 2009 to 47, with an increase of 1.3% in our market share in the Chengdu hub from 2009. The number of transit passengers decreased due to the overall decrease in domestic transit market, while the number of domestic-overseas transit passengers increased by 41% from 2009. No complacency in just maintaining a stable route network around Chengdu hub, the Company also launched seven new domestic and international routes including those from Chengdu to Bangalore, Nagoya and Ali. Benefited from the interconnection and complementation among its domestic trunk routes, regional routes and international routes, the Company holds a strong position in fostering a regional aviation hub with competitive edge.

In 2010, the number of aircraft serving Shanghai increased by seven from 2009 to 35, with an increase of 14.3% in ASKs in the Shanghai market from 2009, thus maintaining a largely unchanged market share from the previous year. The number of transit passengers increased by 23% from 2009. The Company launched three new routes including those from Shanghai to Sungshan (Taibei) and Yinchuan, relaunched the routes from Shanghai to Guilin, Yichang and Wuhan, and increased the traffic capacity for the routes from Shanghai to Chengdu and Qingdao.

In 2010, the Company increased 26 domestic routes including those from Chendu to Shantou and Wulanhaote, and five international or regional routes, including routes from Beijing to Manila and Melbourne, and a route from Wuhan to Macao.

As at 31 December 2010, the Company's scheduled flights reached 32 countries and regions, including 47 overseas cities, 91 domestic cities and three regions.

MARKETING AND CO-OPERATION

In 2010, the Company further developed and applied new marketing approaches. The Company accelerated the marketing promotion via wireless network and officially launched its mobile phone platform, while the service features of its Business Travel Cards were further improved. The Company also established the multi-class management system of the double-class fare rate products for its domestic routes, and made a remarkable improvement in the coverage and refinement of products. In addition, the Company continued to promote the directed agreed fare rates with the sales proportion of the agreed fare rates for international passengers reaching 67%, representing an increase of 20 percentage points from 2009. The Company's seats allocation leaned further towards high-value customers, routes and regions, with increasingly optimised balance between domestic sales and overseas sales.

The Company continued to carry out the construction of the frequent-flyer promotion and service system, while its membership service centre commenced to offer round-the-clock services. The Company also upgraded its co-branded companion credit cards and launched new service products such as electronic coupons and converting mileage for upgrading cabin at the gate, thus enriching the portfolio of service products for its frequent-flyers. In 2010, the revenue derived from its frequent-flyers increased by 59% from 2009 to RMB15.71 billion, representing 31% of its total revenues. Revenue derived from its e-business increased by 92% from 2009, while revenue derived from key clients increased by 78% from 2009, representing an increase of 4 percentage points as a proportion to its air passenger revenue.

In 2010, the Company continued to cooperate with Star Alliance partners such as Lufthansa and United Air Lines Inc. and realised an annual revenue of RMB1.75 billion from such collaboration, representing an increase of 91% from 2009.

In 2010, the Company obtained a new route right on the cross-strait service from Hongqiao (Shanghai) to Sungshan (Taibei), and established the code-sharing cooperation relationship with EVA Airways Corp. which helped expand the Company's presence in the Taiwan aviation market.

Cathay Pacific, one of our strategic partners, delivered excellent operating results in 2010, thus further improving the profitability of the Company. The cargo joint-venture project with Cathay Pacific also progressed smoothly.

COST CONTROL

In 2010, the Company continued to gain strength in cost control by setting up cost restrain targets, formulating and implementing energy conservation management system, selecting effective methods for performance assessment and deepening process management.

The Company reasonably organised production and improved efficiency in the utilisation of key resources including aircraft and crew members, thus improving the efficiency of fixed costs.

The Company also improved the overall budget management system by enhancing budget accuracy and budget management on a rolling basis. Specifically, the Company increased its efforts in the management of its repair and maintenance budget, making its budget accuracy in engine repair and maintenance exceed 98%.

The Company emphasised on efficiency management and continuously implemented various fuel reduction measures, such as redespatch, direct flight routes and flight route optimisation. The Company established 14 additional fuel-holding-redespatch flight routes, making the redespatch implementation rate of passenger flight routes reach 78.5%, while direct flight routes and flight route optimisation contributed to an expenditure cut of RMB27.58 million. Through saving APU fuel and reducing aircraft weight, the Company achieved a further cost reduction of RMB31.70 million.

The Company opened new financing channels by introducing European export credit agencies without guarantees for the first time and promoting US dollar funding facilities, thereby the Company's debt structure was improved and financial risks associated with the Company were effectively reduced.

In addition, the Company endeavoured to explore its management potential and progressively introduced 28 efficiency management points, achieving remarkable results in relation to income growth and expenditure reduction. The Company continues to stand ahead of its peers in the domestic industry in terms of comprehensive cost level.

The Company raised RMB6.5 billion through successful non-public issuance of A shares and H shares in 2010, and thus reduced its finance costs and enhanced its anti-risk capability and development strength.

The Company maintained its strength in cost control in the industry despite of a substantial increase of jet fuel cost by nearly 40% in 2010.

SERVICES AND PRODUCTS

In order to provide customers with greater convenience, by the end of 2010, the Company had introduced ten new domestic, international and regional express routes, including routes from Beijing to Shanghai, Hangzhou, Guangzhou, Shenzhen, Chengdu, Chongqing, Hong Kong and Qingdao, and routes from Chengdu to Guangzhou, Shenzhen. The Company provided more choices to its customers by launching new products and diversing service model, including the Business Travel Card, the Star Alliance Mileage Upgrade, Departure Mileage Upgrade and Mobile Phone Service. SMS service platform was also set up to expand the channels for customer service. In addition, by launching innovative transit service products, the Company offered city-free boarding services covering 50 domestic cities and 40 overseas cities with single check-in for transit passengers and luggage, which significantly simplified procedures for transit passengers. Moreover, the Company promoted and implemented its service evaluation system to measure service quality which stimulates an inherent driving force to ensure constant improvement in service quality.

In 2010, Air China Cargo introduced "Air China Cargo Express" products successively for 210 flight routes at 18 destinations including Beijing, Shanghai and Frankfurt. The eye-catching special logo and the features of accuracy, convenience and efficiency shown in cargo space protection, processing timeframe, operational processes and after-sale service, all demonstrated that the cargo express products could better meet customers' needs.

ENVIRONMENTAL PROTECTION

To better protect the planet we live on and to jointly build up a sustainable community, the Company consistently adhered to the philosophy of "Green Operation and Sustainable Development", strictly implemented various policies prescribed by the PRC government in respect of energy conservation and emission reduction, and actively involved in campaigns to prevent climate change. The Company continuously enhanced fuel efficiency by introducing new models of aircraft, fuel-holding-redespatch measures and flight route optimisation. The Company also endeavoured to reduce emission of greenhouse gas and a variety of wastes and promoted development of low-carbon economy, so as to protect planet Earth, home of all mankinds. In 2010, the Company recorded a 6.6% decrease in fuel consumption per RTK to 0.2785 kg and a 6.6% decrease in carbon dioxide emission per RTK to 0.8774 kg as compared with 2009.

SOCIAL WELFARE

The Group consistently committed itself to social welfare undertakings while implementing business development. The Group supported poverty and disaster relief and carried out a series of volunteer services to ensure harmonious development of the corporate and the society. In 2010, the Group accomplished disaster relief and rescue missions in Yushu (Qinghai Province, China), Haiti, Chile and Pakistan, with a total of 28 passenger rescue flights/relief cargo charters throughout the year. In addition, the Company and its employees made charitable contributions of RMB3.80 million.

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 report 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.

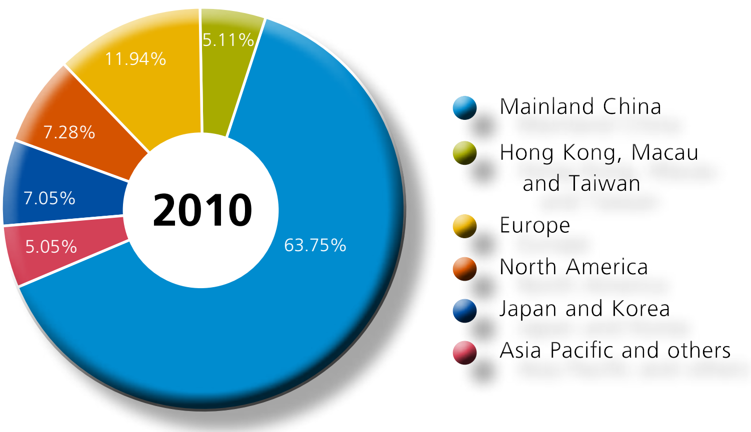
In 2010, benefiting from the sustained and rapid growth of the macro-economy of China and the stabilization and recovery of the global economy, the Company was able to seize the market opportunity of a strong demand for both air passenger and cargo transportation services. The Company achieved a substantial 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.

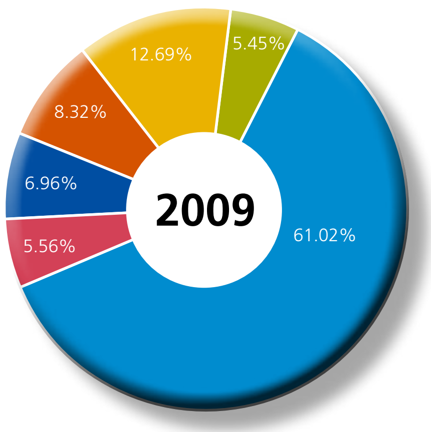
TURNOVER

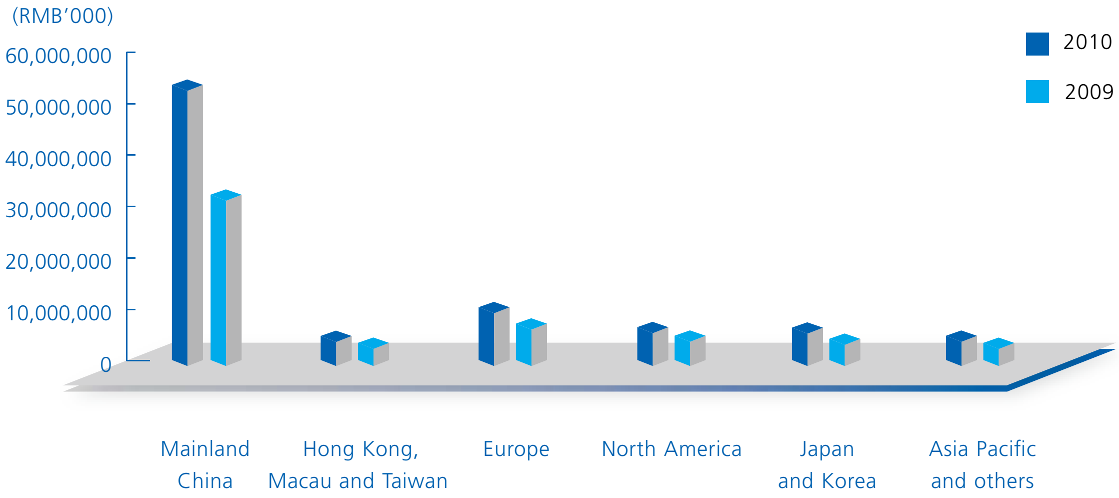
In 2010, the Group's total turnover (net of business taxes and surcharges) was RMB82,488 million, an increase of RMB31,094 million or 60.50% as compared with the previous year. Among the Group's total turnover, air traffic revenue was RMB78,209 million, an increase of RMB30,118 million or 62.63% from 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

	2010		2009		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**52,441,112**	**63.57%**	31,361,693	61.02%	67.21%
Hong Kong, Macau 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	**82,487,539**	**100.00%**	51,393,191	100.00%	60.50%







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 *(million)*	**132,075**	98,625	33.9%
Passenger load factor *(%)*	**80.03**	76.53	3.50 ppt
Yield per RPK *(RMB)*	**0.64**	0.57	12.28%

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2010		2009		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**45,515,250**	**66.80%**	26,796,926	62.76%	69.85%
Hong Kong, Macau 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	**68,137,672**	**100.00%**	42,695,432	100.00%	59.59%

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 *(million)*	**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

	2010		2009		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**2,647,511**	**26.29%**	1,263,219	23.41%	109.58%
Hong Kong, Macau 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	**10,071,516**	**100.00%**	5,396,211	100.00%	86.64%

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:

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

- 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 RMB 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 audited financial statements contained in this annual report.

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.

The Company has been maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency and bring long-term return to its shareholders. The Company has complied in all respects with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Listing Rules in 2010. The Company's corporate governance practices in 2010 are summarised and discussed below.

GOVERNANCE STRUCTURE

Board of Directors of the Company

(comprising 2 executive directors, 6 non-executive directors and 4 independent non-executive directors)

Specialised Committees under the Board

- Audit and risk control committee (comprising 2 independent non-executive directors and 1 non-executive director)
- Nomination and remuneration committee (comprising 3 independent non-executive directors and 2 non-executive directors)
- Strategy and investment committee (comprising 3 non-executive directors and 1 executive director)
- Aviation safety committee (comprising 1 non-executive directors and 1 executive director)

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

The Board must include at least three independent non-executive directors

- As at 31 December 2010, the Board comprised 12 Directors, out of which four were independent non- executive Directors. The Directors are elected at the shareholders' general meeting for a three- year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the independent non-executive Directors has confirmed his independence with the Hong Kong Stock Exchange. As at 31 December 2010, the Company had already received from all independent non-executive Directors the annual statements concerning their independence in which each of the independent non-executive Directors re-confirmed his independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

Deviation: Nil

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company

- The Directors have extensive expertise and experience in the fields of aviation, finance and financial management and provide substantial support for the effective performance of the Board.

- The list of the Directors and their biographical details and their respective roles in the Board and specialised committees under the Board are set out in this annual report and published on the Company's website.

Deviation: Nil

Distinguished roles of the Chairman and President

- The Chairman, concurrently a non-executive Directors, is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner.

- The Chairman shall be elected and dismissed by a majority of all Directors. The term of office of the Chairman shall be three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term.

- The Company has a President who shall be nominated, appointed or dismissed by the Board.

- The President is authorised to oversee the Group's business and implement its strategies to attain overall commercial goals.

Deviation: Nil

Non-executive directors should be appointed for a specific term, and all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment

- The term of office of the existing non-executive Directors is three years upon election at the shareholders' general meeting.

Deviation: Nil

The Board should assume responsibility for the leadership and control of the Company and be collectively responsible for promoting the success of the Company

- The Board is accountable to the shareholders' general meeting and determines the investment proposals of the Company and disposals of the Company's fixed assets according to the authorisation of the shareholders' general meeting. The Company formulates the Rules and Procedures for Shareholders' General Meetings, Rules and Procedures for Board Meetings and Rules and Procedures for Senior Management Meetings. Pursuant to the Articles of association of the Company, the main responsibilities of the Board are: to decide on the Company's business policies and investment plans; to formulate the Company's annual budget and final accounts; to formulate the Company's profit distribution proposals and loss recovery proposals; to decide on the establishment of the Company's internal management bodies; to appoint or dismiss the President of the Company, Secretary to the Board, and, according to the nomination by the President, to appoint or dismiss the Vice President; Chief Accountant, Chief Pilot and other senior management and to exercise other functions and powers as stipulated in the Articles of Association and granted by the shareholders' general meeting.

- The President shall be authorised by the Board to implement various strategies and oversee the day-to-day operations of the Company.

- The Board shall have independent access to the senior management personnel for enquiries in relation to the Company's management.

- The Board shall have specialised committees to provide support to the Board in its decision-making.

Deviation: Nil

Besides the work relationships in the Company, there was no financial, business, family relationship or other material relationships among the directors, supervisors and senior management

Deviation: Nil

The Board should meet regularly to carry out its duties. The Board and its committees shall be provided with adequate information in a timely manner

- Board meetings are held regularly throughout the year and will generally include annual meetings, interim meetings and meetings for the first and third quarters. Board meetings will be convened by the Chairman and a 14-day notice will be served to all Directors before each meeting. The meetings may be attended through personal participation or other electronic means of communication.

- The Secretary to the Board shall be responsible for the communications and liaison with all Directors from the time the notice is served to the commencement of the meeting, and will provide in a timely manner the necessary information to the Directors for facilitating their decision-making on matters set out in the agenda.

- For the purpose of considering resolutions or matters during Board meetings, the Directors may require the presence of the persons-in-charge of the relevant departments at the Board meetings to answer queries, so that the Directors can have a thorough understanding of the key issues and the general situation.

- All Directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to acquaint himself with the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation.

- Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any Director at any time.

- All Directors have actively participated in the business operations of the Company. Attendance of all Directors at Board meetings in 2010 is as follows:

No. of meetings	**19**	
Non-Executive Directors		
Kong Dong *(Chairman)*	19/19	100%
Wang Yinxiang	19/19	100%
Wang Shixiang	16/16	100%
Cao Jianxiong	19/19	100%
Sun Yude	3/3	100%
Christopher Dale Pratt	19/19	100%
Chen Nan Lok, Philip	8/8	100%
Shiu Sai Cheung, Ian	3/3	100%
Executive Directors		
Cai Jianjiang *(President)*	19/19	100%
Fan Cheng	19/19	100%
Independent Non-Executive Directors		
Hu Hung Lick, Henry	16/16	100%
Zhang Ke	16/16	100%
Jia Kang	19/19	100%
Fu Yang	19/19	100%
Li Shuang	3/3	100%
Han Fangming	3/3	100%
Average attendance rate:		**100%**

For the year ended 31 December 2010, the number of Board meetings held and the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

Each director is required to keep abreast of his responsibilities as a director of the Company and of the operating manner, business activities and developments of the Company

- The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate their discharge of duties.

- Newly appointed Directors shall be given introduction in relation to the Company to ensure that they have a sufficient understanding of the management, business and governance practices of the Company.

- The Company also encourages its Directors to participate in seminars and courses conducted by recognised institutions so as to ensure that they continually upgrade their skills and are aware of the latest changes or developments in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

Deviation: Nil

The Company should arrange appropriate insurance in respect of potential legal actions against its directors

- The Company has purchased liability insurance for its Directors, supervisors and senior management.

Deviation: Nil

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

- After making specific enquiries, the Company confirmed that each Director and each supervisor have complied with the required standards of the Model Code as set out in Appendix 10 to the Listing Rules throughout 2010.

- The Model Code contained in Appendix 10 to the Listing Rules requires the Board to adopt written guidelines regarding transactions of securities of the issuer by its employees on terms no less exacting than the required standard of the Model Code. On 5 September 2005, the Company adopted and formulated a code of conduct which was revised on 19 March 2007 and 4 December 2009, regarding securities transactions by Directors on terms no less exacting than the required standards of the Model Code. The code of conduct of the Company also applies to supervisors and the relevant employees.

Deviation: Nil

B. Remuneration of Directors and Senior Management

Issuers should establish a remuneration committee with certain authorities and obligations under specific written terms. A majority of the members of the remuneration committee should be independent non-executive directors

- The Company has established a nomination and remuneration committee to recommend to our Board regarding the compensation of the Directors as well as candidates to fill vacancies on our Board. In addition, the nomination and remuneration committee reviews the performance of and determines the compensation structure of the senior management.

- The majority of the members of the nomination and remuneration committee are independent non-executive Directors. As at 31 December 2010, the members of the nomination and remuneration committee were Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Fu Yang, Mr. Li Shuang and Mr. Han Fangming with Mr. Fu Yang acting as the chairman of such committee. Due to expiry of the term of office of Mr. Hu Hung Lick, Henry and Mr. Zhang Ke (both being independent non-executive Directors) on 28 October 2010, Mr. Li Shuang and Mr Han Fangming (both being independent non-executive Directors) have filled the vacancies on the Nomination and remuneration committee.

- Attendance at the meetings of the nomination and remuneration committee in 2010 is as follows:

No. of meetings	**4**	
Fu Yang *(chairman)*	4/4	100%
Hu Hung Lick, Henry	3/3	100%
Zhang Ke	3/3	100%
Li Shuang	1/1	100%
Han Fangming	1/1	100%
Kong Dong	4/4	100%
Wang Yinxiang	4/4	100%
Average attendance rate		**100%**

- The Articles of Association provides that a shareholder holding 5% or more of the total shares of the Company is entitled to nominate a director through the nomination and remuneration committee, which will evaluate the candidates for directorship and senior management according to the standards as set out in the Articles of Association and report to the Board.

- At the first meeting in 2010 of the nomination and remuneration committee under the second session of the Board held on 8 April 2010, it was resolved to appoint Mr. Feng Gang and Mr. Ma Chongxian as Vice President of the Company at the 38th meeting of the second session of the Board and it was proposed that the Board should authorise the management of the Company to deal with matters concerning the execution of employment contracts and all related matters.

- At the second meeting in 2010 of the nomination and remuneration committee under the second session of the Board held on 29 September 2010, it was resolved that Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Cao Jianxiong, Mr. Sun Yude, Mr. Christopher Dale Pratt and Mr. Shiu Sai Cheung, Ian be nominated as candidates for non-executive Directors to the third session of the Board; Mr. Jia Kang, Mr. Fu Yang, Mr. Li Shuang and Mr. Han Fangming be nominated as candidates for independent non-executive Directors to the third session of the Board; Mr. Cai Jianjiang and Mr. Fan Cheng be nominated as candidates for executive Directors to the third session of the Board. It was resolved that Directors, save for independent non-executive Directors, would not receive any compensation for serving as a Director in the Company. The annual remuneration for each independent non-executive Director to the third session of the Board is RMB60,000. It was proposed that such matters be considered at the 47th meeting of the second session of the Board.

- At the third meeting in 2010 of the nomination and remuneration committee under the second session of the Board held on 28 October 2010, it was resolved to retain each of the existing senior management of the Company. It was proposed that such matters be considered at the first meeting of the third session of the Board.

- At the first meeting of the nomination and remuneration committee under the third session of the Board held on 28 October 2010, it was resolved to elect Mr. Fu Yang as the chairman of the nomination and remuneration committee under the third session of the Board.

- Remuneration payable to Directors shall be determined according to the terms of their respective employment contracts, if any, and the recommendation of the nomination and remuneration committee. Details of the remuneration of the Directors are set out in note 9 to the audited financial statements of this annual report.

Deviation: Nil

C. Accountability and Audit

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects

- The Company has established an audit and risk control committee to review the financial information of the Company and the relevant disclosure, and review the internal control systems of the Company.

- The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant laws and regulations, in a timely manner within four months (three months commencing from 2011) and two months respectively after the end of the relevant periods.

- The Company has set up an investor relation webpage, on which figures of operating results are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

- The Company has good environment for the implementation of internal controls. The Company has set up an effective electronic information system to support business development. The electronic information system comprises various operation systems, settlement system and a core accounting and audit platform, i.e. the Oracle financial information system. For treasury management, the Company has implemented a global online banking management system. An effective accounting information system was also established.

Deviation: Nil

The Board should ensure that the Company maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets

- The Board takes ultimate responsibility for the internal controls of the Company. Every year, the Company conducts self-assessment of the comprehensiveness and the effectiveness in implementation, of the internal control system. The Board will publicly announce the self-assessment report on the internal control for the year following the audit and risk control committee reporting to the Board.

Deviation: Nil

The Board should establish formal and transparent arrangements in relation to the application of financial reporting and internal control principles and the maintenance of an appropriate relationship with the Company's auditors

- Through the audit and risk control committee, the Board reviews and supervises the Company's financial reporting process, communicates with the auditors and reviews periodic financial reports so as to make sure the financial reporting and internal control principles are formal and transparent.

- As at 31 December 2010, the audit and risk control committee comprised two independent non-executive Directors, Mr. Li Shuang and Mr. Fu Yang and one non-executive Director, Mr. Cao Jianxiong. Mr. Zhang Ke, a previous member on the audit and risk control committee and an independent non-executive Director, retired on 28 October 2010 due to expiry of his term of office. Mr. Li Shuang, an independent non-executive Director, had filled the vacancy as a member of the audit and risk control committee. Mr. Li Shuang acts as chairman of the audit and risk control committee.

- Attendance at the meetings of the audit and risk control committee in 2010 is set out as follows:

No. of meetings	**6**	
Zhang Ke	5/5	100%
Fu Yang	6/6	100%
Li Shuang *(chairman)*	1/1	100%
Cao Jianxiong	6/6	100%
Average attendance rate:		**100%**

- At the thirteenth meeting of the audit and risk control committee under the second session of the Board held on 21 April 2010, the following matters were considered and approved: the audited financial report and annual report of the Company for the year 2009, the Status of Implementation of Connected Transactions for The Year 2009 and the Special Explanation on Receivables from Controlling Shareholders and Connected Parties of The Company for The Year 2009; the first quarterly report of the Company for the year 2010; the profit distribution proposal of the Company for the year 2009; the Explanation on Changes in Accounting Estimates; the Self-assessment Report of The Board Concerning The Internal Control of The Company; the 2009 summary report on audit work by Ernst & Young and Ernst & Young Hua Ming; the Responsible System for Material Errors in Annual Report Information Disclosure of Air China Limited and the Work Report of The Audit and Risk Control Committee under The Board for The Year 2009.

- At the fourteenth meeting of the audit and risk control committee under the second session of the Board held on 10 August 2010, the Risk Control System for Connected Transactions between Air China Limited and China National Aviation Finance Co., Ltd. was considered and approved.

- At the fifteenth meeting of the audit and risk control committee under the second session of the Board held on 25 August 2010, the interim report and interim financial report for the year 2010, the mid-term financial plan (as adjusted) and capital expenditure plan of the Company for the year 2010 were considered and approved.

- At the sixteenth meeting of the audit and risk control committee under the second session of the Board held on 10 September 2010, the renewal of the framework agreement between the Company and Cathay Pacific and the determination of the annual caps for connected transactions for each of the years from 2011 to 2013; the renewal of the framework agreement between the Company and CNACG and the determination of the annual caps for connected transactions for each of the years from 2011 to 2013; and the revised annual caps for connected transactions between the Company and Lufthansa Group for each of the years from 2010 to 2012 were considered and approved.

- At the seventeenth meeting of the audit and risk control committee under the second session of the Board held on 28 October 2010, the third quarterly report of the Company for the year 2010 was considered and approved.

- At the first meeting of the audit and risk control committee under third session of the the Board held on 28 October 2010, it was resolved to appoint Mr. Li Shuang as a chairman of the audit and risk control committee under the third session of the Board.

- The annual report for the year ended 31 December 2010 of the Company was reviewed by the audit and risk control committee.

Deviation: Nil

The responsibility of the directors in relation to the financial statements

The Company prepares and publishes annual reports, interim reports and quarterly reports each year. The responsibilities of the Directors in relation to the financial statements are set out below and shall be read together with the "Independent Auditors' Report" set out in this annual report.

- *Annual reports and accounts*

  The Directors acknowledged that they are responsible for preparing the financial statements for each financial year so as to present a true and fair view of the financial position of the Company and the Group, and of the financial performance and cash flow of the Group.

- *Accounting policy*

  When preparing the financial statements of the Company and the Group, the Directors have consistently applied appropriate accounting policies under the relevant accounting standards.

- *Accounting records*

  The Directors are responsible for keeping accounting records of the Company, which will reflect the financial position of the Company with reasonable accuracy, enabling the Group to prepare the financial statements in accordance with the requirements of the Listing Rules, Hong Kong Companies Ordinance and the relevant accounting standards.

- *Ongoing operation*

  After making appropriate enquiries, the Directors believe that the Group has sufficient resources for operation in the foreseeable future. Accordingly, the Group's financial statements should be prepared on a going concern basis.

The statement of reporting responsibility of the auditors is set out in the "Independent Auditors' Report" set out in this annual report.

Auditors' remuneration

The international and domestic auditors of the Company are Ernst & Young and Ernst & Young Hua Ming, respectively. Breakdown of the remuneration to the Company's external auditors for audit service provided and non-audit service assignments for the year ended 31 December 2010 is as follows:

- *Audit Services*

  An aggregate amount of approximately RMB13,051,153.74 was mainly charged for the review of the Group's consolidated financial statements for the six months ended 30 June 2010, the audit of the Group's consolidated financial statements for the year ended 31 December 2010 and the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2010.

- *Non-audit Service Assignments*

  An aggregate amount of approximately RMB4,914,758.92 was charged for the provision of internal control, tax and other non-audit services.

D. Delegation by the Board

The Company should formalise the functions reserved to the Board and those delegated to management. There shall be division of responsibility between the Board committees, and each committee should be formed with certain authorities under specific terms

- The Articles of Association has provided for the authorities and authorisations of the Board and the President, details of which are set out in the Rules and Procedure for Board Meetings and Rules and Procedures for Senior Management Meetings.

- The primary duties of the audit and risk control committee are: to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as giving opinion in writing to the Board, in connection with the appointment of new accounting firms or reappointment of the existing accounting firms for carrying out annual audits; to review and supervise our internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and the appointment or dismissal of the responsible person of the audit department; to be responsible for the communication between the internal auditors and external auditors; to review and verify the Company's financial information and its disclosure; to review the Company's internal control system and risk control system, evaluate the effectiveness of the detailed management and control rules and the operational standards relating to risk investments (including but not limited to financial derivatives instruments), and consider the strategies and proposals of the Company's risk investment; to review the work report prepared by the responsible audit personnel of the Company, any report relating to the fraudulent acts of the Company and the report on the related discovery and complaints; and to fulfill other duties authorised by the Board.

- The primary duties of the nomination and remuneration committee are to nominate candidates to the Board for director vacancies and recommend to the Board regarding the compensation of Directors. In addition, the nomination and remuneration committee reviews the performance and determines the compensation structure of the senior management.

- The primary duties of the strategy and investment committee are to analyse and identify our development strategy and to decide on matters related to our investment as authorised by the Board. As at 31 December 2010, the members of the strategy and investment committee were Mr. Kong Dong, Mr. Cao Jianxiong, Mr. Sun Yude and Mr. Cai Jianjiang, with Mr. Cai Jianjiang acting as the chairman of such committee.

- The Company has established the aviation safety committee with Mr. Cao Jianxiong and Mr. Cai Jianjiang as its members and Mr. Cao Jianxiong acting as the chairman of such committee as at 31 December 2010.

The supervisory committee is responsible for monitoring our financial matters and supervising the conduct of our Board and the management. The functions and authority of the supervisory committee include: reviewing the financial reports and other financial information prepared by the Board and proposed to be tabled before the shareholders' general meeting, as well as supervising the work of the Directors, President, Vice President and other senior management so as to prevent the abuse of power or conduct detrimental to the Company's interests. The current members of the supervisory committee are Mr. Li Qinglin, Mr. Zhang Xueren, Mr. He Chaofan, Mr. Chen Bangmao and Mr. Su Zhiyong, with Mr. Li Qinglin acting as the chairman of the supervisory committee. In the event that any Director has conflict of interests with the Company, a supervisor may negotiate with the Director concerned or bring the case to court on behalf of the Company. Resolution of meetings of the supervisory committee shall be passed by at least two-thirds of all supervisors.

Deviation: Nil

E. Communication with shareholders

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use general meetings to communicate with shareholders

- The Company has established and maintains various communication channels with its shareholders such as the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the Company's website. The Company has also implemented the Investors Relation Management System.

- The annual general meetings represent an effective means for the shareholders to exchange views with the Board. The Chairman of the Board, as well as the respective chairman of the audit and risk control committee, nomination and remuneration committee, strategy and investment committee and aviation safety committee will answer queries raised by shareholders at the general meetings.

- At the annual general meeting, the Board shall report to the shareholders, and announce, in respect of the progress of the implementation by the Board of the matters set out in the resolutions which were passed at the previous annual general meeting and were for the Board's implementation.

- Resolutions in respect of independent matters, including the election and replacement of the Directors, shall be separately tabled as separate resolutions before the annual general meeting.

Deviation: Nil

The Company should ensure that shareholders are familiar with the detailed procedures for conducting a poll

- The chairman of a meeting has, at the commencement of the meeting, ensured that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders in relation to voting by way of a poll.

Deviation: Nil

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2010 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 62 to 163 of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The summary of the Group's results and balance sheet prepared in accordance with IFRS for the five years ended 31 December 2010 are set out on pages 3 and 4 of this annual report.

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	*(Note 1)*	64.61%
H Shares	4,562,683,364	*(Note 2)*	35.39%
Total	12,891,954,673		100%

Notes:

1. Including 483,592,400 A shares issued on 12 November 2010 pursuant to a non-public issuance of shares at a price of RMB11.58 per share. Please refer to the Company's circular dated 15 March 2010 and the announcement dated 24 November 2010 respectively for details.

2. Including 157,000,000 H shares issued on 24 November 2010 pursuant to a non-public issuance of shares at a price of HK$6.62 per share. Please refer to the Company's circular dated 15 March 2010 and the announcement dated 24 November 2010 respectively for details.

SIGNIFICANT INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2010, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest and short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the Securities and Futures Ordinance (the "SFO") are as follows:

Name	Type of interests	Type and number of shares of the Company concerned	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short position
CNAHC	Beneficial owner	5,078,600,246 A shares	39.39%	60.97%	–	–
CNAHC[1]	Attributable interests	1,332,482,920 A shares	10.34%	16.00%	–	–
CNAHC[1]	Attributable interests	223,852,000 H shares	1.74%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A shares	10.34%	16.00%	–	–
CNACG	Beneficial owner	223,852,000 H shares	1.74%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,360,945,455 H shares	18.31%	–	51.74%	–
Swire Pacific Limited[2]	Attributable interests	2,360,945,455 H shares	18.31%	–	51.74%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	2,360,945,455 H shares	18.31%	–	51.74%	–
John Swire & Sons Limited[2]	Attributable interests	2,360,945,455 H shares	18.31%	–	51.74%	–
Blackrock, Inc.[3]	Attributable interests	241,312,451 H shares	1.87%	–	5.29%	10,283,581 H shares

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2010:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A shares and 223,852,000 H shares of the Company directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 40.63% equity interest and 57.62% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 42.97% interest in Cathay Pacific as at 31 December 2010, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,360,945,455 H shares of the Company directly held by Cathay Pacific.

3. BlackRock, Inc., through its controlled entities, had an attributable interest in 241,312,451 H shares of the Company and maintained a short position of 10,283,581 H shares of the Company, out of which BlackRock Investment Management, LLC. directly held 1,564,000 H shares of the Company, BlackRock Institutional Trust Company, N.A. directly held 20,654,000 H shares of the Company and maintained a short position of 404,000 H shares of the Company, BlackRock Fund Advisors directly held 173,402,000 H shares of the Company, BlackRock Asset Management Canada Limited directly held 144,000 H shares of the Company, BlackRock Asset Management Australia Limited directly held 108,000 H shares of the Company, BlackRock Asset Management North Asia Limited directly held 9,910,253 H shares of the Company and maintained a short position of 9,307,783 H shares of the Company, BlackRock Asset Management Japan Limited directly held 380,000 H shares of the Company, BlackRock Asset Management Ireland Ltd directly held 31,482,000 H shares of the Company, BlackRock Advisors UK Ltd. directly held 2,231,798 H share of the Company and maintained a short position of 571,798 H shares of the Company, BlackRock International Ltd. directly held 1,212,400 H shares of the Company, BlackRock Fund Managers directly held 224,000 H shares of the Company.

Save as disclosed above, as at 31 December 2010, to the knowledge of the Directors, the supervisors and chief executive of the Company, no other person (other than a Director, supervisor or chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO.

PUBLIC FLOAT

Pursuant to public information available to the Company and to the best knowledge of the Directors of the Company, the Company has maintained a public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange throughout the current reporting period.

DIVIDEND

Based on the 2010 profit distribution plan of the Company, the Board recommends the appropriation of, after making up the loss, 10% of the balance of the net profit of the Company of the year 2010 as set out in the financial statements prepared under the PRC Accounting Standards into the discretionary surplus reserve and to distribute a cash dividend of RMB1,523.83 million, or RMB0.1182 per share (inclusive of applicable tax) based on the total number of 12,891,954,673 shares of the Company, for the year 2010.

The recommended final dividends are subject to shareholders' approval at the forthcoming annual general meeting. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares shall be paid in RMB while dividends payable to the holders of H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the mean of the middle rate of RMB to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the annual general meeting.

TAXATION ON DIVIDEND

In accordance with the Enterprise Income Tax Law of the People's Republic of China and the Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, both implemented in 2008, with effect from 1 January 2008, the Company shall be obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders with a tax rate of 10% when the Company distributes any dividends to non-resident enterprise shareholders whose names appear on the register of members of H shares of the Company. As such, any H shares of the Company which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name of HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups) shall be deemed to be H shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from any dividends payable thereon. Non-resident enterprise shareholders may wish to apply for a tax refund (if any) in accordance with the relevant requirements such as tax agreements (arrangements) upon receipt of any dividends. Shareholders are recommended to consult their taxation advisors regarding the owning and disposing of H shares of the Company in the PRC and in Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF SHARES

Save as disclosed otherwise, for the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules), without taking into account any issuance of new securities.

PRE-EMPTIVE RIGHTS

The Articles of Association does not provide for any pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their existing shareholdings.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Director
Kong Dong	62	Chairman and non-executive director	Appointed on 28 October 2010
Wang Yinxiang	55	Vice chairman and non-executive director	Appointed on 28 October 2010
Wang Shixiang	61	Vice chairman and non-executive director	Appointed on 30 October 2007 Term of office expired on 28 October 2010
Cao Jianxiong	51	Non-executive director	Appointed on 28 October 2010
Sun Yude	56	Non-executive director	Appointed on 28 October 2010
Christopher Dale Pratt	54	Non-executive director	Appointed on 28 October 2010
Chen Nan Lok, Philip	55	Non-executive director	Appointed on 30 October 2007 Resigned on 1 July 2010
Sai Cheung Shiu, Ian	55	Non-executive director	Appointed on 28 October 2010
Cai Jianjiang	47	Executive director and president	Appointed on 28 October 2010
Fan Cheng	55	Executive director and vice president	Appointed on 28 October 2010
Hu Hung Lick, Henry	90	Independent non-executive director	Appointed on 30 October 2007 Term of office expired on 28 October 2010
Zhang Ke	57	Independent non-executive director	Appointed on 30 October 2007 Term of office expired on 28 October 2010
Jia Kang	56	Independent non-executive director	Appointed on 28 October 2010
Fu Yang	61	Independent non-executive director	Appointed on 28 October 2010
Li Shuang	66	Independent non-executive director	Appointed on 28 October 2010
Han Fangming	44	Independent non-executive director	Appointed on 28 October 2010

Supervisors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Director
Sun Yude	56	Chairman of the Second Session of the Supervisory Committee	Appointed on 30 October 2007 Term of office expired on 28 October 2010
Li Qinglin	55	Chairman of the Third Session of the Supervisory Committee	Appointed on 28 October 2010
Zhang Xueren	57	Supervisor	Appointed on 28 October 2010
He Chaofan	48	Supervisor	Appointed on 28 October 2010
Zhou Guoyou	58	Supervisor	Appointed on 30 October 2007 Term of office expired on 28 October 2010
Chen Bangmao	60	Supervisor	Appointed on 18 August 2009
Su Zhiyong	47	Supervisor	Appointed on 18 August 2009

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has confirmed its receipt of, from each of the independent non-executive directors of the Company, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

BOARD COMMITTEES

The Board committees include strategy and investment committee, the audit and risk control committee, nomination and remuneration committee and aviation safety committee. The composition of each committee is set out in the "Corporate Governance Report" in this annual report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

At no time during the year ended 31 December 2010 had the Company granted its Directors, supervisors or their respective spouses or children under the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its other associated corporations, and no such rights for the subscription of shares or debentures were exercised by them.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2010, the Company's Directors, supervisors or chief executive had following interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which shall be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code").

Interests in Shares of Associated Corporations

Name of associated corporation and relevant shareholder	Number of Shares: Personal interest	Interest of children under the age of 18 or spouse	Corporate interest	Total	Shareholding percentage as at 31 December 2010
Cathay Pacific Airways Limited					
Sai Cheung Shiu, Ian	1,000	–	–	–	0.00%

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case maybe) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in note 9 to the audited financial statements of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. All Directors of the Company shall serve a term of three years.

None of the Directors or Supervisors 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).

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting as at 31 December 2010 and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Chen Nan Lok, Philip was a non-executive Director of the Company and concurrently the deputy chairman and non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,360,945,455 H shares in the Company as at 31 December 2010, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Dragonair. Mr. Kong Dong, who is the chairman and a non-executive Director of the Company, Mr. Cai Jianjiang and Mr. Fan Cheng, who are both executive Directors of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Save as above, none of the Directors or Supervisors of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

CONVENTION OF BOARD MEETINGS AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company held 19 Board meetings during the year 2010. The Company has been improving its corporate governance structure since listing. The Board is committed to conducting normative operations to protect the interests of the Company and its shareholders. The Directors of the Company are of the opinion that as of 31 December 2010 the Company has refined its internal corporate governance structure in compliance with the requirements set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules then in effect.

EMPLOYEES

As at 31 December 2010, the Company had 24,459 employees and its subsidiaries and joint ventures had 27,649 employees. The categories of employees of the Company are as follows:

Professional Categories	As of the end of December 2010	As of the end of December 2009	Net increase
Management	5,811	5,673	138
Marketing and Sales	2,055	1,903	152
Operation	1,376	1,257	119
Ground Handling	4,283	4,218	65
Cabin Service	1,959	1,981	(22)
Logistics and Support	1,429	1,466	(37)
Flight Crew	3,119	2,933	186
Engineering and Maintenance	2,712	2,708	4
Information Technology	290	287	3
Others	1,425	1,381	44
Total	24,459	23,807	652

COMPENSATION POLICY

In order to implement the Company's strategies and to incentivise its employees, the Board approved, upon consideration, the proposal relating to the welfare reform on the remuneration of the ground crew, flight attendants, safety officers and air police officers and the proposal to revise the welfare system applicable to flight crew. Accordingly, the welfare reform on the remuneration of the ground crew, flight attendants, safety officers and air police officers was implemented from 1 July 2007 and the welfare system applicable to flight crew (as revised) came into force on 1 March 2008.

To proceed with the implementation of the Company's strategies and to reward and retain its employees, based on the welfare reform on the remuneration completed in 2008, in 2010, the Company adjusted the welfare system applicable to its flight crew, flight (security) attendants and ground crew.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

390 employees of the Company retired in 2010. These retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments. Details of the staff pension scheme and other welfare are set out in note 10 to the audited financial statements of this annual report.

STOCK APPRECIATION RIGHTS

The Directors and Senior Management Stock Appreciation Rights Handbook of the Company was considered and approved at the general meeting held on 28 December 2006. The first issue of the stock appreciation rights was implemented by the Company on 15 June 2007 under which a total of approximately 14.94 million stock appreciation rights were granted. Details of the stock appreciation rights programme are set out in note 45 to the audited financial statements of this annual report.

On 25 August 2009, it was resolved at the twenty-ninth meeting of the second session at the Board to suspend the above scheme and require the Company to amend the original scheme in accordance with the relevant regulations, and after the Board considers and approves the amended scheme, it will be submitted to a general meeting for approval and then implemented.

In November 2010, the Company submitted a proposal through CNAHC to the State Owned Assets Supervision and Administration Commission of the State Council, regarding proposed amendments to the first issue of the stock appreciation rights programme and relevant administration measures, and intended to resume the first issue of the stock appreciation rights programme of the Company. The resolution in relation to the resumption of the first issue of the stock appreciation rights programme of the Company will be resolved at the forthcoming annual general meeting.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associates of the Company as at 31 December 2010 are set out respectively in notes 20 and 22 to the audited financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in note 38 to the audited financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets (property, plant and equipment) of the Group for the year ended 31 December 2010 are set out in note 16 to the audited financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2010 are set out in note 8 to the audited financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 44 to the audited financial statements of this annual report.

DONATIONS

For the year ended 31 December 2010, the Company made donations for charitable and other purposes amounting to RMB2.1414 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the purchases from the largest supplier accounted for 21.37% of the total purchases of the Group, while purchases from the five largest suppliers accounted for 50.24%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

For the year ended 31 December 2010, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected changes of titles of assets e.g. land use rights, buildings and vehicles, in accordance with its undertakings as disclosed in the Company's prospectus issued at the time of its offering of shares. The title transfer procedures for the motor vehicles of the Company's headquarters and branches have been completed. Except for certain regions, the title transfer procedures for the land use rights and buildings of the Company's headquarters and branches have been substantially completed. The Company is in the process of completing the outstanding formalities in this respect, which should not have any material adverse effect on the operation of the Company.

MATERIAL LEGAL PROCEEDINGS

Save as disclosed in note 49 to the audited financial statements of this annual report, the Company was not involved in any significant litigation or arbitration as at 31 December 2010. To the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into a number of connected transaction agreements with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this section "Report of the Directors", hereinafter referred to as "CNAHC Group") and other connected persons of the Group. Description of the agreements is set out in the Company's circulars dated 6 November 2009, 15 March 2010 and 8 April 2010 and the announcements of the Company dated 10 September 2010. These connected transactions conducted in 2010 are not exempt under Rule 14A.33 of the Listing Rules, details of which are as follows:

I. Continuing Connected Transactions Between the Group and CNAHC Group

Property Leasing

The Company entered into a properties leasing agreement (the "Properties Leasing Agreement") with CNAHC on 27 October 2009.

Pursuant to the Properties Leasing Agreement, the Company will lease from CNAHC Group a number of properties for various uses including as business premises, offices and storage facilities.

The Company will lease to CNAHC Group a number of properties for various uses including as business premises and offices.

The rent payable under the Properties Leasing Agreement will be determined in accordance with the relevant PRC regulations or market rates and by entering into a specific properties leasing agreement. The annual increase in rental rate is expected not to exceed 5%.

The term of the Properties Leasing Agreement is from 1 January 2010 to 31 December 2012.

Tourism Co-operation Services

The Company entered into a tourism services cooperation agreement (the "Tourism Cooperation Agreement") with China National Aviation Tourism Company ("CNATC") on 27 October 2009.

Pursuant to the Tourism Cooperation Agreement, the Company has agreed to provide the following services to CNATC:

- Package tours services: the Company and CNATC will design, and the Company will sell, the competitive "Air Tickets and Hotel" product combining discounted airline tickets for certain routes offered by the Company and accommodation at hotels owned and operated by CNATC at preferential group rates. Out of the proceeds from package tours, the Company will pay CNATC for the hotel fee portion of the packages.

- Reciprocal frequent-flyer programme ("FFP") co-operation services: CNATC will join the Company's FFP under which our Companion card members are encouraged to stay at CNATC's hotels by receiving mileage credits for such stay. As a consideration, CNATC will pay us the equivalent value represented by those mileage credits at market rates.

- Commercial charter flight services: the Company will provide commercial charter services to customers procured by CNATC at market rates.

Pursuant to the Tourism Cooperation Agreement, CNATC agreed to provide the following services to the Company:

- FFP co-operation services: under the FFP, our frequent flyers may redeem their mileage credits for discounted stay at CNATC's hotels, and the Company will make payment settlement with CNATC for the discount portion of such redemption according to similar pricing arrangements with our other FFP partners.

- Hotel accommodation services: CNATC will provide temporary hotel accommodation services to the Company's employees on duty and passengers affected by our flight delays, for which services the Company will pay hotel accommodation fees to CNATC as scheduled and at the actual amount incurred.

- Aviation tourist services with special features including but not limited to a newly launched service of ground transportation for passengers of two classes at market rates.

The term of the Tourism Cooperation Agreement is from 1 January 2010 to 31 December 2012.

Comprehensive Services

The Company entered into a comprehensive services agreement (the "Comprehensive Services Agreement") with CNAHC on 27 October 2009.

Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned and controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business ("Ancillary Business Companies"), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, will primarily provide the following services to the Company as suppliers to the Company in respect of the Company's ancillary production and supply services:

  (i) supply of various items for in-flight services;

  (ii) manufacturing and repair of aviation-related ground equipment and vehicles;

  (iii) cabin decoration and equipment;

(iv) properties management services;

(v) warehousing services;

(vi) airline catering services; and

(vii) printing of air tickets and other publications.

- The Company accepts the commission of CNAHC and provide welfare-logistics services for CNAHC's retired employees.

- The charges of the services provided by the Ancillary Business Companies to the Company shall not exceed the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate is available, a fair and reasonable price should be adopted through arm's length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services shall be settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

The term of the Comprehensive Services Agreement is from 1 January 2010 to 31 December 2012.

Sales Agency Services of Airline Tickets and Cargo Space

The Company entered into a Sales Agency Services Framework Agreement (the "Sales Agency Services Framework Agreement") with CNAHC on 27 October 2009.

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents ("Sales Agency Companies") will:

- procure purchasers for the Company's air tickets and cargo spaces on a commission basis; or

- purchase air tickets (other than domestic air tickets) and cargo spaces from the Company and resell such air tickets and cargo spaces to end customers.

As for the air passenger agency services, the Company will continue to comply with the existing fee standards for air passenger sales agency services before the relevant competent authority promulgates administrative regulations on the fee range allowed for air passenger sales agency services. After the promulgation of such administrative regulations, the Company will consult with the Sales Agency Companies on a fair and voluntary basis and determine the agency service fee standards within the stipulated floating range. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding incentive plans for achieving such targets to the extent permitted by law and in accordance with the industry practice.

Regarding the air cargo agency services, the Company and the Sales Agency Companies will discuss and determine the applicable transportation prices based on the prevailing market prices, and the Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to its customers) based on the aforesaid transportation prices, with differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

The term of the Sales Agency Services Framework Agreement is from 1 January 2010 to 31 December 2012.

Financial Services

The Company entered into a financial services agreement (the "Financial Services Agreement") with China National Aviation Finance Co., Ltd. ("CNAF", which is owned as to 75.54% by CNAHC and 19.31% by the Company) on 27 October 2009.

Pursuant to the Financial Services Agreement, CNAF has agreed to provide the Company with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for debt issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;
- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

In particular, CNAF is currently paid to provide the Company with bills acceptance services, letter of credit services, guarantee services, internet banking services, finance leasing services, discounting services and ticket collection services and charges fees incurred thereon. Such fees are charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company for financial services of similar type shall not be higher than those generally charged by commercial banks from the Company and those charged by CNAF to other group members.

With respect to the deposit and loan services, both parties agree:

- The interest rate applicable to the Company for its deposits with CNAF shall not be lower than the minimum interest rate specified by the People's Bank of China for deposits of similar type. In addition, the interest rate for the Company's deposits with CNAF shall not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and shall not be lower than the interest rate for similar type of deposit services provided by commercial banks to the Company generally; and

- The interest rate for loans (including other credit business) granted to the Company by CNAF shall not be higher than the maximum interest rate specified by the People's Bank of China for loans of similar type. In addition, the interest rate for loans granted to the Company by CNAF shall not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by commercial banks to the Company generally.The Company agrees that it will under the same conditions accord priority to and use the financial services provided by CNAF. CNAF has treated the Company as its major client and undertook to provide financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company at the same time.

In order to ensure the security of the capital, CNAF is not allowed, at any time, to make use of the deposits of the Company other than making external loans. The prohibited use of the deposits of the Company includes, but not limited to, investment activities in equity securities and corporate bonds. CNAF, as a non-bank financial institution approved by the CBRC, shall strictly comply with the regulatory targets and other requirements of the CBRC to conduct its operation and business, establish effective and complete internal control and risk management systems and set up the credit review committee and investment committee in order to effectively manage risks and ensure the safety of all capital. If the Company intends to inspect the accounts of CNAF, CNAF shall make arrangement for such an inspection within 10 days thereof. Pursuant to provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergent event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, shall increase the capital of CNAF accordingly to meet the actual need to overcome such financial difficulties in making payments.

The unpaid services provided by CNAF to the Company include settlement services and financial information services ("Unpaid Services").

In addition to the specific services set out in the Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to other members of CNAHC Group as and when appropriate ("New Financial Services").

If CNAF charges fees for the Unpaid Services and New Financial Services during the period in which the Financial Services Agreement remains in force, such fees charged by CNAF shall comply with the standards stipulated by the People's Bank of China or the CBRC for services of similar type and shall not be higher than those charged by commercial banks to the Company for similar type of financial services and those charged by CNAF to other members of CNAHC Group.

The term of financial services is from 1 January 2010 to 31 December 2012.

Subcontracting of Charter Flight Services

The Company entered into a charter flight service framework agreement (the "Charter Flight Service Framework Agreement") with CNAHC on 27 October 2009.

Pursuant to the Charter Flight Service Framework Agreement, CNAHC shall resort to the Company's charter flight services so as to fulfill the government charter flight assignment. The Company's hourly rate of the charter flight service fee will be calculated on the basis of the following formula:

Hourly rate = Total cost per flight hour x (1 + 6.5%)

Total cost per flight hour includes direct costs and indirect costs.

The term of the Charter Flight Service Framework Agreement is from 1 January 2010 to 31 December 2012.

Media and Advertising Services

The Company entered into an advertising services framework agreement (the "Advertising Services Framework Agreement") on 27 October 2009, with China National Aviation Media and Advertisement Co., Ltd. ("CNAMC").

Pursuant to the Advertising Services Framework Agreement, CNAMC will have the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;
- an exclusive operation right of the specific media of the Company, including the flight boarding passes, aircraft seat pillow sheets, paper cups, in-flight entertainment system and flight schedules;
- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;
- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (1) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the e-commerce network check-in system and ticket envelops (including air ticket envelops and boarding pass envelops)) and (2) advertisements designed, produced and published by CNAMC, as commissioned by the Company directly or through public tender; and
- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

As a consideration, CNAMC agrees to:

- pay the Company RMB23.81 million, RMB25.00 million and RMB26.25 million, respectively, for each of the three years ending 31 December 2010, 2011 and 2012 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company at nil charge with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes, pillow sheets, flight schedules, and paper cups that meet the Company's requirements; and
- pay the Company 20% of any revenue from any new advertising media of the Company which is not mentioned in the Advertising Services Framework Agreement but proposed to be developed by CNAMC on the basis of case by case discussion.

The Company agrees to pay immediately and directly to the independent entertainment programmes providers the purchasing price for those in-flight entertainment programmes provided or purchased by CNAMC for the Company. In the event that the relevant entertainment programmes are produced by CNAMC at the request of the Company, the Company will pay the corresponding production costs and expenses to CNAMC.

The term of the Advertising Services Framework Agreement is from 1 January 2010 to 31 December 2012.

II. Continuing Connected Transactions between the Group and CNACG

Reference is made to the announcement dated 10 June 2008 issued by the Company in respect of a share transfer agreement entered into by CNAC, a wholly-owned subsidiary of the Company, and CNACG on 10 June 2008, by which CNAC, among others, transferred its 50% shareholding in Jardine Airport Services Limited ("JASL") to CNACG. As CNACG is both a substantial shareholder of the Company and a wholly-owned subsidiary of CNAHC, the Company's controlling shareholder, upon the completion of the share transfer, JASL became an associate of CNACG and therefore a connected person of the Company under the Listing Rules. JASL has been providing the Company with ground handling services and engineering services. Such transactions constitute continuing connected transactions of the Company under the Listing Rules.

Other than the ground handling services, the Group and CNACG Group have cooperated in other aspects, including but not limited to the provision of catering services, management services, properties leasing service by CNACG Group to the Group. Since CNACG is the wholly-owned subsidiary of CNAHC, some continuing connected transactions such as catering and properties leasing shall be covered by the CNAHC framework agreements between the Company and CNAHC.

In part as a reflection of the above-mentioned transactions and the expected increased cooperation between the Group and CNACG Group, the Company and CNACG entered into a framework agreement on 26 August 2008 in respect of relevant agreements between the Group and CNACG Group. The framework agreement applies to transactions under relevant agreements in the three years ended on 31 December 2010.

The transactions are between members of the Group on the one hand and members of CNACG Group on the other hand relating to ground handling and engineering services, management services and other services and transactions as may be agreed by parties to be undertaken under the framework agreement excluding those which have been contemplated by the related CNAHC framework agreements.

The framework agreement was renewed on 10 September 2010 to extend for another three years from 1 January 2011 to 31 December 2013. For details, please refer to the announcement issued by the Company on 10 September 2010. Pursuant to the framework agreement, the framework agreement is renewable for successive periods of three years thereafter unless either party to it gives to the other party a notice of termination of not less than three months expiring on any 31 December.

III. Connected Transactions between the Group and Cathay Pacific

Continuing Connected Transactions

Reference is made to the joint announcement dated 26 June 2008 issued by the Company and Cathay Pacific in respect of the framework agreement entered into between the Company and Cathay Pacific on 26 June 2008 (the "Cathay Pacific Framework Agreement"). The Cathay Pacific Framework Agreement was renewed on 1 October 2010 to extend for another three years from 1 January 2011 to 31 December 2013.

As Cathay Pacific is a substantial shareholder and therefore a connected person of the Company, the transactions constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the reporting and announcement requirements under Rule 14A.35.

The Cathay Pacific Framework Agreement provides the framework under which relevant agreements (the "Cathay Pacific Relevant Agreements") between members of the Group on the one hand and members of Cathay Pacific Group (Cathay Pacific and its subsidiaries, including Dragonair) on the other hand are entered into, renewed and extended. The transactions under the Cathay Pacific Relevant Agreements are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement.

The Cathay Pacific Framework Agreement was renewed on 1 October 2010 to extend for another three years from 1 January 2011 to 31 December 2013. Pursuant to the provisions, the Cathay Pacific Framework Agreement shall be renewed automatically for successive periods of three years thereafter unless either party to such agreement gives to the other notice of termination of not less than three months to terminate the Cathay Pacific Framework Agreement on any 31 December.

Establishment of Cargo Airline Joint Venture

On 25 February 2010, the Company and Cathay Pacific, among others, entered into the framework agreement and the relevant agreements, under which they agreed to establish such a jointly owned cargo airline ("Joint Transaction") by an acquisition of 25% equity interest in Air China Cargo by Cathay Pacific through its wholly-owned subsidiary, Cathay Pacific China Cargo Holdings, at a consideration of RMB851,621,140. In addition, pursuant to the framework agreement and the relevant agreements, Advent Fortune Limited ("AFL") would use the loan taken from Cathay Pacific of approximately RMB817 million to acquire entire equity interest of Fine Star Enterprises Corporation ("Fine Star") from China National Aviation Company Limited. In return, AFL would pledge its equity interest in Fine Star (being a shareholder of Air China Cargo) to Cathay Pacific and Cathy Pacific's returns on the loan would be equal to the dividend returns on the 24% effective shareholding of Fine Star in Air China Cargo. Pursuant to the framework agreement and the relevant agreements, the Company agreed that Air China Cargo used such loan to purchase four Boeing 747-400BCF converted freighters from Cathay Pacific and Dragonair at a consideration of RMB1,924 million. Details of the transactions contemplated under the framework agreement and the relevant agreements are set out in the circular issued by the Company on 8 April 2010.

Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules, the Transaction constitutes a connected transaction for the Company under Rule 14A.13 of the Listing Rules. As the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) in respect of the Transaction is more than 2.5%, the Company has to comply with the announcement, reporting and independent shareholders' approval requirements under Rule 14A.17 of the Listing Rules. This transaction was approved at the extraordinary general meeting of the Company held on 29 April 2010.

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.

Currently there are certain continuing transactions between the Group on the one hand and Air China Cargo on the other hand. 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. These transactions mainly comprise the following:

- Air China Cargo is engaged in the sale of bellyhold space of the Company's passenger aircraft. During its ordinary course of business, Air China Cargo leases a number of properties from the Company, and uses some of the Company's simulation training, spare engines and flight equipment and SITA system. The Company also provides welfare logistics service for retired employees to Air China Cargo;

- Air China Import and Export Co., Ltd. (國航進出口有限公司), acting as agent for third parties, leases aircraft and engines to Air China Cargo and also provides Air China Cargo with repair and maintenance services for the aircraft and engines;

- Aircraft Maintenance and Engineering Corporation (Beijing) (北京飛機維修工程有限公司) provides Air China Cargo with repair and maintenance services for its aircraft and engines and other flight equipment and warehouse management for its flight equipment;

- Air China Cargo provides air cargo services to Shanghai Air China Aviation Service Co., Ltd. (上海國航航空服務有限公司); and

- Golden Phoenix Recruitment Service Ltd. (金鳳凰人才服務有限公司) provides agency services for the secondees of Air China Cargo.

The abovementioned 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.

IV. Continuing Connected Transactions between the Group and the Lufthansa Group

Lufthansa holds 40% equity interest in, and is a substantial shareholder of, Aircraft Maintenance and Engineering Corporation (Beijing), a joint venture of the Company, and is therefore a connected person of the Company under the Listing Rules.

The Company has entered into various transactions with Lufthansa and its associates (collectively, the "Lufthansa Group") in the ordinary course of its business pursuant to several agreements signed in different periods (some were over three years) respectively, including, among others:

- Aircraft maintenance, repair and overhaul services provided by the Company to the Lufthansa Group;

- mutual provision of catering services;

- mutual provision of ground handling services in China and Germany;

- mutual provision of ticket sales agency services;

- airline code sharing arrangement under which the actual carrier's flights can be marketed under the airline designator code of the partner carrier and revenues earned from these arrangements are allocated between the parties based on negotiated terms according to airline industry standards;

- special prorate arrangement under which a carrier agrees to accept passengers from another carrier and receive payment directly from that carrier; and

- other airline co-operation arrangements between the Lufthansa Group and the Company.

The above transactions have been entered into on normal commercial terms based on arm's length negotiations. On 10 September 2010, the board of Directors of the Company approved the revised annual caps for the continuing connected transactions between the Group and the Lufthansa Group for the three years ending on 31 December 2012. Details of the reasons for the revised caps were set out in the announcement of the Company dated 10 September 2010.

V. Other Connected Transactions in 2010

On 11 March 2010, the Company entered into the A share subscription agreement with CNAHC, pursuant to which, CNAHC committed to use at least RMB1,500 million to subscribe in cash for not more than 157,000,000 new A Shares, and the Company entered into the H share subscription agreement with CNACG, pursuant to which, CNACG would subscribe in cash for not more than 157,000,000 new H shares, details of which were set out in the circular of the Company dated 15 March 2010.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A shares to CNAHC pursuant to the A share subscription agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. In addition, since CNACG is a substantial shareholder of the Company and a wholly owned subsidiary of CNAHC, and hence a connected person of the Company, the issue of new H shares to CNACG pursuant to the H Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. Meanwhile, the issue of new A shares and new H shares pursuant to the Specific Mandates will constitute a variation of class rights of the Domestic Shareholders and the Foreign Shareholders under the Articles of Association. The issuance of such new A shares and new H shares were approved by the shareholders by way of special resolutions at a general meeting and separate class meetings of the domestic shareholders and the foreign shareholders, on 29 April 2010, respectively. These transactions were completed on 24 November 2010.

VI. Transaction Caps and Actual Transaction Amounts in 2010

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2010 are as follows:

		Aggregate amount of transactions for the year ended 31 December 2010	
	Currency	**Cap** *(in millions)*	**Actual Amount** *(in millions)*
Transactions with the CNAHC Group:			
Properties leasing	RMB	140	101
Tourism co-operation services	RMB	69	–
Media and Advertising Services	RMB	60	28
Comprehensive Services	RMB	784	662
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	270	149
Financial services			
Maximum daily outstanding deposits with CNAF *(note)*	RMB	7,000	3,962
Maximum daily outstanding loans from CNAF	RMB	3,000	1,069
Subcontracting of Charter Flight Services	RMB	750	558
Transactions with the CNACG Group:			
Ground handling, engineering, management and other services	RMB	300	146
Transactions with the Lufthansa Group:			
Aggregate amount paid by the Company to the Lufthansa Group	RMB	1,400	879
Aggregate amount paid by the Lufthansa Group to the Company	RMB	1,400	1,094
Transactions with Cathay Pacific Group:			
Aggregate amount paid by the Company to Cathay Pacific Group	HK$	900	221
Aggregate amount paid by Cathay Pacific Group to the Company	HK$	900	406

Note: The Company undertook in August 2010 that the actual daily outstanding deposits of the Company and its subsidiaries placed with CNAF would not exceed RMB4 billion.

VII. Confirmation from Independent Non-executive Directors

The independent non-executive directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2010 to which the Company was a party have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either:

   (i) on normal commercial terms; or

   (ii) where there was no comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties, where applicable; and

3. in accordance with terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

VIII. Confirmation from the Auditors

Ernst & Young, the auditors of the Company, has confirmed by a letter to the Board that the above continuing connected transactions:

1. have been approved by the Board;

2. were conducted in accordance with the pricing policies as stated in the relevant agreements;

3. were entered into in accordance with the relevant agreements governing such transactions; and

4. have not exceeded the cap amounts disclosed in the Company's circular dated 6 November 2009 and the announcements dated 10 September 2010.

CONTRACT OF SIGNIFICANCE

Save as disclosed in "Connected Transactions" of this report of Directors, none of the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, and there is no contract of significance in relation to provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries. None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as its international auditors and domestic auditors respectively for the year ended 31 December 2010. Ernst & Young has audited the attached financial statements prepared in accordance with International Financial Reporting Standards. The Company has retained Ernst & Young and Ernst & Young Hua Ming since the date of its listing. A resolution in respect of the reappointment of Ernst & Young and Ernst & Young Hua Ming as the Company's international and domestic auditors respectively for the year ending 31 December 2011 will be proposed at the forthcoming 2010 annual general meeting of the Company to be convened in 2011.

To all Shareholders,

In 2010, in strict accordance with the relevant requirements of the Company Law of the PRC, the Articles of Association and the Rules of Procedure for Supervisory Committee's Meetings, the supervisory committee of the Company (the "Supervisory Committee") earnestly performed the duties conferred on it by laws and regulations. Members of the Supervisory Committee convened and attended relevant meetings, and conducted special inspection and research, thereby overseeing the substantial decision-making processes of the Company; supervising the Board, its members and the management; and preventing any abuse of power on their part and any violation of the legitimate rights and interests of the shareholders, the Company and its employees.

(I) MEETINGS HELD BY THE SUPERVISORY COMMITTEE

At the eleventh meeting of the second session of the Supervisory Committee held on 21 April 2010, the report of the Supervisory Committee for the year 2009, the annual report and the audited financial statements for the year 2009, the first quarterly report of 2010, the profit distribution plan for 2009, the changes in certain items relating to accounting estimates for the year 2009 and the self-assessment report on internal control of the Company for 2009 were considered and approved.

At the twelfth meeting of the second session of the Supervisory Committee held on 24 August 2010, the interim report and interim financial report for the year 2010 and the adjusted medium-term financial plan and capital expenditure plan of the Company for the year 2010 were considered and approved.

At the thirteenth meeting of the second session of the Supervisory Committee held on 10 September 2010, the automatic extension of the original framework agreements for connected transactions entered into by the Company with Cathay Pacific and CNACG, respectively, for three years and the annual caps of connected transactions for each of the three years from 2011 to 2013 were considered and approved; and the adjustments to the annual caps of connected transactions between the Company and Lufthansa Group for each of the three years from 2010 to 2012 were approved.

At the fourteenth meeting of the second session of the Supervisory Committee held on 28 October 2010, the third quarterly report of 2010 was considered and approved.

At the first meeting of the third session of the Supervisory Committee held on 28 October 2010, the appointment of Mr. Li Qinglin as the chairman of the third session of the Supervisory Committee was approved.

(II) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S COMPLIANCE IN OPERATIONS

During the year, in accordance with the relevant PRC laws and regulations and requirements of the Articles of Association, the Supervisory Committee performed its supervision and inspection functions to monitor whether the convening of shareholders' general meetings and Board meetings complied with the required procedures and whether the significant decision-making processes were legal. The Board's implementation of the resolutions passed at the general meetings and the senior management's performance of duty were also supervised and inspected.

The Supervisory Committee is of the opinion that the Company has basically formed an inter-linking governance structure of check and balance among its authority body, decision-making body, operational body and supervisory body, and the Company observes the relevant PRC laws and regulations, and its decision-making processes are legitimate and its internal control system is sound. None of the Directors or senior management of the Company was found to have committed any act in discharging his or her duties that was in violation of laws, regulations and the Articles of Association and detrimental to the interests of the Company and shareholders. The information disclosed by the Company is true, accurate, complete and prompt. No misleading or false information was released.

(III) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S FINANCIAL POSITION

During the year, the Supervisory Committee focused its review on the quarterly, interim and annual financial reports and the documentary information submitted by the Board to the general meetings. The Supervisory Committee is of the opinion that the standard unqualified opinion expressed in the auditors' report for the year 2010 issued by Ernst & Young reflects a true and fair view of the financial position and financial performance of the Company.

(IV) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON ACTUAL UTILISATION OF PROCEEDS FROM THE LATEST ISSUE OF SHARES

During the year, according to the approved issued by China Securities Regulatory Commission entitled "Approval in Respect of the Non-public Issue of Shares by Air China Limited" (Zheng Jian Xu Ke [2010] No.1495), the Company completed a non-public issue of A Shares in China in November 2010 ("the Issue"). Pursuant to the plan for utilisation of proceeds as disclosed in the "Plan for the Non-public Issue of A shares by Air China Limited" prepared and announced by the Company in respect of the Issue, the net proceeds from the Issue (i.e. the total proceeds from the Issue less the cost of issue), had been fully used to replenish the working capital (other than the interest income arising from the net proceeds) of the Company. The Company had applied the proceeds from the Issue in strict accordance with the intended utilisation of the proceeds as announced and the requirements of the "Regulations for Utilisation and Management of the Proceeds Raised by Air China Limited". The actual utilisation of the proceeds from the latest fundraising activity was in compliance with that announced by the Company.

(V) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S ACQUISITIONS AND DISPOSALS OF ASSETS

During the year, the prices of the asset acquisition and disposal transactions made by the Company were reasonable and no insider dealing, impairment of the interests of the Company's shareholders and asset drain were discovered.

(VI) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S CONNECTED TRANSACTIONS

The connected transactions of the Company were conducted at fair prices, being compliant with procedures and prompt in disclosure, and in conformity to PRC laws and regulations as well as the requirements of the Articles of Association and the Listing Rules, and were not detrimental to the interests of the Company and shareholders.

(VII) REVIEW OF THE SUPERVISORY COMMITTEE ON THE SELF-ASSESSMENT REPORT ON INTERNAL CONTROL

At the third meeting of the third session of the Supervisory Committee held on 28 March 2011, the self-assessment report on internal control of the Company for 2010 was considered and approved. The Supervisory Committee had no disagreement on the self-assessment report on internal control prepared by the Board.

In 2010, guided by the principle of scientific development, the Company had grasped market opportunities in good timing and adhered to the practices of prudent operation and vigorous innovation. The company ensured the safe operation and accomplishment of various important operation tasks on the one hand, and enhanced its capabilities in strategic leading, market controlling and comprehensive management on the other hand. Thereby, the Company achieved an unprecedented operating efficiency in its history and further laid a solid foundation for the next round of leap-forward development. In 2011, the Supervisory Committee will, as always, perform its duties diligently, strengthen its inspection and supervision and bring its function into full play, so as to contribute to corporate governance improvements and the Company's healthy development.

By order of the Supervisory Committee

Li Qinglin
Chairman of the Supervisory Committee

Beijing, PRC
28 March, 2011

Profile of Directors, Supervisors and Senior Management

As at the date of this annual report,

1. DIRECTORS

Mr. Kong Dong, aged 62, is Chairman of the Company and a non-executive Director. He joined the Group in September 2004. Mr. Kong graduated from Jiangxi Technology University majoring in mechanical engineering and holds the title of senior economist. Mr. Kong was Deputy General Manager of China Ocean Helicopter Company, General Manager and Secretary of the Communist Party Committee of Shenzhen Airport Group, Deputy Secretary of the Communist Party Committee of the Beijing Capital International Airport, Director-General in charge of the expansion project of the Beijing Capital International Airport, General Manager of China National Aviation Corporation ("CNAC") and Chairman and Secretary of the Communist Party Committee of CNAC, and Vice Chairman and President of CNACG. In October 2002, he joined CNAHC as Deputy General Manager, and served as Secretary of the Communist Party Group and Deputy General Manager of CNAHC in August 2004. Mr. Kong was appointed as the acting Chairman in January 2008 and has served as General Manager and Deputy Secretary of the Communist Party Group of CNAHC, and Chairman of the Company since April 2008.

Ms. Wang Yinxiang, aged 55, is Vice Chairman of the Company and a non-executive Director. Ms. Wang joined the Group in July 1988. She graduated from Party School of the Central Committee of the Communist Party of China majoring in economics and management. Ms. Wang is a senior engineer of political work and a senior flight attendant. Ms. Wang served several positions in Air China International Corporation, including Vice Captain of the in-flight service team of the Chief Flight Team, Deputy Manager of the in-flight service division, Deputy Manager of the passenger cabin service division and Deputy Secretary of the Communist Party Committee, etc. In October 2002, Ms. Wang served several positions in CNAHC, including Deputy General Manager, Head of the Disciplinary and Supervisory Committee of the Communist Party Group and Secretary of the Communist Party Committee of CNAHC. Since March 2008, Ms. Wang has been serving as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee of CNAHC, and was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009.

Mr. Cao Jianxiong, aged 51, is a non-executive Director. He joined the Group in June 2009. Mr. Cao holds a master degree in economics from Eastern China Normal University. He holds the title of senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the President and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC.

Mr. Sun Yude, aged 56, is a non-executive Director. He joined the Group in October 2002. Mr. Sun graduated from China Civil Aviation Institute majoring in economic management. He started his career in China's civil aviation industry in 1972 and served various positions as Deputy Head of CAAC Taiyuan Terminal and Head of its Ningbo Terminal, as well as General Manager of CNAC Zhejiang Airlines. In October 2002, Mr. Sun was appointed Vice President of Air China International Corporation, and concurrently took up the position of General Manager of its Zhejiang branch, and was appointed as Vice President of the Company in September 2004. Mr. Sun was appointed as Chairman in November 2004, and President and Deputy Secretary of the Communist Party Committee in December 2005, of Shandong Aviation Group Company Limited, and has also been serving as director and President of CNACG since March 2007. Mr. Sun served as Secretary of the Communist Party Committee of CNACG from April 2007 to December 2009. Since May 2009, he has been serving as Deputy General Manager and a member of the Communist Party Group of CNAHC.

Note: For the purpose of this section headed "Profile of Directors, Supervisors and Senior Management", the "Group" means the Company, its subsidiaries and joint ventures, or where the context refers to anytime prior to the incorporation of the Company, the Company's predecessors or the predecessors of the Company's present subsidiaries.

Mr. Christopher Dale Pratt, aged 54, is a non-executive Director. He joined the Group in June 2006. Mr. Pratt has an honours degree in modern history from Oxford University. He joined John Swire & Sons Limited in 1978 and has worked with the Swire group in its offices in Hong Kong, Australia and Papua New Guinea. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a director of The Hongkong and Shanghai Banking Corporation Limited.

Mr. Sai Cheung Shiu, Ian, aged 55, is a non-executive Director. He joined the Group in October 2010. He holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from The University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He has been a director of Cathay Pacific since October 2008. He has also been a director of Dragonair, John Swire & Sons (H.K.) Limited since July 2010. He has been serving as a director of Swire Pacific Limited since August 2010.

Mr. Cai Jianjiang, aged 47, is President of the Company and an executive Director. He joined the Group in 2001. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently was appointed as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He has been serving as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC since February 2007. Since May 2010, he has been serving as the Chairman of Shenzhen Airlines.

Mr. Fan Cheng, aged 55, is Vice President of the Company and an executive Director. He joined the Group in September 2004. Mr. Fan graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company in September 2004. Since October 2006, he has been serving as Vice President and Chief Financial Officer of the Company. From December 2009 to May 2010, he served as Secretary of the Communist Party Committee of Shenzhen Airlines. From March 2010 to April 2010, he served as President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. Since February 2011, he has been serving as Secretary of the Communist Party Committee of the Company.

Mr. Jia Kang, aged 56, has been an independent non-executive Director since June 2006. Mr. Jia holds a Doctor's degree in Economics, and is a renowned economist and a member of National Committee of Chinese People's Political Consultative Conference ("CPPCC"). He is a researcher, a tutor to doctorate students and the Head of Financial Science Research Institute of Ministry of Finance, and also the Vice Chairman and General-Secretary of China Financial Association. Mr. Jia is also a specially-engaged professor of Renmin University of China, State Administration Institute, Xiamen University, Southwest University of Finance and Economics, Guangdong University of Business Studies and other universities. Mr. Jia is the winner of Sun Yefang Economics Prize.

Mr. Fu Yang, aged 61, has been an independent non-executive Director since June 2009. Mr. Fu previously served as Deputy director of the Economic Law Office of the National People's Congress Law Committee, Vice President of the third, fourth and fifth sessions of the All China Lawyers Association, a specially-engaged professor of China University of Political Science and Law, an associate tutor to postgraduate students of School of Law of Tsinghua University and a specially-engaged professor of School of Law of Nankai University. He is a partner and the director of Kang Da Law Firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission.

Mr. Li Shuang, aged 66, has been an independent non-executive Director since October 2010. He is a professor of accounting and a tutor to doctorate students. Currently Mr. Li is a non-executive director of China Shoto plc. Mr. Li graduated from the Foreign Language Department of Beijing Normal University in 1968. In 1982, he obtained a master's degree in economics from the Research Institute for Fiscal Science of the Ministry of Finance, and in October of the same year lectured at Central Institute of Finance & Banking (currently known as Central University of Finance and Economics) where he served various positions including the Head of the accounting department, director of the academic affair office, Dean and Vice President. From 1994 to 1997, he had been invited to the United States twice as a visiting scholar. In October 1996, he was entitled to the special allowance granted by the State Council. From 1999 to 2004, he worked as a Deputy Secretary-in-General and Adviser of the Chinese Institute of Certified Public Accountants. From May 2001 to June 2010, he served as an independent non-executive director of Da Cheng Fund Management Co., Ltd., China Minmetals Non-ferrous Metals Co. Ltd., Zhong Bao Ke Kong Investment Co., Ltd., Beijing Centergate Technologies (Holding) Co., Ltd., Shenyin & Wanguo Securities Investment Co., Ltd., Chengde Xinxin Vanadium and Titanium Co., Ltd. and Beijing Wangfujing Department Store (Group) Co., Ltd., respectively.

Mr. Han Fangming, aged 44, has been an independent non-executive Director since October 2010. Mr. Han was a member of the 10th and 11th of National Committee of CPPCC and is currently a Deputy Chairman of the Foreign Affairs Committee of CPPCC and the convener of the Public Diplomacy Team. Graduated from Peking University with a PhD degree, he served as a researcher at the Center for Studies of World Modernization Process of Peking University and a visiting professor at Tibet University. In 1999, he joined TCL Group and was appointed as an independent non-executive director of TCL Multimedia Technology Holdings Limited. He has been serving as an executive director of TCL Corporation since 2006.

2. SUPERVISORS

Mr. Li Qinglin, aged 55, is the chairman of the supervisory committee of the Company. He joined the Group in October 2010. Mr. Li graduated from Beijing Television University majoring in Chinese and Zhongnanhai Spare Time University majoring in administrative management, and is a senior engineer of political work. Mr. Li served various positions, including a Section Chief, Deputy director, director, Vice Director-General and Director-General, as well as the Chairman of the Labour Union, of the Government Office Administration of the State Council. From 1998 to 2000, he served as a Deputy director of the Hebei Leading Group Office of Poverty Alleviation and Development. Since 2000, he had served different positions, including a Deputy director of the Work Department under the Supervisory Committee of Central Enterprises Working Commission, Deputy director of the Office of Central Enterprises Working Commission, Deputy director and Inspector of the General Office of the State-owned Assets Supervision and Administration Committee of the State Council and a director of the Office of the Stability Preservation Leading Team of the State-owned Assets Supervision and Administration Committee. In September 2008, he was appointed as the Head of the Disciplinary and Supervisory Committee and a member of the Communist Party Group of CNAHC.

Mr. Zhang Xueren, aged 57, is a supervisor of the Company. He joined the Group in July 1988. Mr. Zhang graduated from Sichuan International Studies University majoring in English, and enrolled in the MBA program of Peking University. Mr. Zhang holds the title of senior economist. He started his career in China's civil aviation in 1975 and served as a Section Chief and then a director of the operation department of Beijing Administrative Bureau of CAAC, the Head of the cargo department of Air China International Corporation, the General Manager of Tianjin branch of Air China International Corporation and Vice President of Air China International Corporation. In 2004, he served as a director and Vice President of CNACG. Since December 2009, he has been serving as the director, Secretary of the Communist Party Committee and Vice President of CNACG.

Mr. He Chaofan, aged 48, is a supervisor of the Company. He joined the Group in July 1988. Mr. He graduated from the Civil Aviation University of China majoring in planning and finance, and is a senior accountant. Mr. He served as an accountant at the Finance Department of Beijing Administrative Bureau of CAAC, and served various positions in Air China International Corporation, including the accountant, Section Chief, Deputy Head and Head of the finance department and director and General Manager of the revenue accounting department of Air China International Corporation. From March 2003 to October 2008, he served as the General Manager and Deputy Secretary of the Communist Party Committee of China National Aviation Finance Co., Ltd. He has been serving as the General Manager of the finance department of CNAHC since October 2008.

Mr. Zhou Guoyou, aged 58, is a supervisor of the Company. He joined the Group in July 1988. Mr. Zhou graduated from Civil Aviation Management Institute of China majoring in civil aviation and transport and the Party School of the Central Committee of C.P.C. majoring in economics and management, and is a senior economist. Mr. Zhou started his career in China's civil aviation industry in 1970 and served various positions in Air China International Corporation such as Deputy director of Beijing ticketing department, Deputy director of quality standard department, Manager of the Shanghai business division, General Manager of the Beijing business division of the marketing and sales department, and Deputy director of the economic efficiency office. Mr. Zhou was appointed as Deputy General Manager of the corporate supervision division of CNAHC in February 2004. He has been serving as Deputy General Manager of the legal supervision division of CNAHC since October 2008.

Mr. Chen Bangmao, aged 60, is a supervisor of the Company. He joined the Group in July 1988. Mr. Chen graduated from the Party School of the Central Committee of C.P.C. majoring in economics and management and is a senior engineer of political work. Mr. Chen started his career in China's civil aviation industry in 1970 and served various positions such as deputy instructor and instructor of Chief Flight Team of Beijing Administrative Bureau of Civil Aviation, as well as director of the propaganda section of Chief Flight Team of Air China International Corporation, Secretary of the Communist Party Committee of Flight Team and director of the Labor and Human Resources Department of Air China International Corporation. Commencing from September 2000, Mr. Chen served as Deputy General Manager and Secretary of the Communist Party Committee of the cabin service division of Air China International Corporation. Since March 2008, Mr. Chen has been serving as the Deputy Chairman of the Labor Union of the Company.

Mr. Su Zhiyong, aged 47, is a supervisor of the Company. He joined the Group in July 1988. Mr. Su graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. Mr. Su started his career in China's civil aviation industry in 1983 and served as officer and personnel clerk of the Communist Party Committee of the equipment management division, Secretary of the vehicle maintenance office (team II) of ground services department, and, starting from September 2006, Deputy Manager and Manager of the vehicle maintenance centre of ground services department of Air China International Corporation. Since August 2007, he has been serving as Senior Manager of the station operation centre of ground services department of the Company.

3. OTHER SENIOR MANAGEMENT

Mr. He Li, aged 59, graduated from Northwestern Polytechnical University majoring in automatic control of aircraft engine and obtained an MBA degree from China-Euro Management Institute. He is a senior engineer. Mr. He started his career in the China's civil aviation industry in 1973 and was previously an engineer of Beijing Administrative Bureau of CAAC and General Manager of Aircraft Maintenance and Engineering Corporation. In November 2005, Mr. He was appointed as General Manager of the Engineering Technology Branch of the Company. In October 2006, Mr. He was appointed as Vice President of the Company and concurrently continued his position as General Manager of Engineering Technology Branch of the Company. Mr. He ceased acting as General Manager of Engineering Technology Branch of the Company since March 2009.

Mr. Feng Gang, aged 47, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984 and served various positions including cadre of the political department and dispatcher of the scheduling office in Chengdu Civil Aviation Authority, Manager of Guangzhou Sales Department, Deputy manager of Operating Department, Manager of Development and Service Department, Deputy Manager of Marketing Department, Manager of the Cargo Logistics Company of China Southwest Airlines, Deputy General Manager of China Southwest Airlines, Assistant to President of Air China International Corporation, General Manager and Party Secretary of China National Aviation Holding Assets Management Company. He served as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Co., Ltd. from May 2007 to April 2010. Mr. Feng has been serving as Vice President of the Company since April 2010. He has also been serving as a director, President and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines since May 2010.

Mr. Ma Chongxian, aged 45, graduated from Inner Mongolia University majoring in planning and statistics. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of CAAC Inner Mongolia Bureau and various positions in Air China, including, Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia Branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President of the Company as well as Chairman, President of Shandong Aviation Group Co., Ltd. and Vice Chairman of Shandong Airlines since April 2010.

Mr. Xu Chuanyu, aged 46, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a second-class Pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team and an inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu has been serving as the Chief Pilot, Deputy Chief Operation Officer, General Manager of Operation Control Centre of the Company and a member and Deputy Secretary of the Communist Party Committee of the Company since January 2009. He has been serving as Vice President of the Company since February 2011.

Mr. Wang Mingyuan, aged 45, graduated from Xiamen University majoring in planning and statistics. He started his career in July 1988 and served various positions in Southwest Airlines, including Assistant of the planning department, Manager of the Production Plan Office of the Sales & Marketing Department, Deputy Manager of the Sales & Marketing Department, Deputy Manager and Manager of the Market Department, and served various positions in Air China, including, Deputy General Manager of the Marketing Department, member of the Commerce Commission, member of the Communist Party Committee and General Manager of Network Revenue Department. Mr. Wang has been appointed as a director of the Commerce Commission and Deputy Secretary of the Communist Party Committee of the Company since July 2008. He has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since February 2011.

Mr. Zhao Xiaohang, aged 49, graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration Bureau of CAAC, assistant, Section Chief and Deputy Division Chief of the Planning Department of Air China, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China. He has been serving various positions since September 2003, including director, Vice President, Secretary of the Commission for Discipline Inspection of CNACG, director and General Manager of China National Aviation Corporation, director and General Manager of China National Aviation Corporation (Macau) Company Limited, Chairman and General Manager of Air Macau. He has been serving as Vice President of the Company since February 2011.

Ms. Feng Rune, aged 48, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an instructor of Science & Education Division of CAAC Inner Mongolia Bureau, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Air China Inner Mongolia branch; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Air China Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Air China Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. In January 2009, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo Co., Ltd. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company since February 2011 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011.

Mr. Xu Jianqiang, aged 58, graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. Mr. Xu is a senior engineer of political work. He started his career in April 1969. He was the navigation director and the deputy political director of communication team of air force at Yingshanchang Station, deputy chief of cadre at political department of the 44th airborne division, party secretary of the First Group of the Chief Flight Team, deputy party secretary of training department, party secretary of cabin services department, party secretary of marketing department of Air China. He was appointed as Party Secretary and Deputy director of Commercial Committee of the Company in June 2005. He has been serving as Chief Economist of the Company since July 2009.

Mr. Huang Bin, aged 47, graduated from China Civil Aviation Institution with a major in financial planning. From 1998 to 2000, he studied Management and Engineering in Nanjing University of Aeronautics and Astronautics. He is a senior accountant. Mr. Huang started his career in the civil aviation industry in 1983 and served various positions, including Section Chief, Deputy director, director and General Manager of the Finance Department of Air China International Corporation. In October 2002, Mr. Huang was appointed as Deputy General Manager and Chief Accountant of the Southwest branch of Air China International Corporation. After the establishment of the Company in September 2004, he was appointed as Deputy General Manager and Chief Accountant of Southwest branch of the Company. He has been serving as the Secretary to the Board and the Joint Company Secretaries since June 2007.

4. JOINT COMPANY SECRETARIES

Mr. Huang Bin, Mr. Huang's biography is set out in the section headed "3. Other Senior Management" above.

Ms. Tam Shuit Mui, aged 39, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountants (AICPA), USA. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of Chaoyue Group Limited (formerly known as Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as the Joint Company Secretaries of the Company since October 2008.

Independent Auditors' Report

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安 永

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To the shareholders of
Air China Limited
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively, the "Group") set out on pages 62 to 163, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2010, and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2011

Consolidated Income Statement

Year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
TURNOVER			
Air traffic revenue	4	**78,209,188**	48,091,643
Other operating revenue	5	**4,278,351**	3,301,548
		82,487,539	51,393,191
OPERATING EXPENSES			
Jet fuel costs		**(24,096,078)**	(14,466,065)
Movements in fair value of fuel derivative contracts		**1,954,071**	2,758,224
Take-off, landing and depot charges		**(7,707,019)**	(5,788,687)
Depreciation		**(8,569,370)**	(7,051,272)
Aircraft maintenance, repair and overhaul costs		**(2,577,185)**	(1,767,808)
Employee compensation costs	6	**(9,851,935)**	(6,627,408)
Air catering charges		**(2,044,359)**	(1,518,912)
Aircraft and engine operating lease expenses		**(3,488,014)**	(2,319,211)
Other operating lease expenses		**(712,005)**	(477,716)
Other flight operation expenses		**(8,227,555)**	(4,532,145)
Selling and marketing expenses		**(4,602,745)**	(3,085,184)
General and administrative expenses		**(1,637,824)**	(1,016,051)
		(71,560,018)	(45,892,235)
PROFIT FROM OPERATIONS	7	**10,927,521**	5,500,956
Finance revenue	8	**1,980,015**	139,620
Finance costs	8	**(1,449,249)**	(1,198,283)
Share of profits and losses of associates		**3,375,325**	623,992
PROFIT BEFORE TAX		**14,833,612**	5,066,285
Tax	11	**(2,497,748)**	(263,234)
PROFIT FOR THE YEAR		**12,335,864**	4,803,051
Attributable to:			
Owners of the parent		**12,005,004**	4,854,234
Non-controlling interests		**330,860**	(51,183)
		12,335,864	4,803,051
Dividends:	13		
Interim		**–**	–
Proposed final		**1,523,829**	–
		1,523,829	–
Earnings per share attributable to equity holders of the parent:	14		
Basic and diluted		**103.10 cents**	41.01 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Note	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**12,335,864**	4,803,051
OTHER COMPREHENSIVE INCOME/(LOSSES)	*15*		
Share of other comprehensive income/(losses) of associates		**(47,303)**	347,437
Exchange realignment		**(546,911)**	(28,324)
Others		**(1,150)**	(3,000)
OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE YEAR, NET OF TAX		**(595,364)**	316,113
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**11,740,500**	5,119,164
Attributable to:			
Owners of the parent		**11,412,599**	5,170,315
Non-controlling interests		**327,901**	(51,151)

Consolidated Statement of Financial Position

31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**96,152,542**	75,044,870
Lease prepayments	17	**2,163,649**	1,954,819
Intangible asset	18	**41,076**	49,267
Goodwill	19	**1,657,675**	346,845
Interests in associates	22	**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	23	**31,813**	131,813
Available-for-sale investments	24	**27,182**	1,997
Deferred tax assets	25	**2,193,002**	1,682,203
		135,794,634	99,368,268
CURRENT ASSETS			
Aircraft and flight equipment held for sale	26	**77,682**	130,814
Inventories	27	**1,608,951**	1,384,706
Accounts receivable	28	**3,095,494**	2,054,265
Bills receivable		**14,295**	2,489
Prepayments, deposits and other receivables	29	**2,284,230**	1,230,794
Financial assets	30	**27,379**	–
Due from ultimate holding company	31	**617,140**	461,147
Due from related companies	32	**3,244**	10,194
Tax recoverable		**6,171**	4,840
Pledged deposits	33	**843,065**	564,747
Cash and cash equivalents	33	**14,401,714**	2,706,758
		22,979,365	8,550,754
TOTAL ASSETS		**158,773,999**	107,919,022
CURRENT LIABILITIES			
Air traffic liabilities		**(3,608,700)**	(2,434,353)
Accounts payable	34	**(8,245,153)**	(6,045,733)
Bills payable	35	**(387,327)**	(763,255)
Other payables and accruals	36	**(9,259,833)**	(4,645,406)
Financial liabilities	30	**(427,329)**	(2,274,627)
Due to related companies	32	**(40,789)**	(113,024)
Tax payable		**(2,210,372)**	(39,073)
Obligations under finance leases	37	**(2,223,240)**	(3,454,233)
Interest-bearing bank loans and other borrowings	38	**(25,482,725)**	(17,160,442)
Provision for major overhauls	39	**(503,628)**	(268,418)
		(52,389,096)	(37,198,564)
NET CURRENT LIABILITIES		**(29,409,731)**	(28,647,810)
TOTAL ASSETS LESS CURRENT LIABILITIES		**106,384,903**	70,720,458

Consolidated Statement of Financial Position

31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	**2010** **RMB'000**	2009 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	37	**(16,061,352)**	(15,366,475)
Interest-bearing bank loans and other borrowings	38	**(42,159,439)**	(27,321,078)
Provision for major overhauls	39	**(2,105,150)**	(1,318,708)
Provision for early retirement benefit obligations		**(220,236)**	(210,006)
Long term payables	40	**(265,159)**	(180,420)
Deferred income	41	**(3,196,103)**	(2,105,554)
Deferred tax liabilities	25	**(1,006,227)**	(263,750)
		(65,013,666)	(46,765,991)
NET ASSETS		**41,371,237**	23,954,467
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	42	**12,891,955**	12,251,362
Treasury shares	43	**(2,613,232)**	(2,319,879)
Reserves	44	**31,159,231**	13,984,413
		41,437,954	23,915,896
NON-CONTROLLING INTERESTS		**(66,717)**	38,571
TOTAL EQUITY		**41,371,237**	23,954,467

Cai Jianjiang
Director

Fan Cheng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Attributable to owners of the parent									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2009	12,251,362	(1,353,714)	12,428,995	1,615,700	(1,596,052)	(3,403,439)	–	19,942,852	513,654	20,456,506
Profit for the year	–	–	–	–	–	4,854,234	–	4,854,234	(51,183)	4,803,051
Other comprehensive income for the year:										
Share of other comprehensive income of associates	–	–	347,437	–	–	–	–	347,437	–	347,437
Exchange realignment	–	–	–	–	(28,356)	–	–	(28,356)	32	(28,324)
Others	–	–	(3,000)	–	–	–	–	(3,000)	–	(3,000)
Total comprehensive income/(loss) for the year	–	–	344,437	–	(28,356)	4,854,234	–	5,170,315	(51,151)	5,119,164
Acquisition of non-controlling interests in a subsidiary	–	–	(231,106)	–	–	–	–	(231,106)	(487,515)	(718,621)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	15,940	15,940
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	47,643	47,643
Elimination for reciprocal shareholding	–	(966,165)	–	–	–	–	–	(966,165)	–	(966,165)
As at 31 December 2009	12,251,362	(2,319,879)	12,542,326*	1,615,700*	(1,624,408)*	1,450,795*	–	23,915,896	38,571	23,954,467
As at 1 January 2010	**12,251,362**	**(2,319,879)**	**12,542,326**	**1,615,700**	**(1,624,408)**	**1,450,795**	**–**	**23,915,896**	**38,571**	**23,954,467**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**12,005,004**	**–**	**12,005,004**	**330,860**	**12,335,864**
Other comprehensive loss for the year:										
Share of other comprehensive losses of associates	**–**	**–**	**(47,303)**	**–**	**–**	**–**	**–**	**(47,303)**	**–**	**(47,303)**
Exchange realignment	**–**	**–**	**–**	**–**	**(543,952)**	**–**	**–**	**(543,952)**	**(2,959)**	**(546,911)**
Others	**–**	**–**	**(1,150)**	**–**	**–**	**–**	**–**	**(1,150)**	**–**	**(1,150)**
Total comprehensive income/(loss) for the year	**–**	**–**	**(48,453)**	**–**	**(543,952)**	**12,005,004**	**–**	**11,412,599**	**327,901**	**11,740,500**
Issue of new shares	**640,593**	**–**	**–**	**–**	**–**	**–**	**–**	**640,593**	**–**	**640,593**
Share premium	**–**	**–**	**5,780,556**	**–**	**–**	**–**	**–**	**5,780,556**	**–**	**5,780,556**
Acquisition of non-controlling interests in a subsidiary	**–**	**–**	**(18,210)**	**–**	**–**	**–**	**–**	**(18,210)**	**(112)**	**(18,322)**
Acquisition of a subsidiary *(note 44)*	**–**	**–**	**(127)**	**–**	**–**	**–**	**–**	**(127)**	**(433,077)**	**(433,204)**
Appropriation of statutory reserve funds *(note 44)*	**–**	**–**	**–**	**614,386**	**–**	**(614,386)**	**–**	**–**	**–**	**–**
Elimination for reciprocal shareholding	**–**	**(293,353)**	**–**	**–**	**–**	**–**	**–**	**(293,353)**	**–**	**(293,353)**
As at 31 December 2010	**12,891,955**	**(2,613,232)**	**18,256,092***	**2,230,086***	**(2,168,360)***	**12,841,413***	**–**	**41,437,954**	**(66,717)**	**41,371,237**

* These reserve accounts comprise the consolidated reserves of RMB31,159,231,000 (2009: RMB13,984,413,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**14,833,612**	5,066,285
Adjustments for:			
Share of profits and losses of associates		**(3,375,325)**	(623,992)
Exchange gains, net	8	**(1,919,415)**	(109,642)
Dividend income from available-for-sale investments		**–**	(4,212)
Dividend income on long-term investments		**(152,678)**	–
Gain on financial assets and financial liabilities, net		**(1,964,074)**	(5,415,699)
Depreciation	16	**8,569,370**	7,051,272
Impairment loss on property, plant and equipment	16	**1,863,194**	220,703
Gain on disposal of property, plant and equipment, net	5	**(159,011)**	(36,149)
Losses on derecognition of property, plant and equipment	7	**55,434**	103,773
Amortisation of lease prepayments	17	**87,039**	40,045
Impairment of aircraft held for sale	26	**185,992**	–
Impairment of inventories		**236,219**	18,360
Impairment of accounts receivable	28	**8,983**	15,758
Impairment of prepayments, deposits and other receivables	29	**118,609**	–
Interest income	8	**(60,307)**	(24,410)
Finance costs	8	**1,449,249**	1,198,283
Gain on acquisition of a subsidiary		**–**	(129)
		19,776,891	7,500,246
Decrease in deposits for aircraft under operating leases		**37,661**	7,549
Increase in inventories		**(200,807)**	(151,984)
increase in accounts receivable		**(379,433)**	(199,657)
Increase in bills receivable		**(11,806)**	(885)
Decrease/(increase) in prepayments, deposits and other receivables		**(470,431)**	137,258
Decrease/(increase) in an amount due from the ultimate holding company		**(55,993)**	745
Decrease/(increase) in amounts due from related companies		**6,950**	(2,657)
Increase in air traffic liabilities		**825,730**	172,015
Increase/(decrease) in accounts payable		**147,961**	(851,013)
Decrease in bills payable		**(610,953)**	(657,183)
Increase in other payables and accruals		**1,134,326**	140,700
Increase/(decrease) in amounts due to related companies		**(72,235)**	50,100
Increase/(decrease) in provision for major overhauls		**(183,644)**	91,279
Increase/(decrease) in provision for early retirement benefit obligations		**10,230**	(1,203)
Increase in deferred income		**500,594**	621,241
Cash generated from operations		**20,455,041**	6,856,551
Interest paid		**(1,586,501)**	(1,419,409)
Corporate income tax received/(paid) in Mainland China		**(502,918)**	27,948
NET CASH FLOWS FROM OPERATING ACTIVITIES		**18,365,622**	5,465,090

Consolidated Statement of Cash Flows

Year ended 31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(9,835,131)**	(7,252,907)
Proceeds from disposal of property, plant and equipment		**189,986**	485,948
Proceeds from disposal of held for sale assets		**119,486**	–
Increase in lease prepayments		**(190,300)**	(43,308)
Decrease/(increase) of intangible asset		**8,191**	(1,489)
Increase in advance payments for aircraft and flight equipment		**(7,410,917)**	(662,901)
Net settlements of financial liabilities		**(174,982)**	(24,901)
(Increase)/decrease in amounts due from associates		**(5,655)**	132,454
Increase/(decrease) in amounts due to associates		**13,619**	(359,471)
Decrease in pledged deposits		**1,002,793**	1,185,713
Decrease in non-pledged deposits with original maturity of more than three months when acquired		**4,785**	7,847
Interest received		**60,307**	24,410
Proceeds from disposal of subsidiaries and an associate		**–**	475
Acquisition of a subsidiary	48	**1,820,051**	(3,290)
Capital contributions to an associate		**109,154**	–
Acquisition of a non-controlling interest of a subsidiary		**(90,122)**	(646,819)
Capital contributions to associates		**(197,246)**	(5,591,107)
Contribution from non-controlling interest		**–**	47,643
Dividends received from available-for-sale investments		**–**	4,212
Dividend income on long-term investments		**2,050**	–
Dividends received from associates		**515,951**	31,668
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(14,057,980)**	(12,665,823)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other loans		**28,849,284**	34,163,054
Repayment of bank loans and other loans		**(24,138,001)**	(22,378,763)
Repayment of principals under finance lease obligations		**(3,669,392)**	(4,971,457)
Increase in long term payables		**–**	135,636
Proceeds from issuance of new shares		**6,421,149**	–
NET CASH FLOWS FROM FINANCING ACTIVITIES		**7,463,040**	6,948,470
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**11,770,682**	(252,263)
Cash and cash equivalents at beginning of year		**2,676,309**	2,949,062
Effect of exchange rate changes on cash and cash equivalents		**(70,941)**	(20,490)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,376,050**	2,676,309
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	33	**3,576,984**	2,109,799
Non-pledged time deposits with original maturity of less than three months when acquired	33	**10,799,066**	566,510
		14,376,050	2,676,309

Statement of Financial Position

31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**69,772,391**	69,587,190
Lease prepayments	17	**1,629,183**	1,584,437
Intangible asset	18	**41,076**	49,267
Interests in subsidiaries	20	**16,763,748**	15,886,768
Interests in joint ventures	21	**856,076**	568,487
Interests in associates	22	**707,787**	787,539
Advance payments for aircraft and flight equipment		**14,097,427**	7,501,738
Deposits for aircraft under operating leases		**202,668**	182,406
Long term receivable from ultimate holding company	23	**31,813**	131,813
Available-for-sale investments	24	**3,366**	3,366
Deferred tax assets	25	**1,515,000**	1,626,750
		105,620,535	97,909,761
CURRENT ASSETS			
Aircraft and flight equipment held for sale	26	**73,560**	131,702
Inventories	27	**610,976**	850,518
Accounts receivable	28	**1,451,051**	1,229,420
Bills receivable		**14,000**	2,268
Prepayments, deposits and other receivables	29	**1,076,104**	806,642
Due from ultimate holding company	31	**617,669**	468,447
Due from related companies		**2**	–
Tax recoverable		**–**	4,012
Cash and cash equivalents	33	**11,501,617**	1,089,515
		15,344,979	4,582,524
TOTAL ASSETS		**120,965,514**	102,492,285
CURRENT LIABILITIES			
Air traffic liabilities		**(2,974,145)**	(2,344,522)
Accounts payable	34	**(5,007,938)**	(5,045,817)
Bills payable	35	**–**	(160,000)
Other payables and accruals	36	**(4,320,488)**	(3,761,517)
Financial liabilities	30	**(340,049)**	(2,274,627)
Due to related companies	32	**(41,888)**	(26,363)
Tax payable		**(1,994,158)**	–
Obligations under finance leases	37	**(2,048,727)**	(3,454,233)
Interest-bearing bank loans and other borrowings	38	**(19,093,115)**	(15,914,985)
Provision for major overhauls	39	**(135,662)**	(168,548)
		(35,956,170)	(33,150,612)
NET CURRENT LIABILITIES		**(20,611,191)**	(28,568,088)
TOTAL ASSETS LESS CURRENT LIABILITIES		**85,009,344**	69,341,673

Statement of Financial Position

31 December 2010
(Prepared under International Financial Reporting Standards)

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	37	**(15,407,125)**	(15,366,475)
Interest-bearing bank loans and other borrowings	38	**(27,576,233)**	(26,125,849)
Provision for major overhauls	39	**(1,214,265)**	(1,064,181)
Provision for early retirement benefit obligations		**(77,820)**	(94,438)
Long term payables	40	**(2,376)**	(9,449)
Deferred income	41	**(2,447,707)**	(2,095,618)
Deferred tax liabilities	25	**(128,387)**	(263,750)
		(46,853,913)	(45,019,760)
NET ASSETS		**38,155,431**	24,321,913
EQUITY			
Issued capital	42	**12,891,955**	12,251,362
Reserves	44	**25,263,476**	12,070,551
TOTAL EQUITY		**38,155,431**	24,321,913

Cai Jianjiang
Director

Fan Cheng
Director

1 CORPORATE INFORMATION

Air China Limited (the "Company") was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on the Hong Kong Stock Exchange ("HKSE") and the London Stock Exchange while the Company's A shares are listed on the Shanghai Stock Exchange. In the opinion of the Directors, the Company's parent and ultimate holding company is China National Aviation Holding Company ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council.

On 3 February 2010, the Company and Engine Support Holdings ("ESH", a wholly-owned subsidiary of CFM International Inc.) entered into an agreement, pursuant to which the Company agreed to acquire and ESH agreed to sell approximately 16.36% of equity interest in Sichuan Services Aero-engine Maintenance Co., Ltd. ("SSAMC", formerly known as Sichuan Snecma Aero-engine Maintenance Co., Ltd, a 43.64% owned associate of the Company before the transaction). The Company and ESH also agreed to make additional capital contribution in cash of approximately US$40 million to SSAMC in proportion to their shareholding. The transaction was completed on 16 December 2010 and upon completion of the transaction the equity interest held by the Company in SSAMC increased to 60%.

On 21 March 2010, the Company, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") and Shenzhen Huirun Investment Co., Ltd. ("Huirun") entered into an agreement, pursuant to which the Company and Total Logistics agreed to make an aggregate capital contribution of approximately RMB1,030 million to Shenzhen Airlines Company Limited ("Shenzhen Airlines", a 25% owned associate of the Company before the transaction), within which the Company contributed approximately RMB682 million and Total Logistics contributed approximately RMB348 million. The transaction was completed on 19 April 2010 and upon the completion of the transaction the Company's equity interest in Shenzhen Airlines increased from 25% to 51%.

On 12 November 2010, the Company issued 483,592,400 A shares to seven specific investors including CNAHC at a price of RMB11.58 per share and 157,000,000 H shares to China National Aviation Corporation (Group) Ltd. ("CNACG", a wholly-owned subsidiary of CNAHC) at a price of HK$6.62 per share. The net proceeds from additional issuance of A shares and H shares, after deducting shares issue expenses of RMB70,906,588, amounted to RMB6,421,148,533, within which, RMB640,592,400 and RMB5,780,556,133 were credited to the Company's issued capital and capital reserved, respectively.

The principal activities of the Company, its subsidiaries and joint ventures (collectively the "Group") and associates consist of the provision of airline, airline-related services, including aircraft engineering services, air catering services and airport ground handling services, mainly in Mainland China, Hong Kong and Macau.

The registered office of the Company is located at 9th Floor, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

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.

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

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised IFRSs (Continued)

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 the reported results of the Group for the year, details of which are set out in note 48 to the financial statements.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to 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 except for IAS 7 *Statement of Cash Flows* which 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *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*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[6]
IAS 12	Amendments to IAS 12 *Income taxes – Deferred Tax Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

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. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company, its subsidiaries and joint ventures (collectively the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries and joint ventures are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and joint ventures are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the rates of exchange ruling at the end of the reporting period and their income statements are translated into RMB at the average exchange rates for the period of the translations. The exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve within equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign entity is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and joint ventures are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the average exchange rates for the period of the translations.

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. The Group has investments in certain joint ventures which are considered as jointly-controlled entities.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of joint ventures are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The Group's investments in its associates are accounted for under the equity method of accounting.

The investments in associates are carried in the consolidated statement of financial position at the Group's share of net assets of the associates, less any impairment losses. Goodwill arising from the acquisition of associates is included in the carrying amounts of the investments and is not individually tested for impairment. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The financial statements of the associates are prepared for the same reporting year as the Company. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful life	Residual value
Aircraft and flight equipment	2 to 25 years	Nil – 5%
Buildings	15 to 50 years	Nil – 5%
Machinery, transportation equipment and office equipment	3 to 20 years	Nil – 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The asset's residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents buildings or various infrastructure projects under construction, and equipment pending for installation in aircraft. Construction in progress is stated at cost less any impairment losses and is not depreciated. Costs of construction in progress comprise the direct costs of construction, the cost of equipment as well as capitalised borrowing costs on related borrowed funds during the construction or installation period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Lease prepayments

Lease prepayments represent acquisition costs of land use rights less accumulated amortisation and any impairment losses. The prepaid land lease payments are amortised on the straight-line basis over the lease terms.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and reduction of the outstanding liability so as to achieve a constant periodical rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and reward of ownership of the asset are classified as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Advance payments for aircraft and flight equipment

Advance contractual payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years, including attributable finance costs, are included in assets. The advances are accounted for as part of the cost of property, plant and equipment upon delivery of the aircraft and flight equipment.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans and receivables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classifications as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the polices set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance revenue in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, a discounted cash flow analysis and option pricing models.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its right to receive cash flows from the asset or has assumed obligations to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligations under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as jet fuel collar contracts and interest rate swaps to hedge its jet fuel price risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Treasury shares

Own equity instruments (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Manufacturers' credits

In connection with the acquisition of certain aircraft and flight equipment, the Group receives various credits from the manufacturers. Such credits are deferred until the aircraft and flight equipment are delivered, at which time they are applied as a reduction of the cost of acquiring the aircraft and flight equipment.

Provisions

Provisions are recognised when the Group has present obligations (legal or constructive) as a result of a past event and it is probable that an future outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. If the effect of discounting is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the discounted present value arising from the passage of time is recognised as a finance cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) Pension obligations

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. In addition to these plans, the Company, Air China Cargo Co., Ltd. ("Air China Cargo") and Shenzhen Airlines also implements an additional defined contribution retirement scheme for voluntary employees. Contributions are made based on a percentage of the employees' total salaries and are charged to the income statement in accordance with the rules of the scheme.

(b) Termination and early retirement benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(d) Share-based payment transactions

The Company operates a Share Appropriation Rights ("SARs") plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group are entitled to a future cash payment (rather than an equity instrument) ("cash-settled transactions"), based on the increase in the entity's share price from a specified level over a specified period of time. The Company recognises the services received, and a liability to pay for those services, as the employees render service.

The cost of cash-settled transactions with employees is measured initially at fair value at the grant date using a binomial model. The liability is remeasured at each reporting date up to and including the settlement date, with any changes in fair value recognised in profit or loss for the period.

Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfil certain return conditions under the relevant operating leases. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under operating leases are accrued and charged to the income statement over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhauls comprise mainly labour and materials. Differences between the estimated costs and the actual costs of overhauls are included in the income statement in the period of overhaul.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Maintenance and overhaul costs (Continued)

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

All other routine repair and maintenance costs incurred in restoring such property, plant and equipment to their normal working condition are charged to the income statement as and when incurred.

Frequent-flyer programme

The Group operates frequent-flyer programmes which allow customers to earn miles when they purchase air tickets from the Group. The miles can then be redeemed for free services or products, subject to a minimum number of points to be obtained. The consideration received or receivable from the tickets sold is allocated between the miles earned by the frequent-flyer programme members and the other components of the sales transactions. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfil its obligations to supply services or products or when the miles expire.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Provision of airline and airline-related services*

Passenger revenue is recognised either when transportation services are provided or when an unused ticket expires rather than when a ticket is sold. Ticket sales for transportation not yet provided are included in current liabilities as air traffic liabilities. In addition, the Group has code-sharing agreements with other airlines under which a carrier's flights can be marketed under the two-letter airline designator code of another carrier. Revenues earned under these arrangements are allocated between the code share partners based on existing contractual agreements and airline industry standard pro-ratio formulae and are recognised as passenger revenue when the transportation services are provided.

Cargo and mail revenue is recognised when transportation services are provided.

Revenue from airline-related services is recognised when the relevant services are rendered.

Revenue is stated net of business tax.

(b) *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

(c) *Interest income*

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(d) Dividend income

Revenue is recognised when the Group's right to receive payments is established.

(e) Rental income and aircraft and flight equipment lease income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred income tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of aircraft borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in correction with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 0.8% and 7.1% (2009: ranging between 0.8% and 7.0%) has been applied to the expenditure on the individual asset.

Dividends

Interim dividends and final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made judgements regarding revenue recognition, classification of leases, classification of financial instruments, impairment indication of financial assets, classification of assets held for sale, derecognition of financial instruments, which have the most significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RMB1,658 million (2009: RMB347 million). More details are given in note 19 to the financial statements.

(b) *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(c) *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2010 was RMB20 million (2009: RMB188 million). The carrying value of deferred tax assets relating to unrecognised tax losses as at 31 December 2010 was RMB150 million(2009: RMB47 million). Further details are contained in note 25 to the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty (Continued)

(d) Overhaul cost

Cost of overhaul for aircraft and engines under operating leases are accrued and charged to the income statement over the estimated overhaul period. This requires estimation of the expected flying hours/cycles, overhaul cost and overhaul cycle, which are largely based on the past experience of overhauls of aircraft and engines of the same or similar types. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

(e) Deferred income

The amount of revenue attributable to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the fair value of the miles awarded and the expected redemption rate. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed.

(f) Early retirement benefits

Early retirement benefits are occurred and charged to the income statement when the conditions for early retirement are realised. The estimated liabilities were affected by the uncertainty of the changes in salary standards, life expectancy of early retired employees and discount rate.

(g) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived directly from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimation include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(h) Share-based payment

The Group measures the cost of cash-settled transactions with employees by reference to the instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model and making assumptions about them.

3 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.

3 SEGMENT INFORMATION (Continued)

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 before tax 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

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

Year ended 31 December 2009

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
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
SEGMENT PROFIT BEFORE TAX	5,240,341	74,340	–	5,314,681

3 SEGMENT INFORMATION (Continued)

Operating segments (Continued)

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:

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
SEGMENT ASSETS				
As at 31 December 2010	**153,816,518**	**2,968,976**	**(1,565,881)**	**155,219,613**
As at 31 December 2009	105,239,001	2,367,196	(1,442,990)	106,163,207

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
SEGMENT LIABILITIES				
As at 31 December 2010	**114,166,219**	**919,955**	**(1,565,881)**	**113,520,293**
As at 31 December 2009	82,653,223	991,531	(1,442,990)	82,201,764

	Airline operations ***RMB'000***	Other operations ***RMB'000***	Eliminations ***RMB'000***	Total ***RMB'000***
OTHER SEGMENT INFORMATION				
Year ended 31 December 2010				
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**

3 SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Year ended 31 December 2009				
Share of profits and losses of associates and joint ventures	566,866	39,739	–	606,605
Impairment losses in assets recognised in the income 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 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 ***RMB'000***	2009 *RMB'000*
REVENUE		
Total revenue for reportable segments	**80,962,677**	51,095,369
Business tax not included in segment revenue	**(1,628,290)**	(1,505,061)
Other income not included in segment revenue	**1,232,350**	1,168,656
Effects of differences between IFRSs and CAS	**1,920,802**	634,227
Revenue for the year	**82,487,539**	51,393,191
PROFIT BEFORE TAX		
Total profit before tax for reportable segments	**15,025,062**	5,314,681
Effects of differences between IFRSs and CAS	**(191,450)**	(248,396)
Profit before tax for the year	**14,833,612**	5,066,285

3 SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	2010 RMB'000	2009 RMB'000
ASSETS		
Total assets for reportable segments	155,219,613	106,163,207
Effects of differences between IFRSs and CAS	3,554,386	1,755,815
Total assets	158,773,999	107,919,022

	2010 RMB'000	2009 RMB'000
LIABILITIES		
Total liabilities for reportable segments	113,520,293	82,201,764
Effects of differences between IFRSs and CAS	3,882,469	1,762,791
Total liabilities	117,402,762	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 China RMB'000	Hong Kong, Macau and Taiwan RMB'000	Europe RMB'000	North America RMB'000	Japan and Korea RMB'000	Asia Pacific and others RMB'000	Total RMB'000
Sales to external customers and total revenue	52,441,112	4,212,616	9,848,721	6,008,965	5,818,381	4,157,744	82,487,539

Year ended 31 December 2009

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

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: Nill).

4 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	2009
	RMB'000	*RMB'000*
Passenger	**68,137,672**	42,695,432
Cargo and mail	**10,071,516**	5,396,211
	78,209,188	48,091,643

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).

5 OTHER OPERATING REVENUE

	Group	
	2010	2009
	RMB'000	*RMB'000*
Aircraft engineering income	**639,194**	611,158
Ground service income	**681,883**	594,102
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	**–**	830,418
Recognition of deferred income *(note 41(b))*	**83,277**	76,943
Others	**702,995**	319,991
Income from other travelling services	**439,219**	–
Service charges on return of unused flight tickets	**417,130**	198,103
Gains on disposal of property, plant and equipment, net	**159,011**	36,149
Cargo handling service income	**164,407**	122,921
Revaluation gain on acquisition of a subsidiary *(note 48)*	**150,628**	–
Rental income:		
Aircraft and flight equipment	**76,342**	23,535
Others	**45,382**	26,237
Training service income	**63,852**	15,775
Sale of materials	**21,953**	22,611
Import and export service income	**16,427**	16,058
Others	**616,651**	407,547
	4,278,351	3,301,548

6 EMPLOYEE COMPENSATION COSTS

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

	2010	2009
	RMB'000	*RMB'000*
Wages, salaries and social security costs	**9,046,461**	5,992,568
Retirement benefit costs *(note 10)*	**795,233**	629,189
Share-based benefits *(note 45)*	**10,241**	5,651
	9,851,935	6,627,408

7 PROFIT FROM OPERATIONS

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

	2010	2009
	RMB'000	*RMB'000*
Auditors' remuneration	**13,051**	11,934
Depreciation *(note 16)*	**8,569,370**	7,051,272
Impairment of property, plant and equipment *(note 16)*	**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 *(note 17)*	**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 *(note 26)*	**185,992**	–
Impairment of inventories	**236,219**	18,360
Impairment of accounts receivable *(note 28)*	**8,983**	15,758
Impairment of prepayment, deposits and other receivables *(note 29)*	**118,609**	–

8 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	2009
	RMB'000	*RMB'000*
Exchange gains, net	**1,919,415**	109,642
Interest income	**60,307**	24,410
others	**293**	5,568
	1,980,015	139,620

8 FINANCE REVENUE AND FINANCE COSTS (Continued)

Finance costs

	2010 RMB'000	2009 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**	–
	1,815,039	1,411,924
Less: Interest capitalised	**(365,790)**	(213,641)
	1,449,249	1,198,283

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.

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES

Remuneration of the Company's Directors and Supervisors for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Fees	**240**	240
Basic salaries, housing benefits, other allowances and benefits in kind	**1,025**	923
Discretionary bonuses	**1,139**	824
Retirement benefits	**113**	97
	2,517	2,084

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Year ended 31 December 2010					
Directors					
Kong Dong	–	–	–	–	–
Wang Yinxiang**	–	–	–	–	–
Sun Yude**	–	–	–	–	–
Wang Shixiang	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Chen Nan Lok, Philip**	–	–	–	–	–
Shiu Sai Cheung, Ian**	–	–	–	–	–
Cai Jianjiang	–	275	492	29	796
Fan Cheng	–	252	431	29	712
Hu Hung Lick, Henry*	50	–	–	–	50
Zhang Ke*	50	–	–	–	50
Jia Kang	60	–	–	–	60
Fu Yang	60	–	–	–	60
Li Shuang*	10	–	–	–	10
Han Fangming*	10	–	–	–	10
	240	527	923	58	1,748
Supervisors					
Sun Yude#	–	–	–	–	–
He Chaofan	–	–	–	–	–
Zhou Guoyou#	–	–	–	–	–
Chen Bangmao	–	302	135	26	463
Su Zhiyong	–	196	81	29	306
Li Qinglin#	–	–	–	–	–
Zhang Xueren#	–	–	–	–	–
	–	498	216	55	769
	240	1,025	1,139	113	2,517

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

	Fees *RMB'000*	Basic salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement benefits *RMB'000*	Total *RMB'000*
Year ended 31 December 2009					
Directors					
Kong Dong	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–
Wang Shixiang	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Chen Nan Lok Philip	–	–	–	–	–
Cai Jianjiang	–	260	357	26	643
Fan Cheng	–	238	315	26	579
Hu Hung Lick, Henry	60	–	–	–	60
Zhang Ke	60	–	–	–	60
Jia Kang	60	–	–	–	60
Fu Yang	30	–	–	–	30
Wu Zhipan	30	–	–	–	30
	240	498	672	52	1,462
Supervisors					
Sun Yude	–	–	–	–	–
He Chaofan	–	–	–	–	–
Zhou Guoyou	–	–	–	–	–
Chen Bangmao	–	101	36	9	146
Su Zhiyong	–	56	25	4	85
Liu Feng	–	186	77	18	281
Liu Guoqing	–	82	14	14	110
	–	425	152	45	622
	240	923	824	97	2,084

Fees of RMB240,000 (2009: RMB240,000) were paid or payable to the Company's Independent Non-Executive Directors during the year. There were no other emoluments payable to the Independent Non-Executive Directors during the year (2009: Nil).

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

In addition to the above, certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in note 45 to the financial statements.

* On 28 October 2010, Hu Hung Lick, Henry and Zhang Ke resigned as directors of the Company. On the same date, Li Shuang and Han Fangming were appointed as directors of the Company to fill the vacancy.

** On 1 July 2010 and 28 October 2010, respectively, Chen Nan Lok, Philip and Wang Shixiang resigned as directors of the Company. On 28 October 2010, Sun Yude and Shiu Sai Cheung, Ian were appointed as directors of the Company to fill the vacancy.

On 28 October 2010, Sun Yude and Zhou Guoyou resigned as supervisors of the Company. On the same date, Li Qinglin and Zhang Xueren were appointed as supervisors of the Company to fill the vacancy.

An analysis of the five highest paid employees within the Group is as follows:

	Group	
	2010	2009
	Number of individuals	*Number of individuals*
Directors	**–**	1
Employees	**5**	4

The emoluments paid to the five (2009: four) non-director and non-supervisor highest paid employees are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**5,404**	3,581
Retirement benefits	**86**	52
	5,490	3,633

The number of these five (2009: four) non-director and non-supervisor highest paid employees whose remuneration for the year fell within the following bands is as follows:

	Group	
	2010	2009
	Number of individuals	*Number of individuals*
Nil to HK$1,000,000 equivalent to 2010: Nil to RMB850,930; (2009: Nil to RMB880,480)	**–**	2
HK$1,000,001 to HK$1,500,000 equivalent to 2010: RMB850,930 to RMB1,276,395 (2009: RMB880,481 to RMB1,320,720)	**5**	2
	5	4

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year (2009: Nil).

10 RETIREMENT BENEFIT COSTS

The retirement benefit costs in relation to the defined contribution retirement scheme and early retirement benefits are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Contributions to defined contribution retirement scheme	**764,882**	606,955
Early retirement benefits	**30,351**	22,234
Total retirement benefit costs *(note 6)*	**795,233**	629,189

As at 31 December 2010, no forfeited contributions were available to reduce the Group's contributions to the defined contribution retirement schemes operated by the Group in future years (2009: Nil).

11 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:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Current income tax:		
Mainland China	**2,506,846**	51,578
Hong Kong and Macau	**1,197**	–
	2,508,043	51,578
Deferred income tax *(note 25)*	**(10,295)**	211,656
Income tax charge for the year	**2,497,748**	263,234

11 TAX (Continued)

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:

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

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.

12 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 (note 44).

13 APPROPRIATIONS

	Company	
	2010	2009
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend	**1,523,829**	–

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.

14 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.

The Group had no potentially dilutive ordinary shares in issue during both years.

15 NOTE TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	RMB'000	*RMB'000*
Share of reserve movements of associates	**(47,303)**	347,437
Exchange realignment	**(546,911)**	(28,324)
Others	**(1,150)**	(3,000)
	(595,364)	316,113

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2009, net of accumulated depreciation and impairment	61,940,135	3,630,144	1,292,422	810,031	205,579	3,942,689	71,821,000
Additions	7,576,858	42,679	100,507	70,346	95,883	2,925,343	10,811,616
Acquisition of a subsidiary	–	9,760	8,013	1,029	1,146	–	19,948
Disposals	(214,138)	(100,969)	(5,529)	(2,830)	(1,710)	–	(325,176)
Transfer from construction in progress	2,324,048	265,495	104,268	18,505	2,418	(2,714,734)	–
Reclassification to aircraft and flight equipment held for sale under current assets *(note 26)*	(8,316)	–	–	–	–	–	(8,316)
Impairment	(216,997)	(3,706)	–	–	–	–	(220,703)
Depreciation charge for the year	(6,392,518)	(166,586)	(235,136)	(176,726)	(80,306)	–	(7,051,272)
Exchange realignment	(1,632)	(423)	–	(172)	–	–	(2,227)
As at 31 December 2009 and 1 January 2010, net of accumulated depreciation and impairment	65,007,440	3,676,394	1,264,545	720,183	223,010	4,153,298	75,044,870
Additions	1,450,086	14,579	59,416	121,001	269,964	11,801,578	13,716,624
Acquisition of a subsidiary and a joint venture	15,667,878	904,864	456,138	83,762	22,750	1,209,396	18,344,788
Disposals	(200,099)	(20,704)	(18,711)	(12,382)	(3,256)	–	(255,152)
Transfer from construction in progress	10,719,125	1,491,894	228,753	19,184	9,012	(12,467,968)	–
Reclassification to aircraft and flight equipment held for sale under current assets *(note 26)*	(259,552)	–	–	–	–	–	(259,552)
Impairment*	(1,863,008)	–	–	(186)	–	–	(1,863,194)
Depreciation charge for the year	(7,861,370)	(190,428)	(205,266)	(153,581)	(158,725)	–	(8,569,370)
Exchange realignment	(5,944)	(108)	(80)	(330)	(10)	–	(6,472)
As at 31 December 2010, net of accumulated depreciation and impairment	**82,654,556**	**5,876,491**	**1,784,795**	**777,651**	**362,745**	**4,696,304**	**96,152,542**
As at 31 December 2009 and 1 January 2010:							
Cost	111,477,725	5,261,192	3,195,779	1,916,792	582,542	4,153,298	126,587,328
Accumulated depreciation and impairment	(46,470,285)	(1,584,798)	(1,931,234)	(1,196,609)	(359,532)	–	(51,542,458)
Net book value	65,007,440	3,676,394	1,264,545	720,183	223,010	4,153,298	75,044,870
As at 31 December 2010:							
Cost	**140,046,596**	**7,911,206**	**4,114,100**	**2,135,748**	**887,055**	**4,696,304**	**159,791,009**
Accumulated depreciation and impairment	**(57,392,040)**	**(2,034,715)**	**(2,329,305)**	**(1,358,097)**	**(524,310)**	**–**	**(63,638,467)**
Net book value	**82,654,556**	**5,876,491**	**1,784,795**	**777,651**	**362,745**	**4,696,304**	**96,152,542**

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2009, net of accumulated depreciation	58,979,676	2,720,312	967,937	706,051	155,096	3,041,467	66,570,539
Additions	7,475,705	26,564	71,930	45,094	75,941	2,420,704	10,115,938
Disposals	(185,403)	(97,513)	(4,090)	(980)	(360)	–	(288,346)
Transfer from construction in progress	1,635,780	93,308	83,521	11,085	84	(1,823,778)	–
Impairment	(216,997)	–	–	–	–	–	(216,997)
Depreciation charge for the year	(6,110,136)	(121,800)	(180,955)	(133,062)	(47,991)	–	(6,593,944)
As at 31 December 2009 and 1 January 2010, net of accumulated depreciation and impairment	61,578,625	2,620,871	938,343	628,188	182,770	3,638,393	69,587,190
Additions	653,444	12,396	97,793	72,123	143,099	7,958,464	8,937,319
Disposals	(160,583)	(2,669)	(8,989)	(9,605)	(1,724)	–	(183,570)
Transfer from construction in progress	7,187,640	1,159,193	195,021	18,986	737	(8,561,577)	–
Reclassification to aircraft and flight equipment held for sale under current assets *(note 26)*	(259,552)	–	–	–	–	–	(259,552)
Impairment	(1,278,689)	–	–	–	–	–	(1,278,689)
Depreciation charge for the year	(6,556,529)	(112,908)	(187,433)	(109,030)	(64,407)	–	(7,030,307)
As at 31 December 2010, net of accumulated depreciation and impairment	**61,164,356**	**3,676,883**	**1,034,735**	**600,662**	**260,475**	**3,035,280**	**69,772,391**
As at 31 December 2009 and 1 January 2010:							
Cost	106,222,993	3,840,598	2,387,192	1,573,560	405,146	3,638,393	118,067,882
Accumulated depreciation and impairment	(44,644,368)	(1,219,727)	(1,448,849)	(945,372)	(222,376)	–	(48,480,692)
Net book value	61,578,625	2,620,871	938,343	628,188	182,770	3,638,393	69,587,190
As at 31 December 2010:							
Cost	**111,947,396**	**5,006,999**	**2,580,965**	**1,549,736**	**534,034**	**3,035,280**	**124,654,410**
Accumulated depreciation and impairment	**(50,783,040)**	**(1,330,116)**	**(1,546,230)**	**(949,074)**	**(273,559)**	**–**	**(54,882,019)**
Net book value	**61,164,356**	**3,676,883**	**1,034,735**	**600,662**	**260,475**	**3,035,280**	**69,772,391**

* During the year, the Group recognised impairment loss of approximately RMB1,863,194,000 relating to aircraft and flight equipment. The recoverable amounts of these impaired aircraft and flight equipment are the higher of their fair value less costs to sell and value in use. The Group has plans to sell these impaired assets and has received quotation from potential buyers. Those impaired aircraft which fall under the criteria at IFRS 5 Non-current Assets Held for Sale were reclassified as Aircraft and flight equipment held for sale under current assets, details of which are set out in note 26.

As at 31 December 2010, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB27,575 million (2009: RMB9,688 million) were pledged to secure certain bank loans of the Group (note 38(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB28,310 million (2009: RMB27,425 million) (note 37 (a)).

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2010, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,935 million (2009: RMB1,376 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2010.

17 LEASE PREPAYMENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at 1 January	**2,088,610**	2,039,004	**1,698,791**	1,655,483
Additions	**182,042**	43,308	**90,237**	43,308
Acquisition of a subsidiary and a joint venture	**119,947**	6,298	**–**	–
As at 31 December	**2,390,599**	2,088,610	**1,789,028**	1,698,791
Accumulated amortisation				
As at 1 January	**(133,791)**	(93,746)	**(114,354)**	(82,772)
Acquisition of a subsidiary and a joint venture	**(6,120)**	–	**–**	–
Amortisation for the year	**(87,039)**	(40,045)	**(45,491)**	(31,582)
As at 31 December	**(226,950)**	(133,791)	**(159,845)**	(114,354)
Net carrying amount				
As at 31 December	**2,163,649**	1,954,819	**1,629,183**	1,584,437

The Group's lease prepayments in respect of land are held under long term leases and located in the Mainland China.

As at 31 December 2010, the Group's land use rights with an aggregate net book value of approximately RMB35 million (2009: RMB35 million) were pledged to secure certain bank loans of the Group (note 38(d)).

As at 31 December 2010, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB631 million (2009: RMB629 million). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2010.

18 INTANGIBLE ASSET

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**49,267**	60,147	**49,267**	60,147
Deduction upon admission of new Star Alliance members	**(8,191)**	(10,880)	**(8,191)**	(10,880)
As at 31 December	**41,076**	49,267	**41,076**	49,267

The Group's intangible asset represents admission rights to Star Alliance which is stated at cost and has an indefinite useful life.

19 GOODWILL

Group

	RMB'000
Cost and net carrying amount as at 1 January 2009 and 31 December 2009	346,845
Acquisition of additional interests in Shenzhen Airlines *(note 48)*	1,304,320
Acquisition of additional interests in SSAMC	6,510
Cost and net carrying amount at 31 December 2010	1,657,675

Impairment testing of goodwill

Goodwill acquired through business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Air China Cargo cash-generating unit
- Shenzhen Airlines cash-generating unit

Air China Cargo cash-generating unit

The recoverable amount of the Air China Cargo cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5% (2009:13%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% by reference to the long-term average growth rate.

Shenzhen Airlines cash-generating unit

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5% and cash flows beyond the five-year period were extrapolated using a growth rate of 2% by reference to the long-term average growth rate.

19 GOODWILL (Continued)

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	Air China Cargo		Shenzhen Airlines	SSAMC	Total	
	2010	2009	**2010**	**2010**	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Carrying amount of goodwill	**346,845**	346,845	**1,304,320**	**6,510**	**1,657,675**	346,845

Key assumptions were used in the value in use calculation for 31 December 2010 and 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used reflect specific risks relating to the relevant units.

The values assigned to key assumptions are consistent with external information sources.

20 INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted investments, at cost	**16,513,911**	15,756,768
Due from subsidiaries *(note 52)*	**617,201**	391,490
Due to subsidiaries *(note 52)*	**(367,364)**	(261,490)
	16,763,748	15,886,768

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

20 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$400,000,000	69	31	Investment holding
Air China Group Import and Export Trading Co. ("AIE") (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Air Services Co., Ltd. # (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai Air China Aviation Service Co., Ltd. # (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd. # (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB1,700,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited ("Air Macau") (澳門航空股份有限公司)	Macau	Limited liability company	MOP400,000,000	–	81	Airline operator
Angel Paradise Limited	British Virgin Islands	Limited liability company	US$10	–	100	Investment holding
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB2,200,000,000	75	25	Provision of cargo carriage services
Chengdu Falcon Aircraft Engineering Service Co., Ltd. # ("Chengdu Falcon") (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB16,474,293	60	–	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB812,500,000	51	–	Airline operator
Shenzhen Jingpeng Industrial & Trading Co., Ltd # (深圳金鵬工貿有限責任公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	–	100	Tickets agent
Shenzhen Kunpeng International Flight Academy # (深圳鯤鵬國際飛行學校)	PRC/Mainland China	Private non-enterprise organisatio	RMB89,000,000	–	100	Flight academy
Kunming Airlines Co., Ltd. (昆明航空有限公司) #	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator

The English names of these companies are direct translations of their Chinese names.

20 INTERESTS IN SUBSIDIARIES (Continued)

During the year, the Group acquired additional 26% equity interests in Shenzhen Airlines. Further details of this acquisition are included in note 48 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2010 or formed a substantial portion of the net assets of the Group at 31 December 2010. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

21 INTERESTS IN JOINT VENTURES

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted investments, at cost	**856,076**	568,487

Particulars of the joint ventures of the Group at 31 December 2010 are as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司)	PRC/Mainland China	US$187,533,000	60	57.1	60	Provision of aircraft and engine overhaul and maintenance services
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
Shanghai Pudong International Airport Cargo Terminal Co., Ltd. # (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo carriage services
Jade Cargo International Company Limited # (翡翠國際航空貨運有限責任公司)	PRC/Mainland China	RMB245,662,126	51	50	51	Provision of cargo carriage services
Henan Airlines company limited # (河南航空有限公司)	PRC/Mainland China	RMB500,000,000	51	57.1	51	Airline operator
SSAMC (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$71,900,000	60	60	60	Provision of engine overhaul and maintenance services

The English name of the company is the direct translation of its Chinese name.

Macau Asia Express Ltd, previously an indirectly held joint venture of the Company, was deregistered on 26 November 2010.

21 INTERESTS IN JOINT VENTURES (Continued)

The Group's proportionate share of the assets, liabilities, revenue and expenses of the joint ventures at the end of the reporting period are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Current assets	**1,703,497**	818,243
Non-current assets	**3,113,983**	1,324,985
Current liabilities	**(2,415,143)**	(1,144,869)
Non-current liabilities	**(1,504,430)**	(122,287)
Net assets attributable to the Group	**897,907**	876,072
Revenue	**3,158,652**	1,544,965
Operating expenses	**(2,991,037)**	(1,520,100)
Finance revenue	**18,735**	908
Finance costs	**(67,376)**	(24,496)
Profit before tax attributable to the Group	**118,974**	1,277
Tax	**(33,057)**	(21,848)
Profit/(loss) for the year attributable to the Group	**85,917**	(20,571)

22 INTERESTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed shares in Mainland China, at cost	**–**	–	**163,477**	163,477
Unlisted investments, at cost	**–**	–	**534,615**	715,107
Share of net assets	**11,385,388**	9,378,676	**–**	–
Goodwill on acquisition	**2,886,729**	2,893,239	**–**	–
Due from associates *(note 52)*	**44,420**	28,765	**40,448**	20,213
Due to associates *(note 52)*	**(127,068)**	(113,450)	**(30,753)**	(111,258)
	14,189,469	12,187,230	**707,787**	787,539
Market value of listed shares			**2,142,000**	614,688

As at 31 December 2010, the listed shares in an associate of the Group with an aggregate market value of approximately RMB7,287 million (2009: RMB5,161 million) were pledged to secure certain bank loans of the Group (note 38(b)).

22 INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2010 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific*△ (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Corporation ("Shandong Aviation")△ (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd.△ (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
China National Aviation Finance Co., Ltd. ("CNAF")**△ (中國航空集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Guangzhou Baiyun International Airport Ground Handling Service Company Limited△ (廣州白雲國際機場地勤服務有限公司)	PRC/Mainland China	RMB100,000,000	21	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance Services Co., Ltd.△ (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Provision of aircraft overhaul and maintenance services
CAAC Cares Chongqing Co., Ltd.△ (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB9,800,000	24.5	Provision of airline-related information system services
Chengdu CAAC Southwest Cares Co., Ltd.△# (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB2,000,000	35	Provision of airline-related information system services
Macau Aircraft Maintenance and Engineering Corporation△# (澳門飛機維修工程有限公司)	Macau	MOP100	35	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines Property Development Co., Ltd. ("SZ Property")*△ (深航房地產開發有限責任公司)	PRC/Mainland China	RMB100,000,000	30	Property development
Zhengzhou Aircraft Maintenance Engineering Co., Ltd*△# (鄭州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	Provision of overhaul and maintenance services

22 INTERESTS IN ASSOCIATES (Continued)

* The equity interests of these associates are held indirectly through certain subsidiaries of the Company.

** 19.3% of the Group's equity interest in CNAF is held directly by the Company, and the remaining 4.2% is held indirectly through certain subsidiaries of the Company.

△ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\# The English names of these companies are direct translations of their Chinese names.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2010. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Summarised financial information of the Group's associates at the end of the reporting period is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Total assets	**128,321,857**	139,141,815
Total liabilities	**(78,045,923)**	(101,132,135)
Revenue	**86,573,436**	78,199,283
Net profits	**13,313,969**	4,089,656

Movements in goodwill are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
As at 1 January	**2,893,239**	1,578,533
Acquisition of an associate	**–**	1,314,706
Acquisition of a joint venture	**(6,510)**	–
As at 31 December	**2,886,729**	2,893,239

23 LONG TERM RECEIVABLE FROM THE ULTIMATE HOLDING COMPANY

On 30 September 2004, the Company entered into an agreement with CNAHC whereby CNAHC agreed to assume the obligations to settle an aggregate amount of approximately RMB757 million, which was recorded by the Group as a government grant receivable as at 31 December 2003 of RMB842 million, consisting of a long term portion and a short term portion of RMB764 million and RMB78 million, respectively. This receivable from CNAHC is unsecured, interest-free and is repayable over eight years commencing from 31 December 2004 by 16 semi-annual instalments to be made by 30 June and 31 December each year. Pursuant to the relevant agreement, the first instalment amount of RMB25 million was settled by 31 December 2004 and the final instalment amount of approximately RMB32 million will be settled by 30 June 2012, with the remaining 14 semi-annual instalment amounts of RMB50 million each to be settled by 30 June and 31 December each year between 30 June 2005 and 31 December 2011.

24 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments consist of unlisted equity investments measured at cost less impairment losses.

25 DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
As at 1 January	**263,750**	392,543	**263,750**	392,543
Acquisition of a subsidiary	**695,833**	–	**–**	–
Charge for the year *(note 11)*	**46,644**	(128,793)	**(135,363)**	(128,793)
Gross deferred tax liabilities as at 31 December	**1,006,227**	263,750	**128,387**	263,750
Deferred tax assets:				
As at 1 January	**1,682,203**	2,022,652	**1,626,750**	1,974,543
Acquisition of a subsidiary	**453,860**	–	**–**	–
Charge for the year *(note 11)*	**56,939**	(340,449)	**(111,750)**	(347,793)
Gross deferred tax assets as at 31 December	**2,193,002**	1,682,203	**1,515,000**	1,626,750
Net deferred assets as at 31 December	**1,186,775**	1,418,453	**1,386,613**	1,363,000

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The principal components of the Group's and the Company's deferred tax assets and liabilities are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
Differences in value of property, plant and equipment	**(387)**	(120,750)	**(387)**	(120,750)
Unrealised exchange gain	**(128,000)**	(143,000)	**(128,000)**	(143,000)
Depreciation allowance in excess of the related depreciation	**(858,671)**	–	**–**	–
Others	**(19,169)**	–	**–**	–
Gross deferred tax liabilities	**(1,006,227)**	(263,750)	**(128,387)**	(263,750)
Deferred tax assets:				
Differences in value of property, plant and equipment	**–**	25,750	**–**	25,750
Provisions and accruals	**1,430,176**	827,453	**970,000**	772,000
Losses available for offsetting against future taxable income	**20,430**	188,000	**–**	188,000
Unrealised loss on derivative financial instruments	**85,000**	500,000	**85,000**	500,000
Impairment	**548,396**	37,000	**351,000**	37,000
Government grants and subsidies	**109,000**	104,000	**109,000**	104,000
Gross deferred tax assets	**2,193,002**	1,682,203	**1,515,000**	1,626,750
Net deferred tax assets	**1,186,775**	1,418,453	**1,386,613**	1,363,000

Deferred tax assets not recognised are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Tax losses	**618,557**	389,887
Deductible temporary differences	**129,735**	723,634
	748,292	1,113,521

The Group has tax losses arising from operations outside Mainland China of RMB34,278,000 (2009: RMB389,887,000) that will expire in three financial years from the year of incurrence for offsetting against future taxable profits. The Group also has tax losses arising from the operation in Mainland China of RMB584,279,000 (2009: Nill) that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that has been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

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

26 AIRCRAFT AND FLIGHT EQUIPMENT HELD FOR SALE

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**526,920**	837,462	**159,594**	349,107
Disposals	**(482,736)**	(318,858)	**(159,594)**	(189,513)
Reclassification from property, plant and equipment during the year *(note 16)*	**259,552**	8,316	**259,552**	–
	303,736	526,920	**259,552**	159,594
Impairment	**(226,054)**	(396,106)	**(185,992)**	(27,892)
As at 31 December	**77,682**	130,814	**73,560**	131,702

The movements in the provision for impairment of aircraft and flight equipment held for sale are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**(396,106)**	(486,566)	**(27,892)**	(41,509)
Disposal	**356,044**	90,460	**27,892**	13,617
Provision during the year *(note 7)*	**(185,992)**	–	**(185,992)**	–
As at 31 December	**(226,054)**	(396,106)	**(185,992)**	(27,892)

Aircraft and flight equipment held for sale represent aircraft and the related flight equipment to retire in the next 12 months and are measured at the lower of their carrying amounts and fair values less costs to sell.

27 INVENTORIES

An analysis of inventories as at the end of the reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts of flight equipment	**1,195,218**	1,116,559	**570,788**	822,003
Work in progress	**372,349**	240,320	**2,633**	4,467
Catering supplies	**41,384**	27,827	**37,555**	24,048
	1,608,951	1,384,706	**610,976**	850,518

28 ACCOUNTS RECEIVABLE

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**3,164,883**	2,105,743	**1,499,659**	1,271,708
Impairment	**(69,389)**	(51,478)	**(48,608)**	(42,288)
	3,095,494	2,054,265	**1,451,051**	1,229,420

The Group normally allows a credit period of 30 to 90 days to its sales agents and other customers while some major customers are granted a credit period up to six months or above. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, net of provision for impairment, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**2,498,948**	1,773,021	**1,180,061**	1,036,675
31 to 60 days	**272,380**	114,134	**85,677**	67,309
61 to 90 days	**97,884**	30,186	**22,352**	15,974
Over 90 days	**226,282**	136,924	**162,961**	109,462
	3,095,494	2,054,265	**1,451,051**	1,229,420

Included in accounts receivable as at the end of the reporting period is the following amount due from joint ventures:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Joint ventures	**1,412**	126	**–**	–

28 ACCOUNTS RECEIVABLE (Continued)

The movements in the provision for impairment of accounts receivable are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**51,478**	42,768	**42,288**	31,684
Acquisition of a subsidiary and a joint venture	**10,928**	162	**–**	–
Impairment losses recognised *(note 7)*	**8,983**	15,758	**8,857**	15,036
Amount written off as uncollectible	**(2,000)**	(7,210)	**(2,537)**	(4,432)
As at 31 December	**69,389**	51,478	**48,608**	42,288

As at 31 December 2010, accounts receivable with a nominal value of RMB26,151,216 (2009: RMB19,603,059) were impaired and fully provided for. The individually impaired accounts receivable relate to customers that were in financial difficulties and the probability to recover these receivable is remote. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the accounts receivable that are not considered to be impaired is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**2,663,751**	1,666,389	**1,197,015**	930,042
Less than 3 moths past due	**393,900**	298,190	**245,885**	237,155
More than 3 months past due	**37,843**	89,686	**8,151**	62,223
	3,095,494	2,054,265	**1,451,051**	1,229,420

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

29 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period, net of provision for impairment, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments				
Advances and others	**486,809**	263,532	**133,820**	192,292
Manufacturers' credits	**424,817**	17,222	**263,957**	7,182
Prepaid aircraft operating lease rentals	**268,015**	215,177	**148,317**	199,313
	1,179,641	495,931	**546,094**	398,787
Deposits and other receivables	**1,104,589**	734,863	**530,010**	407,855
	2,284,230	1,230,794	**1,076,104**	806,642

The movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**9,619**	10,344	**–**	–
Acquisition of a subsidiary *	**3,185,145**	–	**–**	–
Impairment losses recognised	**118,609**	–	**–**	–
Amount written off as uncollectible	**(1,003)**	(710)	**–**	–
Exchange realignment	**(288)**	(15)	**–**	–
As at 31 December	**3,312,082**	9,619	**–**	–

* This represents the impairment losses recognised by Shenzhen Airlines for receivables from Huirun, SZ Property (and its subsidiaries including Wuxi Shenzhen Airlines Property Co., Ltd ("Wuxi Property")) and receivables from other companies.

Total amount due from Huirun as at 19 April 2010 amounted to RMB1,920,700,000. As at the date of these financial statements Huirun was in the process of liquidation and therefore a full provision for impairment was made as at 19 April 2010.

Total amount due from SZ Property as at 19 April 2010 amounted to RMB468,795,531. On 30 November 2009, the PRC police authorities seized all the books and records, minutes of the board of directors meeting, contracts and other records of SZ Property for the period from its date of establishment (October 2006) to June 2009, as well as froze all bank accounts of SZ Property and one of its subsidiaries. After assessing the situation of SZ Property the Directors were unable to estimate the effect of the matter described above but consider the recoverability of the amount receivable from SZ Property to be remote. As such, impairment loss was recorded against the full amount of the balance as at 19 April 2010.

Total amount due from Wuxi Property as at 19 April 2010 amounted to RMB300,000,000. During the year, Shenzhen Airlines initiated legal proceedings against Wuxi Property for the repayment of the balance and accrued interest. The court accepted the legal proceedings and subsequently a judgement in favour of the Group was obtained. However, the Directors are of the view that it was unlikely that Wuxi Property would be able to repay the amount As such, impairment loss was recorded against the full amount of the balance as at 19 April 2010.

The management of the Group made reasonable assessment with respect of the recoverability of the above receivables as at 10 April 2010 and the assessment remained unchanged during the rest of the year ended 31 December 2010. The uncertainty of the assessment may affect the consolidated financial statements.

30 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Group

	2010 Assets RMB'000	2010 Liabilities RMB'000	2009 Assets RMB'000	2009 Liabilities RMB'000
Fuel derivative contracts	–	83,506	–	2,051,428
Interest rate derivative contracts	5,894	330,012	–	223,199
Forward foreign exchange contracts	–	13,811	–	–
Listed equity securities at fair value	21,485	–	–	–
	27,379	427,329	–	2,274,627

Company

	2010 Assets RMB'000	2010 Liabilities RMB'000	2009 Assets RMB'000	2009 Liabilities RMB'000
Fuel derivative contracts	–	83,506	–	2,051,428
Interest rate derivative contracts	–	256,543	–	223,199
	–	340,049	–	2,274,627

The above financial assets and liabilities are accounted for as held-for-trading financial instruments and any fair value change is recognised in the income statement (note 8).

The Group's strategy for managing jet fuel price risk is to provide the Group with protection against sudden and significant increases in prices. In meeting these objectives, the Group allows for the use of approved derivative instruments with approved counterparties and within approved credit limits. The movements in the fair value of fuel derivative contracts for the year ended 31 December 2010 was RMB1,954,070,906 (2009: RMB2,758,224,338), which consisted of a recovery in fair value of RMB1,967,922,187 (2009: RMB5,414,342,597) and a decrease in fair value of RMB13,851,281 (2009: RMB2,656,118,359) resulting from the settlement of fuel derivative contracts.

The fair value of the fuel derivative contracts as at the end of the reporting period was estimated by using Monte Carlo simulation with considerations of mean reversion, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include expected volatility, the mean-reversion speed, long term equilibrium price and risk-free rate which can be obtained from observable markets.

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendlemen-Barter model, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include volatility of short term interest rate and the LIBOR curve, which can be obtained from observable markets.

31 BALANCE WITH THE ULTIMATE HOLDING COMPANY

The amounts due from the Company's ultimate holding company mainly arose from transactions as set out in notes 23 and 55 to the financial statements.

32 BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

33 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**3,477,325**	1,654,399	**1,620,070**	553,840
Cash placed with CNAF	**99,659**	455,400	**99,242**	454,585
Total cash and bank balances *(note 54 (d))*	**3,576,984**	2,109,799	**1,719,312**	1,008,425
Time deposits placed with banks	**7,867,795**	1,161,706	**5,982,305**	81,090
Time deposits placed with CNAF	**3,800,000**	–	**3,800,000**	–
Total time deposits *(note 54(d))*	**11,667,795**	1,161,706	**9,782,305**	81,090
Less: Pledged deposits against:				
Aircraft operating leases and financial derivatives	**(324,923)**	(564,662)	**–**	–
Bank loans	**(436,270)**	–	**–**	–
Others	**(81,872)**	(85)	**–**	–
Total pledged deposits	**(843,065)**	(564,747)	**–**	–
Non-pledged deposits	**10,824,730**	596,959	**9,782,305**	81,090
Cash and cash equivalents	**14,401,714**	2,706,758	**11,501,617**	1,089,515

An analysis of non-pledged time deposit placed with banks is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-pledged time deposits with original maturity of:				
Less than 3 months when acquired	**10,799,066**	566,510	**9,762,923**	50,000
Over 3 months when acquired	**25,664**	30,449	**19,382**	31,090
	10,824,730	596,959	**9,782,305**	81,090

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are placed for vesting periods of up to one year, depending on the cash requirements of the Group and the Company, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

34 ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**5,735,635**	4,027,306	**3,563,224**	3,293,293
31 to 60 days	**959,910**	795,309	**618,938**	684,528
61 to 90 days	**456,123**	469,321	**331,275**	391,100
Over 90 days	**1,093,485**	753,797	**494,501**	676,896
	8,245,153	6,045,733	**5,007,938**	5,045,817

Included in the accounts payable as at the end of the reporting period is the following amount due to a joint venture:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Joint ventures	**106,741**	102,976	**156,254**	192,301

The accounts payable are non-interest-bearing and have normal credit terms of 90 days.

35 BILLS PAYABLE

An aged analysis of the bills payable as at the end of the reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
31 to 60 days	**208,600**	763,255	**–**	160,000
61 to 90 days	**128,727**	–	**–**	–
Over 90 days	**50,000**	–	**–**	–
	387,327	763,255	**–**	160,000

36 OTHER PAYABLES AND ACCRUALS

An analysis of other payables and accruals as at the end of the reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for staff housing benefits	**47,350**	45,981	**45,091**	43,722
Accrued salaries, wages and benefits	**1,988,466**	1,188,557	**1,090,817**	963,216
Interest payable	**320,254**	298,423	**283,176**	301,950
Business tax, customs duties and levies tax payable	**1,061,619**	782,450	**749,818**	705,267
Current portion of long term payables *(note 40)*	**28,716**	19,334	**6,817**	19,334
Current portion of deferred income related to frequent-flyer programme *(note 41(a))*	**423,658**	156,572	**347,338**	146,580
Current portion of deferred income related to government grant *(note 41(b))*	**110,671**	110,088	**110,671**	110,088
Deposits received from sales agents	**851,033**	472,333	**348,286**	279,454
Accrued operating expenses	**1,812,333**	1,154,091	**1,073,479**	991,378
Receipts in advance for employee residence	**806,025**	–	**–**	–
Due to a minority shareholder of a subsidiary	**707,787**	–	**–**	–
Land lease payable	**256,538**	–	**–**	–
Others	**845,383**	417,577	**264,995**	200,528
	9,259,833	4,645,406	**4,320,488**	3,761,517

37 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2011 to 2022 (2009: 2010 to 2019) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, are as follows:

Group

	Minimum lease payments 2010 *RMB'000*	**Present values of minimum lease payments 2010 *RMB'000***	Minimum lease payments 2009 *RMB'000*	Present values of minimum lease payments 2009 *RMB'000*
Amounts repayable:				
Within one year	**2,336,913**	**2,223,240**	3,582,545	3,454,233
In the second year	**2,339,661**	**2,250,662**	1,942,181	1,906,281
In the third to fifth years, inclusive	**7,109,895**	**6,918,659**	6,070,163	6,013,648
Over five years	**7,139,157**	**6,892,031**	7,584,383	7,446,546
Total minimum finance lease payments *(notes 52 and 54)*	**18,925,626**	**18,284,592**	19,179,272	18,820,708
Less: Amounts representing finance charges	**(641,034)**		(358,564)	
Present value of minimum lease payments	**18,284,592**		18,820,708	
Less: Portion classified as current liabilities	**(2,223,240)**		(3,454,233)	
Non-current portion	**16,061,352**		15,366,475	

37 OBLIGATIONS UNDER FINANCE LEASES (Continued)

Company

	Minimum lease payments 2010 *RMB'000*	**Present values of minimum lease payments 2010** *RMB'000*	Minimum lease payments 2009 *RMB'000*	Present values of minimum lease payments 2009 *RMB'000*
Amounts repayable:				
Within one year	**2,114,129**	**2,048,727**	3,582,545	3,454,233
In the second year	**2,127,253**	**2,076,198**	1,942,181	1,906,281
In the third to fifth years, inclusive	**6,838,500**	**6,720,277**	6,070,163	6,013,648
Over five years	**6,809,804**	**6,610,650**	7,584,383	7,446,546
Total minimum finance lease payments *(notes 52 and 54)*	**17,889,686**	**17,455,852**	19,179,272	18,820,708
Less: Amounts representing finance charges	**(433,834)**		(358,564)	
Present value of minimum lease payments	**17,455,852**		18,820,708	
Less: Portion classified as current liabilities	**(2,048,727)**		(3,454,233)	
Non-current portion	**15,407,125**		15,366,475	

Certain finance lease arrangements comprise finance leases between the Company and certain of its subsidiaries, and the corresponding borrowings between such subsidiaries and commercial banks. The Company has guaranteed the subsidiaries' obligations under those bank borrowing arrangements and, accordingly, the relevant assets and obligations are recorded in the Company's statement of financial position to reflect the substance of the transactions. The future payments under these finance leases have therefore been presented by the Company and the Group in the amounts that reflect the payments under the bank borrowing arrangements between the subsidiaries and commercial banks.

As at 31 December 2010, there were 74 (2009: 65) aircraft under finance lease agreements. Under the terms of the leases, the Company has the option to purchase these aircraft, at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from -1.52% to 6.40% (2009: -1.49% to 9.84%) per annum.

37 OBLIGATIONS UNDER FINANCE LEASES (Continued)

The Group's finance leases were secured by:

(a) mortgages over certain of the Group's aircraft, which had an aggregate net carry amount of approximately RMB28,310 million (2009: RMB27,425 million) (note 16); and

(b) guarantees by certain commercial banks in an aggregate amount of approximately RMB243 million (2009: RMB3,058 million).

The Company's finance leases were secured by:

(a) mortgages over certain of the Company's aircraft, which had an aggregate net carry amount of approximately RMB27,226 million (2009: RMB27,425 million); and

(b) guarantees by certain commercial banks in an aggregate amount of approximately RMB243 million (2009: RMB3,058 million).

As at 31 December 2010, certain PRC state-owned banks have provided counter-guarantees in an aggregate amount of RMB109 million (2009: RMB469 million) in respect of the above-mentioned commercial bank guarantee arrangements.

38 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**24,362,134**	6,929,790	**7,450,002**	5,634,046
Unsecured	**33,274,531**	28,117,408	**30,219,346**	27,086,898
	57,636,665	35,047,198	**37,669,348**	32,720,944
Other loans:				
Secured	**270,000**	–	**–**	–
Unsecured	**735,499**	434,322	**–**	319,890
	1,005,499	434,322	**–**	319,890
Corporate bonds – unsecured	**9,000,000**	9,000,000	**9,000,000**	9,000,000
	67,642,164	44,481,520	**46,669,348**	42,040,834
Bank loans repayable:				
Within one year	**24,757,226**	16,826,120	**19,093,115**	15,595,095
In the second year	**9,862,106**	6,478,148	**8,228,949**	6,286,632
In the third to fifth years, inclusive	**12,275,782**	10,085,641	**7,508,840**	9,623,993
Over five years	**10,741,551**	1,657,289	**2,838,444**	1,215,224
	57,636,665	35,047,198	**37,669,348**	32,720,944
Other loans repayable:				
Within one year	**725,499**	334,322	**–**	319,890
In the second year	**90,000**	100,000	**–**	–
In the third to fifth years, inclusive	**190,000**	–	**–**	–
	1,005,499	434,322	**–**	319,890
Corporate bonds:				
In the second year	**3,000,000**	–	**3,000,000**	–
In the third to fifth years, inclusive	**6,000,000**	6,000,000	**6,000,000**	6,000,000
Over five years	**–**	3,000,000	**–**	3,000,000
	9,000,000	9,000,000	**9,000,000**	9,000,000
Total bank loans, other loans and corporate bonds *(notes 52 and 54(d))*	**67,642,164**	44,481,520	**46,669,348**	42,040,834
Less: Portion classified as current liabilities	**(25,482,725)**	(17,160,442)	**(19,093,115)**	(15,914,985)
Non-current portion	**42,159,439**	27,321,078	**27,576,233**	26,125,849

38 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Further details of the bank loans, other loans and corporate bonds at the end of the reporting period are as follows:

Nature	Interest rate and final maturity	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
RMB denominated loans and corporate bonds:					
Loans for purchases of aircraft and flight equipment	Floating interest rates ranging from 5.18% to 7.13% (2009: 5.18% to 6.72%) per annum, with maturities up until 2023	**4,928,816**	432,997	**7,900**	23,700
Loans for construction in progress	Floating interest rates ranging at 4.86% (2009: 4.86% to 5.10%) per annum, with maturities up until 2011	**100,000**	701,930	**–**	319,890
Loans for working capital	Fixed interest rates ranging from 4.37% to 8.60% (2009: 4.37% to 5.84%) per annum, with maturities up until 2011	**1,063,307**	417,101	**–**	–
Loans for working capital	Floating interest rates from 4.59% to 5.83% (2009: 4.78%) per annum, with maturities up until 2013	**2,688,643**	18,000	**–**	–
Corporate bonds for purchases of aircraft and flight equipment	Fixed interest rate at 4.50% (2009: 4.50%) per annum, with maturity up until 2015	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Corporate bonds for working capital	Fixed interest rates ranging from 3.32% to 3.48% (2009: 3.32% to 3.48%) per annum, with maturities up until 2014	**6,000,000**	6,000,000	**6,000,000**	6,000,000
		17,780,766	10,570,028	**9,007,900**	9,343,590

38 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group		Company	
		2010	2009	**2010**	2009
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States dollar ("US$") denominated loans:					
Loans for purchases of aircraft and flight equipment	Fixed interest rates ranging from 3.80% to 8.33% (2009: 1.08% to 10.00%) per annum, with maturities up until 2019	**921,620**	1,603,206	**921,620**	1,603,206
Loans for purchases of aircraft and flight equipment	Floating interest rate at six month LIBOR+0.50% to six-month LIBOR +3.40% and twelve-month LIBOR +1.60% (2009: six-month LIBOR+0.50% to 0.90%) per annum, with maturities up until 2022	**19,944,761**	6,676,632	**9,694,516**	5,799,184
Loans for working capital	Floating interest rates ranging from three-month LIBOR+ 0.18% to six-month LIBOR+3.00% (2009: three-month LIBOR+ 0.27% to six-month LIBOR+1.00%) per annum, with maturities up until 2014	**22,517,899**	18,755,700	**20,993,296**	18,524,225
Loans for working capital	Fixed interest rates ranging from 0.85% to 2.44% (2009: 1.08% to 1.48%) per annum, with maturities up until 2011	**425,102**	88,228	**–**	–
		43,809,382	27,123,766	**31,609,432**	25,926,615

38 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Hong Kong dollar denominated loans:					
Loans for capital investment	Floating interest rates at three-month HIBOR+0.45% to six-month HIBOR+0.85% (2009: three months HIBOR+0.45% to six months HIBOR+0.85%) per annum, with maturities up until 2013	**5,845,683**	6,542,115	**5,845,683**	6,542,115
		5,845,683	6,542,115	**5,845,683**	6,542,115
MOP denominated loans:					
Loans for capital investment	Floating interest rate at three-month HIBOR +0.50% (2009: three-month HIBOR+0.50%) per annum, with maturities up until 2010	**–**	17,097	**–**	–
		–	17,097	**–**	–
Euros denominated loans:					
Loans for purchase of related equipment	Fixed interest rate at 3.88% (2009: 3.88%) per annum, with maturities up until 2013	**206,333**	228,514	**206,333**	228,514
		206,333	228,514	**206,333**	228,514
Total bank and other borrowings		**67,642,164**	44,481,520	**46,669,348**	42,040,834
Less: Portion falling due within one year and classified as current liabilities		**(25,482,725)**	(17,160,442)	**(19,093,115)**	(15,914,985)
Non-current portion		**42,159,439**	27,321,078	**27,576,233**	26,125,849

38 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

The interest rates of RMB denominated loans are set and subject to change by the People's Bank of China.

The Group's bank and other loans of approximately RMB27,632 million as at 31 December 2010 (2009: RMB10,168 million) were secured or guaranteed by:

(a) mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carry amount of approximately RMB27,575 million as at 31 December 2010 (2009: RMB9,688 million) (note 16); and land use rights with an aggregate carrying amount of approximately RMB40 million as at 31 December 2010 (2009: RMB35 million) (note 17);

(b) the pledge of certain number of listed shares in an associate of the Group with an aggregate market value of approximately RMB7,287 million as at 31 December 2010 (2009: RMB5,161 million) (note 22); and

(c) guarantees by certain commercial banks amounting to approximately RMB1,169 million as at 31 December 2010 (2009: RMB2,121 million).

The Company's bank and other loans of approximately RMB16,696 million as at 31 December 2010 (2009: RMB8,634 million) were secured or guaranteed by:

(d) mortgages over certain of the Company's aircraft and buildings with an aggregate net book value of approximately RMB9,706 million as at 31 December 2010 (2009: RMB7,393 million); and land use rights with an aggregate carrying amount of approximately RMB35 million as at 31 December 2010 (2009: RMB35 million) (note 17); and

(e) guarantees provided by certain commercial banks amounting to approximately RMB1,169 million as at 31 December 2010 (2009: RMB2,121 million).

As at 31 December 2010, certain PRC state-owned banks provided counter-guarantees in an aggregate amount of approximately RMB1,012 million (2009: RMB1,677 million) to one of the above-mentioned commercial banks.

39 PROVISION FOR MAJOR OVERHAULS

Details of the movements of provision for major overhauls in respect of aircraft and engines under operating leases at the end of the reporting period are as follows:

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**1,587,126**	1,495,847	**1,232,729**	1,205,932
Acquisition of a subsidiary	**1,205,296**	–	**–**	–
Provision for the year	**1,264,117**	821,718	**643,476**	542,768
Utilisation during the year	**(1,447,761)**	(730,439)	**(526,278)**	(515,971)
As at 31 December	**2,608,778**	1,587,126	**1,349,927**	1,232,729
Less: Portion classified as current liabilities	**(503,628)**	(268,418)	**(135,662)**	(168,548)
Non-current portion	**2,105,150**	1,318,708	**1,214,265**	1,064,181

The amount of provision is estimated based on the costs of overhauls and actual flying hours/cycles of aircraft and engines under operating leases. The estimation basis is reviewed on an ongoing basis and revised whenever appropriate.

40 LONG TERM PAYABLES

An analysis of long term payables at the end of the reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Customs duties and value-added tax payable in respect of acquisition of aircraft and flight equipment under finance leases	**9,193**	28,783	**9,193**	28,783
Non-voting redeemable preference shares of a subsidiary	**165,229**	170,971	**–**	–
Others	**119,453**	–	**–**	–
	293,875	199,754	**9,193**	28,783
Less: Portion classified as current liabilities *(note 36)*	**(28,716)**	(19,334)	**(6,817)**	(19,334)
Non-current portion	**265,159**	180,420	**2,376**	9,449

41 DEFERRED INCOME

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Frequent-flyer programme *(a)*	**1,694,147**	790,883	**1,102,972**	785,027
Government grant *(b)*	**1,357,436**	1,314,671	**1,344,735**	1,310,591
Gain on sale and leaseback arrangements *(c)*	**114,659**	–	**–**	–
Operating lease rebates	**29,861**	–	**–**	–
	3,196,103	2,105,554	**2,447,707**	2,095,618

41 DEFERRED INCOME (Continued)

(a) The movements in deferred income related to the Group's frequent-flyer programme during the year are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**947,455**	1,123,855	**931,607**	1,109,705
Acquisition of a subsidiary	**491,147**	–	**–**	–
Arising during the year	**1,346,633**	801,511	**1,102,972**	785,027
Recognised as air traffic revenue during the year	**(667,430)**	(977,911)	**(584,269)**	(963,125)
As at 31 December	**2,117,805**	947,455	**1,450,310**	931,607
Less: Portion classified as current liabilities *(note 36)*	**(423,658)**	(156,572)	**(347,338)**	(146,580)
Non-current portion	**1,694,147**	790,883	**1,102,972**	785,027

(b) The movements in deferred income related to government grant during the year are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income:				
As at 1 January	**2,112,037**	1,462,667	**2,107,957**	1,462,667
Acquisition of a subsidiary	**26,931**	–	**–**	–
Addition	**145,400**	649,370	**145,400**	645,290
As at 31 December	**2,284,368**	2,112,037	**2,253,357**	2,107,957
Accumulated income recognised:				
As at 1 January	**(687,278)**	(590,643)	**(687,278)**	(590,643)
Acquisition of a subsidiary	**(11,976)**	–	**–**	–
Recognised as other operating revenue during the year *(note 5)*	**(83,277)**	(76,943)	**(76,943)**	(76,943)
Recognised as air traffic revenue during the year	**(33,730)**	(19,692)	**(33,730)**	(19,692)
As at 31 December	**(816,261)**	(687,278)	**(797,951)**	(687,278)
Net carrying amounts	**1,468,107**	1,424,759	**1,455,406**	1,420,679
Less: Portion classified as current liabilities *(note 36)*	**(110,671)**	(110,088)	**(110,671)**	(110,088)
Non-current portion	**1,357,436**	1,314,671	**1,344,735**	1,310,591

41 DEFERRED INCOME (Continued)

(c) The movements in deferred income related to gain on sale and leaseback arrangements during the year are as follows:

	Group 2010 RMB'000	2009 RMB'000
Deferred income:		
As at 1 January	–	–
Acquisition of a subsidiary	153,497	–
As at 31 December	153,497	–
Accumulated income recognised:		
As at 1 January	–	–
Acquisition of a subsidiary	(28,036)	–
Recognised during the year	(10,802)	–
As at 31 December	(38,838)	–
Net carrying amounts	114,659	–
Non-current portion	114,659	–

42 SHARE CAPITAL

The numbers of shares of the Company and their nominal values as at 31 December 2010 and 31 December 2009 are as follows:

	Number of shares 2010	Nominal value 2010 RMB'000	Number of shares 2009	Nominal value 2009 RMB'000
Registered, issued and fully paid				
H shares of RMB1.00 each:				
Tradable	4,405,683,364	4,405,683	4,405,683,364	4,405,683
Trade-restricted *	157,000,000	157,000	–	–
A shares of RMB1.00 each:				
Tradable	7,845,678,909	7,845,679	7,845,678,909	7,845,679
Trade-restricted *	483,592,400	483,593	–	–
	12,891,954,673	12,891,955	12,251,362,273	12,251,362

* The trade-restricted shares were issued on 12 November 2010, details of which are set out in note 1 to the financial statements.

The H shares and A shares rank pari passu, in all material respects, with the state legal person shares and non-H foreign shares of the Company (note 1).

43 TREASURY SHARES

As at 31 December 2010, the Group owned 29.99% equity interest in Cathay Pacific, which in turn owned 18.31% equity interest in the Company. Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

44 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Company

	Capital reserve *RMB'000*	Reserve funds *RMB'000*	Retained earnings/ (accumulated losses) *RMB'000*	Total *RMB'000*
As at I January 2009	11,025,878	1,554,324	(4,714,796)	7,865,406
Total comprehensive income for the year	–	–	4,208,145	4,208,145
Others	(3,000)	–	–	(3,000)
As at 31 December 2009 and 1 January 2010	11,022,878	1,554,324	(506,651)	12,070,551
Total comprehensive income for the year	(127)	–	7,412,496	7,412,369
Issue of new shares	5,780,556	–	–	5,780,556
Appropriation of statutory reserve fund	–	614,386	(614,386)	–
As at 31 December 2010	**16,803,307**	**2,168,710**	**6,291,459**	**25,263,476**

45 SHARE APPRECIATION RIGHTS

The Company has adopted a share appreciation rights ("SAR") arrangement (the "Plan") which was approved by the shareholders on 18 October 2004 for the purpose of motivating its employees. The Plan provides for the grant of SARs to eligible participants, including the Company's Directors (excluding independent non-executive Directors), president, vice presidents, heads of key departments in the Company's headquarters, general managers and general deputy managers of principal branches and subsidiaries as well as selected senior professionals and key specialists. In any event, no more than 200 individuals will be granted SARS.

Under the Plan, the holders of SARs are entitled to the rights to receive an amount in respect of the appreciation in market value of the Company's H shares from the date of grant of SARs to the date of exercise. No shares will be issued under the Plan and therefore the Company's equity interests will not be diluted as a result of the issuance of SARs. The maximum number of unexercised SARs permitted to be granted under the Plan is, upon their exercise, limited to 2% of the Company's H shares in issue at any time during each year. The maximum number of SARs granted to eligible participants under the Plan within any 12-month period is, upon their exercise, limited to 0.4% of the Company's H shares in issue at any time during each year. The maximum number of SARs granted to any eligible participant is limited to 10% of the total number of unexercised SARs in issue at any time during each year. Any further grant of SARs in excess of the above limits is subject to shareholders' approval in general meetings.

45 SHARE APPRECIATION RIGHTS (Continued)

The exercise period of all SARs commences after a vesting period and ends on a date which is not later than five years from the date of grant of the SARs. The exercise price of SARs will be equal to the average closing price of the Company's H shares on the HKSE for the five consecutive trading days immediately preceding the date of the grant. On 15 June 2007, 14,939,900 SARs were granted to a total of 109 individuals at an exercise price of HK$2.98 per share. As at each of the last days of the second, third and fourth anniversaries of the date of grant, the total numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants. As at 31 December 2010, all SARs granted remained unexercised and had an aggregate fair value of RMB19,284,138.

On 25 August 2009, a board resolution was passed to suspend the Plan and to amend certain terms of the Plan in response to certain recently announced government policies. The revised Plan will be submitted for approval in the forthcoming annual general meeting.

The fair value of SARs was estimated initially as at the date of grant using a binomial model, taking into account the terms and conditions upon which the SARs were granted. The major inputs used in the estimation process include expected life of rights, expected volatility, risk-free interest rate which can be taken from observable markets.

46 DISTRIBUTABLE RESERVES

As at 31 December 2010, in accordance with the PRC Company Law, an amount of approximately RMB20,113 million (2009: RMB14,332 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB2,169 million (2009: RMB1,554 million) standing to the credit of the Company's reserve funds, as determined in accordance with CAS, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB5,529 million available for distribution as at 31 December 2010.

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47 MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into several finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB3,231 million (2009: RMB2,779 million).

48 BUSINESS COMBINATION

On 19 April 2010, the Company acquired 26% equity interests in Shenzhen Airlines in addition to the 25% equity interest it already held. Further details of the transaction are included in Note 1 to the financial statements. Upon completion of the transaction, the Company's interest in Shenzhen Airlines increased from 25% to 51%. Shenzhen Airlines was then changed from an associate into a subsidiary of the Company with effect from 19 April 2010.

By the end of the reporting period, the fair values of the identifiable assets, liabilities and contingent liabilities of Shenzhen Airlines as at the date of acquisition were determined provisionally based on management's best estimates. The Company will recognise any adjustment to the provisional value after completing the initial accounting within one year of the acquisition date.

48 BUSINESS COMBINATION (Continued)

The provisional fair values of the identifiable net assets in Shenzhen Airlines as at the date of acquisition are as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	18,260,930
Lease prepayments	111,333
Interests in associates	46,989
Advance payments for aircraft and flight equipment	3,820,300
Deposits for aircraft under operating leases	170,191
Available-for-sale investment	(1,847)
Deferred tax assets	635
Financial assets	24,738
Inventories	182,715
Accounts receivable	618,580
Prepayments, deposits and other receivable	710,825
Pledged deposits	1,782,573
Cash and cash equivalents	2,000,733
Financial liabilities	(82,410)
Air traffic liabilities	(348,617)
Accounts payable	(2,008,501)
Bills payable	(235,025)
Other payables and accruals	(3,501,617)
Tax payable	(161,464)
Obligations under finance leases	(355,878)
Interest-bearing bank and other borrowings	(19,945,308)
Provision for major overhauls	(1,205,296)
Long-term payables	(87,596)
Deferred income	(589,955)
Deferred tax liabilities	(111,653)
Non-controlling interests	(19,980)
Total identifiable net assets at fair value	(924,605)
Add: Goodwill arising on acquisition	1,304,320
Less: Non-controlling interests on acquisition	(453,057)
	832,772
Remeasurement of the 25% equity interest previously held	150,628
Purchase consideration transferred	682,144
	832,772

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB87,431,067,000 and RMB12,518,653,000, respectively.

48 BUSINESS COMBINATION (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of an additional interest in Shenzhen Airlines is as follows:

	RMB'000
Cash consideration	(682,144)
Net cash acquired from the acquisition of an additional interest in Shenzhen Airlines	2,502,195
Net inflow of cash and cash equivalents in respect of the acquisition of an additional interest in Shenzhen Airlines	1,820,051

49 CONTINGENT LIABILITIES

As at 31 December 2010, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

(b) On 15 April 2002, Flight CA129 crashed on approach to Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed aircraft. An investigation was conducted by the Chinese and the Korean civil aviation authorities, but the investigation has yet to be concluded at the date of approval of these financial statements. Certain injured passengers and family members of the deceased passengers and crew members have commenced proceedings in Korean courts seeking damages against Air China International Corporation (the predecessor of the Company). The Group cannot predict the timing of the courts' judgements or the possible outcome of the lawsuits nor any possible appeal actions. Up to 31 December 2010, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB399 million (2009: RMB238 million) in respect of passenger liability and other auxiliary costs, within which approximately RMB388 million (2009: RMB231 million) borne by the Company's insurer. As part of the above-mentioned restructuring, CNAHC has agreed to indemnify the Group for any liabilities relating to the crash of Flight CA129, excluding the compensation already paid up to 30 September 2004 (being the date of incorporation of the Company). The Directors of the Company believe that there will not be any material adverse impact on the Group's financial position.

(c) On 26 February 2007, the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States and the European Union. The status of the proceedings is still in the preliminary stage and therefore the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The Directors of the Company are also of the view that there would be valid defence against this claim and consider that no provision for this claim is needed accordingly.

49 CONTINGENT LIABILITIES (Continued)

(d) On 17 November 2009, Airport City Development Co., Ltd. ("Airport City Development") commenced proceedings involving approximately RMB224 million against the Company, Air China Cargo, Air China International Corporation and a third party, for the unlawful use of land owned by Airport City Development. The status of the proceedings is still in the preliminary stage and the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The Directors of the Company are also of the view that there would be valid defence against this claim and consider that no provision for this claim is needed accordingly.

(e) The Group and the Company have issued guarantees to banks in respect of the bank loans granted to the following parties:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Associates	**–**	130,779	**–**	130,779
Subsidiary	**–**	–	**271,797**	305,797
	–	130,779	**271,797**	436,576

(f) Shenzhen Airlines, a subsidiary of the Group has provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 31 December 2010, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB281,475,589 and for pilot trainees' tuition loans amounting to RMB354,705,922.

50 OPERATING LEASE ARRANGEMENTS

The Group and the Company lease certain office premises, aircraft and flight equipment under operating lease arrangements. Leases for these assets are negotiated for terms ranging from 1 to 20 years.

At the end of the reporting period, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**3,743,901**	2,941,092	**2,272,501**	2,476,825
In the second to fifth years, inclusive	**9,952,825**	6,901,533	**5,060,039**	5,604,284
Over five years	**5,423,563**	4,209,817	**2,710,510**	3,701,197
	19,120,289	14,052,442	**10,043,050**	11,782,306

51 COMMITMENTS

(a) Capital commitments

The Group and the Company had the following amounts of contractual commitments for the acquisition and construction of plant, property and equipment as at the end of the reporting period:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Aircraft and flight equipment	**118,639,688**	57,458,579	**91,367,627**	56,737,410
Buildings	**1,765,801**	224,525	**723,939**	163,065
Others	**48,369**	47,803	**38,639**	25,703
	120,453,858	57,730,907	**92,130,205**	56,926,178
Authorised, but not contracted for:				
Aircraft and flight equipment	**–**	515,520	**–**	–
Buildings	**1,443,606**	3,217,713	**1,443,605**	3,124,116
Others	**187,963**	572,472	**150,463**	478,265
	1,631,569	4,305,705	**1,594,068**	3,602,381
Total capital commitments *(note 54)*	**122,085,427**	62,036,612	**93,724,273**	60,528,559

(b) Investment commitment

The Group and the Company had the following amount of investment commitment as at the end of the reporting period:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Associate *(note 54)*	**239,000**	50,633	**–**	50,633

52 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's and the Company's financial instruments approximated to their fair value as at the end of the reporting period. The present value of bank loans and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long term deposits and other financial assets have been discounted to present value based on market interest rates. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2010

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	44,420	–	44,420
Due from related companies	–	3,244	–	3,244
Deposits for aircraft under operating leases	–	391,600	–	391,600
Long term receivable from the ultimate holding company	–	31,813	–	31,813
Available-for-sale investments	–	–	27,182	27,182
Accounts and bills receivables	–	3,109,789	–	3,109,789
Financial assets included in deposits and other receivables *(note 29)*	–	1,104,589	–	1,104,589
Financial assets	27,379	–	–	27,379
Due from ultimate holding company	–	617,140	–	617,140
Pledged deposits	–	843,065	–	843,065
Cash and cash equivalents	–	14,401,714	–	14,401,714
	27,379	20,547,374	27,182	20,601,935

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(127,068)	(127,068)
Accounts and bills payables	–	(8,632,480)	(8,632,480)
Financial liabilities included in other payables and accruals	–	(7,872,129)	(7,872,129)
Financial liabilities	(427,329)	–	(427,329)
Due to related companies	–	(40,789)	(40,789)
Obligations under finance leases *(note 37)*	–	(18,284,592)	(18,284,592)
Interest-bearing bank and other borrowings *(note 38)*	–	(67,642,164)	(67,642,164)
	(427,329)	(102,599,222)	(103,026,551)

52 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group

2009

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	28,765	–	28,765
Due from related companies	–	10,194	–	10,194
Deposits for aircraft under operating leases	–	253,815	–	253,815
Long term receivable from ultimate holding company	–	131,813	–	131,813
Available-for-sale investments	–	–	1,997	1,997
Accounts and bills receivables	–	2,056,754	–	2,056,754
Financial assets included in deposits and other receivables *(note 29)*	–	734,863	–	734,863
Due from ultimate holding company	–	461,147	–	461,147
Due from related companies	–	10,194	–	10,194
Pledged deposits	–	564,747	–	564,747
Cash and cash equivalents	–	2,706,758	–	2,706,758
	–	6,959,050	1,997	6,961,047

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(113,450)	(113,450)
Accounts and bills payables	–	(6,808,988)	(6,808,988)
Financial liabilities included in other payables and accruals	–	(4,332,765)	(4,332,765)
Financial liabilities	(2,274,627)	–	(2,274,627)
Due to related companies	–	(113,024)	(113,024)
Obligations under finance leases *(note 37)*	–	(18,820,708)	(18,820,708)
Interest-bearing bank and other borrowings *(note 38)*	–	(44,481,520)	(44,481,520)
	(2,274,627)	(74,670,455)	(76,945,082)

52 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2010

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	617,201	–	617,201
Due from associates *(note 22)*	–	40,448	–	40,448
Due from related companies	–	2	–	2
Financial assets included in deposits for aircraft under operating leases	–	202,668	–	202,668
Long term receivable from ultimate holding company	–	31,813	–	31,813
Available-for-sale investments	–	–	3,366	3,366
Accounts and bills receivable	–	1,465,051	–	1,465,051
Deposits and other receivables (note 29)	–	530,010	–	530,010
Due from ultimate holding company	–	617,669	–	617,669
Cash and cash equivalents	–	11,501,617	–	11,501,617
	–	15,006,479	3,366	15,009,845

Financial liabilities

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(367,364)	(367,364)
Due to associates *(note 22)*	–	(30,753)	(30,753)
Accounts and bills payables	–	(5,007,938)	(5,007,938)
Financial liabilities included in other payables and accruals	–	(3,817,388)	(3,817,388)
Financial liabilities	(340,049)	–	(340,049)
Due to related companies	–	(41,888)	(41,888)
Obligations under finance leases *(note 37)*	–	(17,455,852)	(17,455,852)
Interest-bearing bank and other borrowings *(note 38)*	–	(46,669,348)	(46,669,348)
	(340,049)	(73,390,531)	(73,730,580)

52 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2009

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	391,490	–	391,490
Due from associates *(note 22)*	–	20,213	–	20,213
Deposits for aircraft under operating leases	–	182,406	–	182,406
Long term receivable from ultimate holding company	–	131,813	–	131,813
Available-for-sale investments	–	–	3,366	3,366
Accounts and bills receivable	–	1,231,688	–	1,231,688
Financial assets included in deposits and other receivables *(note 29)*	–	407,855	–	407,855
Due from ultimate holding company	–	468,447	–	468,447
Cash and cash equivalents	–	1,089,515	–	1,089,515
	–	3,923,427	3,366	3,926,793

Financial liabilities

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(261,490)	(261,490)
Due to associates *(note 22)*	–	(111,258)	(111,258)
Accounts and bills payables	–	(5,205,817)	(5,205,817)
Financial liabilities included in other payables and accruals	–	(3,461,128)	(3,461,128)
Financial liabilities	(2,274,627)	–	(2,274,627)
Due to related companies	–	(26,363)	(26,363)
Obligations under finance leases *(note 37)*	–	(18,820,708)	(18,820,708)
Interest-bearing bank and other borrowings *(note 38)*	–	(42,040,834)	(42,040,834)
	(2,274,627)	(69,927,598)	(72,202,225)

53 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Group

Assets measured at fair value as at 31 December 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets	21,485	5,894	–	27,379

Liabilities measured at fair value as at 31 December 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities	–	(427,329)	–	(427,329)

During the year ended 31 December 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other loans and corporate bonds, obligations under finance leases, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, including principally swaps and collars contracts. The purpose is to manage the jet fuel price risk and interest rate risk arising from the Group's operations.

The Group operates globally and generates revenue in various currencies. The Group's airline operations are exposed to liquidity risk, jet fuel price risk, foreign currency risk, interest rate risk and credit risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance.

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management policies are periodically reviewed and approved by the Board of Directors and they are summarised below.

(a) Liquidity risk

The Group's net current liabilities amounted to approximately RMB29,410 million as at 31 December 2010 (2009: RMB28,648 million). The Group recorded a net cash inflow from operating activities of approximately RMB18,366 million for the year ended 31 December 2010 (2009: RMB5,465 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB14,058 million (2009: RMB12,666 million). The Group also recorded an net cash inflow from financing activities of approximately RMB7,463 million for the year ended 31 December 2010 (2009: RMB6,948 million). The Group recorded a increase in cash and cash equivalents of approximately RMB11,700 million and an decrease in cash and cash equivalents of approximately RMB273 million for the years ended 31 December 2010 and 2009, respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB125,071 million as at 31 December 2010 (2009: RMB84,148 million), of which an amount of approximately RMB46,365 million was utilised (2009: RMB32,692 million).

The Directors of the Company had carried out a detailed review of the cash flow forecast of the Group for the year ending 31 December 2010. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to associates *(note 22)*	–	127,068	–	–	127,068
Accounts and bills payables	510,080	8,122,400	–	–	8,632,480
Financial liabilities included in other payables and accruals	1,912,652	5,959,477	–	–	7,872,129
Financial liabilities	–	427,329	–	–	427,329
Due to related companies	–	40,789	–	–	40,789
Obligations under finance leases *(note 37)*	–	2,336,913	9,449,556	7,139,157	18,925,626
Interest-bearing bank and other borrowings	–	25,920,416	32,766,107	11,793,662	70,480,185
Guarantee *(note 49(f))*	636,182	–	–	–	636,182
	3,058,914	42,934,392	42,215,663	18,932,819	107,141,788

	2009				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to associates *(note 22)*	–	113,450	–	–	113,450
Accounts and bills payables	400,196	6,408,792	–	–	6,808,988
Financial liabilities included in other payables and accruals	951,571	3,381,194	–	–	4,332,765
Financial liabilities	–	2,274,627	–	–	2,274,627
Due to related companies	–	113,024	–	–	113,024
Obligations under finance leases *(note 37)*	–	3,582,545	8,012,344	7,584,383	19,179,272
Interest-bearing bank and other borrowings	–	17,160,442	23,563,437	4,745,856	45,469,735
Guarantee *(note 49(e))*	130,779	–	–	–	130,779
	1,482,546	33,034,074	31,575,781	12,330,239	78,422,640

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2010				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to subsidiaries *(note 20)*	**–**	**367,364**	**–**	**–**	**367,364**
Due to associates *(note 22)*	**–**	**30,753**	**–**	**–**	**30,753**
Account and bills payables	**461,383**	**4,546,555**	**–**	**–**	**5,007,938**
Financial liabilities included in other payables and accruals	**1,098,104**	**2,719,284**	**–**	**–**	**3,817,388**
Financial liabilities	**–**	**340,049**	**–**	**–**	**340,049**
Due to related companies	**–**	**41,888**	**–**	**–**	**41,888**
Obligations under finance leases *(note 37)*	**–**	**2,114,129**	**8,965,753**	**6,809,804**	**17,889,686**
Interest-bearing bank and other borrowings	**–**	**19,432,115**	**25,760,155**	**3,038,952**	**48,231,222**
Guarantee *(note 49(e))*	**271,797**	**–**	**–**	**–**	**271,797**
	1,831,284	**29,592,137**	**34,725,908**	**9,848,756**	**75,998,085**

	2009				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to subsidiaries *(note 20)*	–	261,490	–	–	261,490
Due to associates *(note 22)*	–	111,258	–	–	111,258
Account and bills payables	376,584	4,829,233	–	–	5,205,817
Financial liabilities included in other payables and accruals	695,942	2,765,186	–	–	3,461,128
Financial liabilities	–	2,274,627	–	–	2,274,627
Due to related companies	–	26,363	–	–	26,363
Obligations under finance leases *(note 37)*	–	3,582,545	8,012,344	7,584,383	19,179,272
Interest-bearing bank and other borrowings	–	15,914,985	23,031,461	4,415,086	43,361,532
Guarantee *(note 49(e))*	436,576	–	–	–	436,576
	1,509,102	29,765,687	31,043,805	11,999,469	74,318,063

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Jet fuel price risk

The Group's strategy for managing the risk on jet fuel price aims to provide the Group with protection against sudden and significant increases in prices. In meeting these objectives, the Group allows for the judicious use of approved derivative instruments such as swaps and collars with approved counterparties and within approved limits.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in fuel price, with all other variables held constant and excluding the impact of fuel derivative contracts, of the Group's profit before tax for the year:

	Change in profit before tax *RMB'000*
31 December 2010	
If fuel price changes by RMB1,000 per tonne	**4,262,070**
31 December 2009	
If fuel price changes by RMB1,000 per tonne	3,162,892

The following table demonstrates the sensitivity at 31 December 2010 to a reasonably possible change in fuel price, with all other variables held constant, of the Group's profit before tax for the year due to changes in the fair value of fuel derivative contracts:

	Increase/(decrease) in profit before tax *RMB'000*
If fuel price decreases by:	
-20%	(511,111)
-15%	(265,711)
-10%	(137,229)
- 5%	(53,092)
If fuel price increases by:	
+ 5%	33,476
+10%	55,803
+15%	70,957
+20%	82,387

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses to meet its foreign currency liabilities repayable within one year.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) for the year:

	Change in profit/ (loss) before tax *RMB'000*
31 December 2010	
If RMB changes against US$ by 1%	**701,158**
31 December 2009	
If RMB changes against US$ by 1%	400,418

(d) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk (Continued)

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

31 December 2010

Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	100,972	105,364	345,462	688,130	1,239,928
Interest-bearing bank and other borrowings *(note 38)*	2,032,916	3,204,028	6,130,350	249,067	11,616,361
Time deposits *(note 33)*	11,667,795	–	–	–	11,667,795

Floating rate

	Within one year	In the second year	In the third to fifth years, inclusive	Over five years	Total
Obligations under finance leases *(note 37)*	2,122,268	2,145,298	6,573,197	6,203,901	17,044,664
Interest-bearing bank and other borrowings *(note 38)*	23,449,809	9,748,078	12,335,432	10,492,484	56,025,803
Cash at bank *(note 33)*	3,576,984	–	–	–	3,576,984

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk (Continued)

31 December 2009

Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	1,744,724	131,745	274,371	625,035	2,775,875
Interest-bearing bank and other borrowings *(note 38)*	1,176,702	561,024	6,301,459	3,297,864	11,337,049
Time deposits *(note 33)*	1,161,706	–	–	–	1,161,706

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	1,709,509	1,774,536	5,739,277	6,821,511	16,044,833
Interest-bearing bank and other borrowings *(note 38)*	15,983,740	6,017,124	9,784,182	1,359,425	33,144,471
Cash at bank *(note 33)*	2,109,799	–	–	–	2,109,799

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as a fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) for the year.

	Change in profit before tax ***RMB'000***
31 December 2010	
If interest rate of borrowings changes by 50 basis points	**301,082**
31 December 2009	
If interest rate of borrowings changes by 50 basis points	220,635

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Credit risk

The following table set forth the maximum credit exposure of the Group, within which loans and receivables granted and deposits are placed at carrying amount, net of any impairment losses, and derivatives are at current fair value. For financial guarantees and loan commitments, the maximum exposure represents the maximum amount the Group could be required to pay without consideration of the probability of the actual outcome.

	31 December 2010 ***RMB'000***	31 December 2009 *RMB'000*
Due from associates *(note 22)*	**44,420**	28,765
Deposits for aircraft under operating leases	**391,600**	253,815
Long term receivable from the ultimate holding company	**31,813**	131,813
Available-for-sale investments	**27,182**	1,997
Accounts and bills receivables	**3,109,789**	2,056,754
Financial assets included in deposits and other receivables *(note 29)*	**1,104,589**	734,863
Financial assets	**27,379**	–
Due from the ultimate holding company	**617,140**	461,147
Due from related companies	**3,244**	10,194
Pledged deposits	**843,065**	564,747
Cash and cash equivalents	**14,401,714**	2,706,758
Guarantee *(note 49(e),(f))*	**636,182**	130,779
Commitments *(note 51)*	**122,324,427**	62,087,245
Operating lease arrangements *(note 50)*	**19,120,289**	14,052,442
	162,682,833	83,221,319

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 28 to the financial statements.

The Group's cash and cash equivalents are deposited with banks in Mainland China, overseas banks and an associate. The Group has policies in place to limit the exposure to any single financial institution.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB882 million or 28% of accounts receivable as at 31 December 2010 (2009: RMB564 million or 27% of accounts receivable).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

54 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratios as at the ends of the reporting periods were as follows:

	2010	2009
	RMB'000	*RMB'000*
Total Liabilities	**117,402,762**	83,964,555
Total assets	**158,773,999**	107,919,022
Gearing ratio	**73.94%**	77.80%

55 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group) and joint ventures (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) associates:

	Group	
	2010	2009
	RMB'000	*RMB'000*
(a) Included in air traffic revenue		
Sale of cargo space:		
CNAHC Group	**102,747**	100,614
Joint venture	**15,348**	–
Associate	**116,128**	12,670
	234,223	113,284
Government charter flights:		
CNAHC Group	**557,706**	568,647
Associate	**–**	300
	557,706	568,947
(b) Included in other operating revenue		
Equipment lease income:		
CNAHC Group	**1,050**	–
Joint venture	**–**	49
Associate	**8,844**	–
	9,894	49
Aircraft engineering income:		
Joint venture	**447**	–
Associates	**41,396**	44,416
	41,843	44,416
Ground service income:		
CNAHC Group	**520**	7
Joint venture	**183**	142
Associates	**73,458**	66,945
	74,161	67,094
Others:		
CNAHC Group	**37,587**	32,410
Joint venture	**11,776**	7,228
Associates	**14,067**	11,344
	63,430	50,982

55 RELATED PARTY TRANSACTIONS (Continued)

	Group 2010 RMB'000	2009 RMB'000
(c) Included in finance revenue and finance costs		
Interest income:		
Associate	**11,153**	7,340
Interest expense:		
Associate	**26,070**	38,357
(d) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	**42,956**	95,399
Associates	**88,163**	96,131
	131,119	191,530
Air catering charges:		
CNAHC Group	**53,296**	43,344
Associates	**9,609**	14,959
	62,905	58,303
Repair and maintenance costs:		
CNAHC Group	**58**	–
Joint venture	**778,778**	660,252
Associates	**664,113**	466,254
	1,442,949	1,126,506
Sale commission expenses:		
CNAHC Group	**9,399**	3,536
Joint venture	**15,366**	11,331
Associates	**1,922**	2,105
	26,687	16,972
Management fees:		
CNAHC Group	**8,352**	9,168
Aircraft and flight equipment leasing fees:		
Associates	**645,242**	630,438
Others:		
CNAHC Group	**171,337**	144,502
Joint venture	**1,721**	1,913
Associates	**20,739**	9,413
	193,797	155,828

55 RELATED PARTY TRANSACTIONS (Continued)

	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
(e) Deposits, loans and bills payable:				
Deposits placed with an associate *(note 33)*	**3,899,659**	455,400	**3,899,242**	454,585
Loans from an associate	**1,005,499**	527,731	**–**	319,890
(f) Other:				
Associate	**19,500**	–	**–**	–
(g) Outstanding balances with related parties:				
Long term receivable from the ultimate holding company	**31,813**	131,813	**31,813**	131,813
Due from related companies	**3,244**	10,194	**2**	–
Due from associates *(note 22)*	**44,420**	28,765	**40,448**	20,213
Due to associates *(note 22)*	**(127,068)**	(113,450)	**(30,753)**	(111,258)
Due from joint ventures	**64,152**	11,485	**–**	–
Due to related companies	**(40,789)**	(113,024)	**(41,888)**	(26,363)
Due to joint ventures	**(116,711)**	(105,049)	**(156,254)**	(192,301)
Due from the ultimate holding company	**617,140**	461,147	**617,669**	468,447
Due from subsidiaries *(note 20)*	**–**	–	**617,201**	391,490
Due to subsidiaries *(note 20)*	**–**	–	**(367,364)**	(261,490)

The long term receivable from CNAHC is unsecured, interest-free and is not repayable within one year from the end of the reporting period. Except for the long term receivable from CNAHC, the outstanding balances with other related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

	Group 2010 RMB'000	Group 2009 RMB'000
(h) Compensation of key management personnel:		
Short term employee benefits	**10,462**	7,290
Post-employment benefits	**412**	330
Equity-settled share option expense	**3,656**	741
	14,530	8,361

Further details of the remuneration of the Directors and Supervisors are included in note 9 to the financial statements.

(i) On 25 August 2004, CNACG entered into two licence agreements with CNAC pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect for the use of these trademarks during each of the two years ended 31 December 2010 and 2009.

55 RELATED PARTY TRANSACTIONS (Continued)

(j) The Company entered into several agreements with CNAHC regarding the use of trademarks granted by the Company to CNAHC; the provision of financial services by CNAF; the provision of construction project management services by China National Aviation Construction and Development Company; the subcontracting of charter flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; media and advertising service arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance by China Aircraft Services Limited.

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively, "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of air passenger and air cargo services and purchases of services. The Directors consider that transactions with these State-owned Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

56 EVENTS AFTER THE REPORTING PERIOD

On 25 February 2010, the Company, Fine Star Enterprises Corporation ("Fine Star", a wholly-owned subsidiary of the Company), Air China Cargo (another wholly-owned subsidiary of the Company), Cathay Pacific and Cathay Pacific Cargo Holdings Limited ("Cathay Pacific Cargo", a wholly-owned subsidiary of Cathay Pacific), entered into a framework agreement and several related agreements, pursuant to which Cathay Pacific, through Cathay Pacific Cargo, agreed to subscribe for 25% equity interest in Air China Cargo at a consideration of approximately RMB852 million and the Company, through Fine Star, agreed to make a further capital contribution of approximately RMB238 million in cash to Air China Cargo; and Air China agreed to sell Fine Star to Advent Fortune Limited ("AFL") for a consideration of approximately RMB627 million. On 18 March 2011, these transactions were completed and were approved by the State Administration for Industry & Commence of the People Republic of China. Upon completion of these transactions, the equity interests held by the Company, Cathay Pacific and AFL became 51%, 25% and 24%, respectively.

57 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2011.

Consolidated Balance Sheet

31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

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

Consolidated Balance Sheet

31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

	31 December 2010 ***RMB'000***	31 December 2009 *RMB'000*
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term loans	**15,703,154**	8,870,400
Financial liabilities	**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
NON-CURRENT LIABILITIES		
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
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
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 equity	**41,699,320**	23,961,443
Total liabilities and equity	**155,219,613**	106,163,207

Consolidated Income Statement

31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

	2010	2009
	RMB'000	*RMB'000*
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 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 the Company	**12,208,049**	5,029,451
Non-controlling interests	**246,709**	(51,183)
Earnings per share (RMB)		
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)

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRSs AND CAS

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

	Notes	2010 RMB'000	2009 RMB'000
Net profit attributable to the equity holders of the Company under CAS		12,208,049	5,029,451
Deferred tax	(i)	105,613	95,000
Differences in value of fixed assets	(ii)	(387,353)	(244,813)
Government grants	(iii)	(18,264)	(22,315)
Others		96,959	(3,089)
Net profit attributable to the equity holders of the Company under IFRSs		12,005,004	4,854,234

	Notes	2010 RMB'000	2009 RMB'000
Equity attributable to the equity holders of the Company under CAS		41,652,625	23,922,872
Deferred tax	(i)	114,613	9,000
Differences in value of fixed assets	(ii)	(150,116)	237,237
Government grants	(iii)	(435,805)	(417,541)
Others	(iv)	256,637	164,328
Equity attributable to the equity holders of the Company under IFRSs		41,437,954	23,915,896

Notes:

(i) The differences in deferred tax were mainly caused by the other differences under CAS and IFRSs as explained below.

(ii) The differences in the value of fixed assets mainly consists of following three types: (1) Fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government prescribed rates) under CAS. Under IFRSs, the costs of fixed asset acquired should be translated at the then prevailing market rates (i.e. the swap rates) and therefore resulted in differences in the costs of fixed asset in the financial statements prepared under CAS and IFRSs. (2) In accordance with the accounting policies under IFRSs, all assets are recorded at historical costs. Therefore the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CAS should be reversed in the financial statements prepared under IFRSs also cause GAAP differences. (3) The adoption of component accounting in different years under CAS and IFRSs. These three types of differences are expected to be eliminated gradually through depreciation or disposal of fixed assets in future.

(iii) Under both CAS and IFRSs, government grant or government subsidies should be debited as government grant/subsidiaries receivable or the relevant assets and credited as deferred income, which will then be charged to the income statement on a straight line basis over the useful lives of the relevant assets. As the accounting for government grant or government subsidies have had no significant impact on the Group's financial statements, no adjustment has been made to unify the accounting treatments of government grants or government subsidies under CAS and IFRSs. Therefore in the Group's financial statement prepared in accordance with CAS, government grant received was debited as the relevant assets and credited as capital reserve; government subsidies were debited as cash and bank balances and credited as subsidy income in the income statement. Such differences are expected to be eliminated gradually through amortisation of deferred income to the income statement in future.

(iv) The difference was mainly caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

"available seat kilometres" or "ASK(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown
"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
"tonne"	a metric ton, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

"revenue passenger kilometres" or "RPK(s)"	the number of revenue passengers carried multiplied by the kilometres flown
"passenger traffic"	measured in RPKs, unless otherwise specified
"revenue freight tonne kilometres" or "RFTK(s)"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
"cargo traffic"	measured in RFTKs, unless otherwise specified
"revenue tonne kilometres" or "RTK(s)"	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

YIELD MEASUREMENTS

"passenger yield"	revenues from passenger operations divided by RPKs
"cargo yield"	revenues from cargo operations divided by RFTKs

LOAD FACTORS

"cargo load factor"	RFTKs expressed as a percentage of AFTKs
"passenger load factor"	RPKs expressed as a percentage of ASKs
"overall load factor"	RTKs expressed as a percentage of ATKs

UTILISATION

"block hour(s)"	each whole or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

Definitions

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd
"Air Macau"	Air Macau Company Limited
"Articles of Association"	articles of association of the Company, as amended from time to time
"Board"	the board of directors of the Company
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAHC"	China National Aviation Holding Company
"Company" or "Air China"	中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, 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, and whose principal business is the operation of scheduled airline services
"Director(s)"	the director(s) of the Company
"Dragonair"	Hong Kong Dragon Airlines Limited
"Group"	the Company, its subsidiaries and joint ventures
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Kunming Airlines"	Kunming Airlines Co., Ltd
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"RMB"	Renminbi, the lawful currency of the PRC
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited