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

Interim Report 2009

Contents

Important Notice

The board of directors (the "Board") and directors ("Directors") of the Company hereby confirm that there are no false representations, misleading statements or material omissions in this report, and the Directors severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The Chairman Mr. Kong Dong, the Chief Financial Officer Mr. Fan Cheng and the General Manager of the Finance Department Mr. Li Youqiang of the Company hereby jointly declare that the unaudited interim condensed consolidated financial statements set out in this interim report is true and complete.

Corporate Information

CHINESE REGISTERED NAME

中國國際航空股份有限公司

ENGLISH NAME

Air China Limited

REGISTERED OFFICE

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28 Tianzhu Road
Zone A, Tianzhu Airport Industrial Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

WEBSITE ADDRESS

www.airchina.com.cn

DIRECTORS

Kong Dong
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Wang Shixiang
Cao Jianxiong
Christopher Dale Pratt
Chen Nan Lok, Philip
Cai Jianjiang
Fan Cheng
Hu Hung Lick, Henry
Zhang Ke
Jia Kang
Fu Yang

SUPERVISORS

Sun Yude
He Chaofan
Zhou Guoyou
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 ADVISER TO THE COMPANY

Haiwen & Partners (as to PRC Law)
Freshfields Bruckhaus Deringer
(as to Hong Kong and English Law)

INDEPENDENT AUDITORS

Ernst & Young

H SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

LISTING VENUES

Hong Kong, London and Shanghai

Summary of Financial Information

	For the six months ended 30 June 2009 RMB'000	For the six months ended 30 June 2008 (Restated) RMB'000	Change (%)
Operating revenue[1]	**23,109,739**	25,552,747	(9.56)
Profit from operations	**2,280,265**	(83,715)	3,468.89
Profit before tax	**2,666,865**	1,346,207	98.10
Profit after tax (including profit attributable to equity holders of the Company and minority interests)	**2,817,249**	1,047,570	168.93
Profit attributable to minority interests	**(60,975)**	(79,656)	23.45
Profit attributable to equity holders of the Company	**2,878,224**	1,127,226	155.34
EBITDA[2]	**6,248,994**	2,836,174	120.33
EBITDAR[3]	**7,624,074**	4,256,930	79.10
Earnings per share attributable to equity holders of the Company (RMB)	**0.243**	0.095	155.79
Return on equity (%)[4]	**12.60**	3.60	9 ppt

(1) Operating revenue include air traffic revenue and other operating revenue.

(2) EBITDA represents earnings before finance revenue, finance costs, income taxes, gain on disposal of subsidiaries and an associate, share of profits and losses of associates, depreciation and amortisation as computed under the International Financial Reporting Standards.

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

(4) Return on equity represents profit for the period attributable to the equity holders divided by equity attributable to equity holders of the Company at period end.

	30 June 2009 RMB'000	31 December 2008 RMB'000	Change (%)
Total assets	**101,820,933**	100,401,224	1.41
Total liabilities	**78,511,308**	79,944,718	(1.79)
Minority interests	**467,573**	513,654	(8.97)
Equity attributable to equity holders of the Company	**22,842,052**	19,942,852	14.54
Equity per share (RMB)	**1.93**	1.68	14.88

Summary of Operating Data

The following summary includes operating data of Air China Limited ("the Company"), Air China Cargo Company Limited ("Air China Cargo") and Air Macau Company Limited ("Air Macau").

	For the six months ended 30 June 2009	For the six months ended 30 June 2008	Change (%)
Traffic			
RPK (in millions)	**35,733.29**	33,914.00	5.36
International	**12,866.31**	14,168.99	(9.19)
Domestic	**21,129.40**	17,795.30	18.74
Hong Kong, Macau and Taiwan	**1,737.58**	1,949.60	(10.88)
RFTK (in millions)	**1,517.59**	1,843.12	(17.66)
International	**1,104.39**	1,373.86	(19.61)
Domestic	**373.72**	378.70	(1.31)
Hong Kong, Macau and Taiwan	**39.48**	90.56	(56.41)
Passengers (in thousands)	**19,524.61**	17,603.42	10.91
International	**2,587.69**	2,876.98	(10.06)
Domestic	**15,846.10**	13,403.10	18.23
Hong Kong, Macau and Taiwan	**1,090.82**	1,323.34	(17.57)
Cargo and mail carried (tonnes)	**423,235.27**	505,236.49	(16.23)
Kilometres flown (in millions)	**270.54**	256.66	5.41
Block hours (in thousands)	**431.93**	404.27	6.84
Number of flights	**154,822**	140,797	9.96
International	**20,631**	22,049	(6.43)
Domestic	**123,692**	105,188	17.59
Hong Kong, Macau and Taiwan	**10,499**	13,560	(22.57)
RTK (in millions)	**4,723.42**	4,891.64	(3.44)
Capacity			
ASK (in millions)	**48,067.77**	45,170.58	6.41
International	**17,568.31**	19,345.74	(9.19)
Domestic	**27,920.90**	23,044.30	21.16
Hong Kong, Macau and Taiwan	**2,578.56**	2,780.54	(7.26)
AFTK (in millions)	**3,072.60**	3,140.54	(2.16)
International	**1,987.02**	2,243.90	(11.45)
Domestic	**992.70**	761.40	30.38
Hong Kong, Macau and Taiwan	**92.88**	135.24	(31.32)
ATK (in millions)	**7,414.38**	7,225.57	2.61

Summary of Operating Data

	For the six months ended 30 June 2009	For the six months ended 30 June 2008	Change (%)
Load			
Passenger load factor (RPK/ASK)	**74.34%**	75.08%	(0.74ppt)
International	**73.24%**	73.24%	–
Domestic	**75.68%**	77.22%	(1.55ppt)
Hong Kong, Macau and Taiwan	**67.39%**	70.12%	(2.73ppt)
Cargo and mail load factor (RFTK/AFTK)	**49.39%**	58.69%	(9.30ppt)
International	**55.58%**	61.23%	(5.65ppt)
Domestic	**37.65%**	49.74%	(12.09ppt)
Hong Kong, Macau and Taiwan	**42.50%**	66.96%	(24.46ppt)
Yield			
Yield per RPK (RMB)	**0.5385**	0.6111	(11.87)
International	**0.4739**	0.5794	(18.21)
Domestic	**0.5682**	0.6234	(8.86)
Hong Kong, Macau and Taiwan	**0.6564**	0.7287	(9.91)
Yield per RTFK (RMB)	**1.2958**	1.9831	(34.66)
International	**1.1463**	1.8654	(38.55)
Domestic	**1.5191**	1.8165	(16.37)
Hong Kong, Macau and Taiwan	**3.3634**	4.4652	(24.68)
Fleet			
Total aircraft in service at period end	**255**	243	4.94
Daily utilization (block hours per day per aircraft)	**10.19**	9.44	7.94
Unit Cost			
Operation cost per ASK (RMB)	**0.42**	0.57	(25.63)
Operation cost per ATK (RMB)	**2.74**	3.55	(22.87)

Note: To make the data comparable, adjustments have been made to some data for the six months ended 30 June 2008.

Chairman's Statement

The continuance of the global financial crisis and the outbreak of the Influenza A (H1N1) in the first half of 2009 brought enormous difficulties for the aviation industry. Facing market pressure, the Group proactively balanced the relationship between strategic development and risk management and adjusted its operational strategy in a timely manner. With overall flight safety maintained and service quality increasingly improved, the Group's operation generated results clearly better than the same period last year. During the first half of the year, the Group realised profits attributable to shareholders of RMB2.878 billion and earnings per share attributable to shareholders of RMB0.243, compared to RMB1.127 billion and RMB0.095 respectively in the same period last year.

Benefiting from the PRC government's implementation of its policy of spurring domestic demand and related measures taken by the aviation industry to fight the financial crisis, the domestic air passenger market did better than expected in the first half of the year. The Group seized market opportunities and increased its domestic market capacity to 27.921 billion available seat kilometres, realised 21.129 billion revenue passenger kilometres and carried 15.846 million passengers, representing an increase of 21.16%, 18.74% and 18.23% respectively as compared with the same period last year. However, due to the overall huge increment in traffic capacity by the entire aviation industry in general, the passenger load factor of the Group dropped by 1.55 percentage points to 75.68%.

In response to the continued downturn of the international air passenger market and depending on the special features of each market, the Group temporarily reduced the number of flights to Japan, South Korea, Europe and North America, postponed the resumption of the Sao Paulo route, suspended the flights from Beijing to Athens and some flights from certain domestic second-tier cities to South Korea. During the first half of the year, the Group allocated 20.147 billion available seat kilometres to the international and regional routes, realised 14.604 billion revenue passenger kilometres and carried 3.679 million passengers with passenger load factor of 72.49%, representing a decrease of 8.95%, 9.4%, 12.42% and 0.36 percentage point respectively compared with the same period last year.

The demand in the air cargo market has been decreasing since the fourth quarter of last year, especially in the international and regional markets, which resulted in the cargo yield of the Group decreasing to the lowest in the Group's history. During the first half of the year, the Group's air cargo operations amounted to 3.073 billion available tonne kilometres and 1.518 billion revenue tonne kilometres and 423,200 tonnes of cargo and mail were carried with a load factor of 49.39%, representing a decrease of 2.16%, 17.66%, 16.23% and 9.3 percentage points respectively compared with the same period last year.

The Group's jet fuel purchasing cost for the first half of the year dropped by 42.51% compared with the same period last year due to the plunge in international fuel price. However, the suspension of domestic fuel surcharge and decrease in the number of international passengers and cargo carried caused the fuel surcharge of the Group to drop by 52.37% compared with the same period last year and jet fuel costs pressure still remains. The international fuel price started to rise from the second quarter, which caused the fair value losses of the Group's fuel hedging contracts as at 30 June 2009 to decrease significantly compared with the fair value losses of RMB7.225 billion as at the end of the last year, and the Group realised a gain of RMB1.45 billion from changes in the fair value of the fuel hedging contracts and increased profits for the current reporting period.

To cope with the general weak demand in the passenger and cargo market, the Group continues to explore ways to maximise its cost potential through numerous cost-saving measures including adjusting its fleet structure, improving the alignment of capacity with market demand, driving energy efficiency comprehensively and optimising its debt structure. In addition, the Group adjusted its capital expenditure plans for this year in accordance with market conditions, cutting planned capital expenditure by nearly 20% compared with 2008. Although the positive results generated from its cost controls were not enough to make up for the impact of the inadequate market demand, the Group still maintained its cost advantages.

The Group has always maintained a prudent strategy of fleet expansion and has effectively controlled its fleet size according to changing market conditions. In the first half of the year, 10 new aircraft were added and most of which were narrow-body aircraft such as A321 and B737-800. At the same time, 11 aircraft of old models such as B767, B737-300/600 and B747-200F were retired. As a result, the Group now operates with a younger and more efficient fleet.

Chairman's Statement

The changes in market conditions have not affected the progress of the Group's hub strategy. The percentage of flights at Beijing Hub increased by 0.56 percentage points to 45.5%, with transit passengers increasing by 41% compared with the same period last year. New progress was made in the construction of the Chengdu Hub, with the number of transit passengers increasing by 80%. The Shanghai branch was established to accelerate the integration of the resources in the market of the east China region so as to strengthen the Group's competitive edge there. The establishment of the Hubei branch has created a new platform for the Group to fully penetrate the central China market and perfect its domestic network.

In the first half of the year, the Group continued to innovate its services and launched the "Platinum Card Member Travel Package" at some airports to better serve the needs of platinum card members. The Group also rolled out the mobile phone check-in service at the Capital International Airport thereby further expanding its self-service product line.

In June 2009, the Group, with its brand valued at RMB31.723 billion, was ranked 25th among the Top 500 China's Most Valuable Brands published by the World Brand Laboratory, evidencing an increase in its brand value.

In the first half of this year, the Group entered into a sale and purchase agreement to acquire a 24% equity interest in Air China Cargo (being the remaining Air China Cargo equity not owned by the Group). The acquisition made possible the further integration of its air cargo resources and the future development of its air cargo operations. By completing its plan of increasing its shareholding in Chengdu Falcon Aircraft Engineering Service Co., Ltd., the Group strengthened its control over its invested aviation maintenance and engineering enterprises.

In the second half of this year, the Group anticipates the impact of the global financial crisis on international air passenger and cargo business will continue. Despite the increase in demand in the domestic air passenger market, the overly rapid increase in traffic capacity by the domestic airlines and the intensified price competition will affect the ability of the Company to improve its yield. Meanwhile, the fluctuation of the exchange rate as well as the rising fuel price will further increase the difficulty of the Group's operation.

The Group will continue to operate steadily, take good advantage of the relatively rapid growth of the domestic market, bring into play the competitive edges of its hub network, cement its industry-leading cost advantages, continually improve its ability to respond to crisis, develop sustainably and strive to create greater value for its shareholders and society in this cold winter for the aviation industry.

Kong Dong
Chairman

Beijing, PRC
25 August 2009

Operating Results Review

BUSINESS REVIEW OF PASSENGER SERVICE OPERATION

In the first half of 2009, the Company's available seat kilometres reached 46.495 billion, representing an increase of 7.6% as compared with the same period last year, and its passenger traffic was 34,720 million revenue passenger kilometres, representing an increase of 6.8% as compared with the same period last year. The number of passengers carried by the Company was 18.82 million, representing an increase of 13.6% as compared with the same period last year. The Company recorded an average passenger load factor of 74.7%, representing a decrease of 0.6 percentage points as compared with the same period last year.

In addition to the impact of the global financial crisis on Air Macau, cross-strait direct flights and air passenger source diversification also created further market pressure on Air Macau. For the first half of 2009, its available seat kilometres was 1.57 billion, representing a decrease of 19.9% as compared with the same period of last year; its passenger traffic decreased by 27.1% as compared with the same period last year to 1,010 million revenue passenger kilometres; the number of passengers carried by it decreased by 32.4% as compared with the same period last year to 704,600; and its passenger load factor was 64.17%, representing a decrease of 6.3 percentage points as compared with the same period last year.

BUSINESS REVIEW OF CARGO SERVICE OPERATION

In the first half of 2009, the Air China Cargo's cargo operation encountered unprecedented challenges. To halt the profit deterioration of the cargo business, Air China Cargo launched a series of measures for better cost control, fleet optimisation, operation and service improvement and achieved encouraging results. The available freight tonne kilometres decreased by 0.4% as compared with the same period last year to 3.04 billion and its cargo and mail traffic was 1.5 billion revenue freight tonne kilometres, representing a decrease of 15.5% as compared with the same period last year. Air China Cargo carried 409,000 tonnes of cargo and mail, representing a decrease of 9.6% as compared with the same period of last year. The cargo and mail load factor of Air China cargo decreased by 8.9 percentage points to 49.4%.

Air Macau's available freight tonne kilometres was 27.9 million, representing a decrease of 66.9% as compared with the same period last year; its cargo and mail traffic decreased by 79.1% as compared with the same period last year to 13 million revenue freight tonne kilometres; the amount of cargo and mail carried by it decreased by 72.7% as compared with the same period last year to 14,500 tonnes; and its cargo and mail load factor was 46.6%, representing a decrease of 27 percentage points as compared with the same period last year.

FLEET

As at 30 June 2009, the Company and Air China Cargo operated a fleet of 243 aircraft in total. The total number of aircraft remained unchanged as compared with the end of 2008, with the average age of aircraft being 7.2 years. Details of the fleet are set out in the table below:

	Number of Aircraft			
Type of Aircraft	**Owned**	**Finance leased**	**Operating leased**	**Sub-total**
Passenger Aircraft	**96**	**82**	**54**	**232**
Boeing	69	37	45	151
Airbus	27	45	9	81
Freighters	**8**	**–**	**2**	**10**
Business Jet	**–**	**–**	**1**	**1**
Total	**104**	**82**	**57**	**243**

As at 30 June 2009, Air Macau operated a fleet of 12 aircraft, of which 10 were passenger aircraft and the remaining 2 were freighters.

Operating Results Review

ROUTE NETWORK DEVELOPMENT

The Company constantly reinforced its production organisation and accelerated development of its route network, resulting in a marked improvement in its hub operating capability. The Beijing Hub Operating Control Centre has officially commenced operation, pushing its operation supporting capability per peak hour and per peak day to 79 and 1,000 flights respectively. Transit capability is continually being strengthened.

The Company strengthened its management over fine-tuning its network and improved the quality of its hub operation. The hub scheduling was also optimised, in particular, flights during the peak hours were increased, making the flight frequency and schedules more appropriate. The Beijing-Chengdu and Beijing-Chongqing Express Lines were launched successfully, featuring "One Chengdu-Chongqing, Free Exchange For Either Destination". The effective connecting flights per week increased by 109% to 6,696, representing a marked improvement in hub connecting efficiency. The number of aircraft centred in Beijing amounted to 145, representing an increase of 15 aircraft, the proportion of Beijing Hub flights reached 45.5%, representing an increase of 0.56 percentage points, transit passengers numbered 2.323 million, representing an increase of 41% as compared to the corresponding period in the previous year. The number of aircraft centred in Chengdu amounted to 38 aircraft, representing an increase of 3 aircraft, transit passengers numbered 466,000, representing an increase of 80% as compared with the same period last year. The market share in Shanghai remained stable, the former Shanghai Base was reorganised as the Shanghai branch of the Company, setting a solid foundation for the reorganisation of our resources in east China and the construction of the Shanghai international portal. The Hubei branch of the Company was also established during the first half of the year, providing strong support for the Company's strategy of entrenching its position in the central China market and further improving its domestic route network.

As at 30 June 2009, the Company's scheduled flights reached 32 countries and regions, including 53 international cities, 87 domestic cities and 3 regions.

MARKETING AND CO-OPERATION

The Company reinforced its innovation in marketing, resulting in strengthened market control capability. First was to adopt different marketing strategies for different markets. Second was to improve the marketing capability of electronic channels and expand the e-commerce product line, so as to enhance the influence of these channels. During the first half of the year, our website and call centre realised an increase in sales revenue of 57% and 13% respectively. Third was to pro-actively develop contracted customers. In the first six months, there was an increase of 7% in total revenue from our contracted customers. Fourth was to make more efforts to popularise the pricing management system and innovate on the price publishing strategy. Fifth was to expand the marketing efforts towards frequent flyers. A total of 1.42 million new members were introduced, representing an increase of 32%, pushing the total of our registered members to over 10 million.

The Company also strengthened its bilateral co-operation with Star Alliance by leveraging on the Star Alliance platforms. The Company has been striving to develop potential code sharing partners and has established partnership with TAM Linhas Aéreas and EL AL Israel Airlines and Aerosvit Airlines. It continued to expand the range of code sharing cooperation with Cathay Pacific Airways Limited ("Cathay Pacific")/Hong Kong Dragon Airlines Limited ("Dragonair") and Air Macau and worked out a new route joint-operation plan with Cathay Pacific.

COST CONTROL

The Company strengthened its production organisation and optimised its operation cost-effectiveness. In response to the market changes, the Company has promptly adjusted its carrying capacity allocation by temporarily reducing the number of flights to Europe, North America, Korea and Japan, increasing resources allocated to the domestic hubs, key regions, major routes, favourable markets and more profitable routes, reducing or cutting some poorly-performing and loss-making domestic routes and flights so as to improve allocation efficiency and reduce the overall operating costs. Route optimisation was accelerated. The Company has completed optimising 24 domestic routes and 91 international routes and has added 10 preferred routes. A total of 36,892 tonnes of jet fuel was saved through a number of energy-saving and waste-reduction measures which included route optimisation, preferential selection, second dispatch and aircraft weight reduction.

Operating Results Review

Management of the production process was strengthened thereby effectively controlling the Company's major costs. Through implementing measures to optimise accessories and engine repair, reducing aviation equipment purchasing costs and improving assets utilisation efficiency etc., clear efficiency was achieved in the cost management of aircraft maintenance and repair. Through better cost management of onboard catering and supplies, cost reduction was achieved on the precondition of not affecting the continuous improvement of service quality. Through enhanced communication and coordination with major airports, the relevant cost levels were reduced.

SERVICES AND PRODUCT

The Company rolled out its new premium service, which included improving the service of Beijing Terminal 3 self-operating lounges, offering lounges for guests in the first and business class cabins in the Shenzhen Airport and adding VIP lounges in the Chengdu Airport thereby raising our service quality. The entertainment systems in the first and business class cabins were fully upgraded with the addition of interactive selection service on music channels and other features. The Company also launched the function of mileage conversion for cabin upgrade through departure system.

The Company further expanded the range of self-service products. The mobile phone service system for frequent flyers was set up. The number of cities with online check-in constantly increased, with the number of passengers using online check-in amounting to 475 thousand, representing an increase of 124% compared to the same period last year. Passengers using self-service check-in (CUSS) amounted to 1.685 million, representing an increase of 351% compared to the same period last year.

Transit service capacity was improved with express channels for international-domestic transit passengers established. MCT (Minimum Connecting Time) was further reduced, with domestic terminals offering international-domestic and domestic-international one stop boarding services reaching 49 terminals and 40 terminals respectively. Passengers using one-stop boarding service amounted to 773,000, representing an increase of 145% compared to the same period last year. The number of passengers using domestic-international one stop boarding service amounted to 157,000, which was 3.4 times that of last year.

The quality of luggage service was enhanced. The Company offered online luggage enquiry, implemented the luggage enquiry system and improved the luggage search efficiency, bringing the luggage transportation error rate down from 1.361 item per thousand people to 0.037 item per thousand people showing a trend of steady decrease.

The Company adopted service quality management policies to perfect the service evaluation system which comprised of internal monitoring, customer satisfaction survey and audit by third parties. The Company also organised the flow of service to our handicapped passengers and revised the full service procedure standards for our handicapped passengers on direct flights to the U.S..

EMPLOYEES

As of 30 June 2009, the Company had 20,211 employees and its subsidiaries and joint ventures had 16,389 employees.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Company, its subsidiary Total Transform Group Limited and CITIC Pacific Limited ("CITIC Pacific") entered into a share purchase agreement on 17 August 2009, pursuant to which the Company will indirectly acquire 491,864,724 shares in Cathay Pacific held by CITIC Pacific at a price of HK$12.88 per share and the total consideration is approximately HK$6.335 billion. Upon the completion of the acquisition, the Company's shareholding in Cathay Pacific will increase from the current percentage of approximately 17.49% to approximately 29.99%.

The following discussion and analysis is based on the Group's interim condensed consolidated financial statements and notes thereon prepared in accordance with International Financial Reporting Standards ("IFRS"), and is designed to assist the readers in understanding the data provided in this report so as to better comprehend the financial conditions of the Group.

ANALYSIS OF THE PROFITABILITY

For the six months ended 30 June 2009, the Group recorded a profit before tax of RMB2.667 billion, and the profit attributable to shareholders of the Company was RMB2.878 billion with earnings per share of RMB0.243. The restated profit before tax for the same period of 2008 was RMB1.346 billion and the profit attributable to shareholders of the Company was RMB1.127 billion with earnings per share of RMB0.095.

The profit recorded in the first half of 2009 was primarily due to the PRC government's policy of spurring China's domestic demand, the implementation of relevant measures by the aviation industry to cope with the financial crisis, the drop in international fuel prices and the Group's effective cost control. These factors partially offset the adverse impact of the global economic crisis, pandemic Influenza A (H1N1), and the decrease in net gains from foreign exchange etc.

TURNOVER

For the six months ended 30 June 2009, the Group's total turnover (net of business taxes and surcharges) was RMB23.11 billion, representing a decrease of RMB2.443 billion or 9.56% as compared with the same period of 2008, among which, due to the global economic crisis and the pandemic Influenza A (H1N1), the demand for international air passenger and air cargo services fell and as a result the traffic revenue decreased by RMB3.169 billion or 13% compared with the same period of 2008. Other operating revenue increased by RMB726 million or 61.88% and was mainly due to the recognised revenue of RMB824 million from the refund of CAAC Infrastructure Development Fund during the current reporting period.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008 (Restated)		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**14,472,838**	**62.63%**	12,955,303	50.70%	11.71
Hong Kong, Macau and Taiwan	**1,273,386**	**5.51%**	1,827,902	7.15%	(30.34)
Europe	**2,618,340**	**11.33%**	4,411,704	17.27%	(40.65)
North America	**1,791,109**	**7.75%**	2,766,570	10.83%	(35.26)
Japan and Korea	**1,600,613**	**6.92%**	2,047,439	8.01%	(21.82)
Asia Pacific and others	**1,353,453**	**5.86%**	1,543,829	6.04%	(12.33)
Total	**23,109,739**	**100.00%**	25,552,747	100.00%	(9.56)

AIR PASSENGER REVENUE

For the six months ended 30 June 2009, the Group recorded air passenger revenue of RMB19.243 billion, representing a decrease of RMB1.481 billion compared with the same period of 2008. The increase in traffic capacity resulted in an increase in air passenger revenue of RMB1.329 billion while the decrease in passenger load factor caused a decrease in revenue of RMB218 million and the decrease in yield per revenue passenger kilometre resulted in a decrease in revenue of RMB2.592 billion. The traffic capacity, passenger load factor and revenue per seat kilometre for the six months ended 30 June 2009 were as follows:

	For the six months ended 30 June		
	2009	2008 (Restated)	Change (%)
Available seat kilometres *(million)*	**48,067.77**	45,170.58	6.41
Passenger load factor *(%)*	**74.34**	75.08	(0.74 ppt)
Yield per revenue passenger kilometre *(RMB)*	**0.5385**	0.6111	(11.87)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008 (Restated)		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**12,004,816**	**62.38%**	11,093,356	53.53%	8.22
Hong Kong, Macau and Taiwan	**1,140,616**	**5.93%**	1,420,613	6.86%	(19.71)
Europe	**1,985,145**	**10.32%**	3,182,098	15.35%	(37.62)
North America	**1,392,267**	**7.23%**	1,839,042	8.87%	(24.29)
Japan and Korea	**1,452,529**	**7.55%**	1,771,382	8.55%	(18.00)
Asia Pacific and others	**1,267,603**	**6.59%**	1,417,255	6.84%	(10.56)
Total	**19,242,976**	**100.00%**	20,723,746	100.00%	(7.15)

AIR CARGO REVENUE

For the six months ended 30 June 2009, the Group's air cargo and mail revenue was RMB1.966 billion, representing a decrease of RMB1.689 billion as compared with the same period of 2008, among which the decrease in traffic capacity caused a decrease in air cargo revenue of RMB79 million, the decrease in overall load factor caused a decrease in air cargo revenue of RMB567 million and the decrease in yield per revenue freight tonne kilometre caused a decrease in the air cargo revenue of RMB1.043 billion. The traffic capacity, cargo load factor and revenue per freight tonne-kilometre of the cargo and mail operations for the six months ended 30 June 2009 were as follows:

	For the six months ended 30 June		Change
	2009	2008	(%)
Available freight tonne kilometres *(million)*	**3,072.60**	3,140.54	(2.16)
Load factor *(%)*	**49.39**	58.69	(9.29 ppt)
Cargo yield per revenue freight tonne kilometre *(RMB)*	**1.2958**	1.9831	(34.66)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**567,735**	**28.87%**	687,918	18.82%	(17.47)
Hong Kong, Macau and Taiwan	**132,770**	**6.75%**	404,359	11.06%	(67.17)
Europe	**633,195**	**32.20%**	1,229,399	33.64%	(48.50)
North America	**398,842**	**20.28%**	927,440	25.37%	(57.00)
Japan and Korea	**148,085**	**7.53%**	277,932	7.61%	(46.72)
Asia Pacific and others	**85,848**	**4.37%**	128,044	3.50%	(32.95)
Total	**1,966,475**	**100.00%**	3,655,092	100.00%	(46.20)

OPERATING EXPENSES

For the six months ended 30 June 2009, the Group's operating expenses amounted to RMB20.289 billion, representing a decrease of 20.86% as compared with RMB25.636 billion for the same period of 2008. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2009		2008 (Restated)		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Jet fuel costs	**6,098,289**	**30.06%**	10,608,221	41.38%	(42.51)
Movements in fair value of fuel derivative contracts	**(1,449,791)**	**(7.15)%**	(312,947)	(1.22)%	363.27
Take-off, landing and depot charges	**2,706,284**	**13.34%**	2,785,661	10.87%	(2.85)
Depreciation	**3,405,580**	**16.78%**	2,907,421	11.34%	17.13
Aircraft maintenance, repair and overhaul costs	**879,252**	**4.33%**	984,264	3.84%	(10.67)
Employee compensation costs	**2,936,752**	**14.47%**	2,555,265	9.97%	14.93
Air catering charges	**694,285**	**3.42%**	739,434	2.88%	(6.11)
Selling and marketing expenses	**1,322,048**	**6.52%**	1,283,874	5.01%	2.97
General and administrative expenses	**362,105**	**1.79%**	494,589	1.93%	(26.79)
Others	**3,334,670**	**16.44%**	3,590,680	14.00%	(7.13)
Total	**20,289,474**	**100.00%**	25,636,462	100.00%	(20.86)

- Jet fuel costs decreased by 42.51% to RMB6.098 billion for the six months ended 30 June 2009 as compared with RMB10.608 billion for the six months ended 30 June 2008, which accounted for 30.06% of total operating expenses as compared with 41.38% for the same period of 2008. The decrease in the Group's jet fuel costs was mainly due to the rapid drop in jet fuel price in the first half of 2009 as compared with the same period of 2008.

- The movements in the fair value of fuel derivative contracts for the six months ended 30 June 2009 was RMB1.450 billion (the recovery in fair value of RMB4.003 billion and the decrease in fair value of RMB2.553 billion resulted from the settlement of fuel derivative contracts).

- Take-off, landing and depot charges for the six months ended 30 June 2009 were approximately the same as those for the same period of 2008, of which the percentage to the operating expenses increased from 10.87% for the same period of 2008 to 13.34%.

- Compared with the same period of 2008, the depreciation expenses increased in 2009 due to an increase in the number of the self-owned aircraft and those under finance leases.

- The aircraft maintenance, repair and overhaul costs decreased by RMB105 million as compared with the same period of 2008. The decrease was mainly due to a decrease in the demand for aircraft maintenance and repair as compared with the same period of 2008 and the effective cost control while ensuring flight safety.

- Employee compensation costs increased due to the increase in flight hours and the number of employees.

- The decrease in the air catering charges was primarily due to effective cost control. On the precondition of ensuring adequate supplies, the supply standards were strictly controlled and expenses were reduced. The purchasing cost was also reduced at the same time.

- Other operating expenses mainly included the aircraft and engines operating lease expenses, CAAC Infrastructure Development Fund and the daily expenses arising from core air traffic business not included in the aforesaid items.

FINANCE REVENUE AND FINANCE COSTS

For the six months ended 30 June 2009, the Group recorded RMB176 million of gains from foreign exchange, representing a decrease of RMB1.748 billion or 90.86% as compared with the same period of 2008, which was mainly due to the slowdown of US dollars depreciation in the first half of this year. For the current reporting period, the Group recorded fair value gains on interest rate derivative contracts of RMB71 million and interest expenses of RMB846 million which represented a decrease in interest expenses of RMB216 million compared with interest expenses for the same period in 2008 mainly due to the fact that most of the Group's interest-bearing debt has floating interest rates and the decrease of LIBOR.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

For the six months ended 30 June 2009, the Group's share of profits of its associates was RMB316 million, compared with its share of losses of RMB95 million for the same period in 2008, which was mainly due to the RMB213 million of profits from the investment in Cathay Pacific recognised by way of equity accounting, whereas the Group recorded RMB155 million of losses in the investment in Cathay Pacific for the same period in 2008.

ANALYSIS OF ASSETS STRUCTURE

As of 30 June 2009, the total assets of the Group amounted to RMB101.821 billion, representing an increase of 1.41% as compared with 31 December 2008, among which the current assets were RMB10.064 billion and accounted for 9.88% of the total assets, while non-current assets were RMB91.757 billion and accounted for 90.12% of the total assets.

For the current assets, cash and cash equivalents amounted to RMB3.193 billion, representing an increase of 6.89% as compared with 31 December 2008, while accounts receivable increased by 5.89% to RMB1.959 billion as compared with 31 December 2008. For the non-current assets, the net book value of property, plant and equipment as of 30 June 2009 was RMB73.473 billion, representing an increase of 2.3% as compared with 31 December 2008.

ASSETS MORTGAGE

As of 30 June 2009, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB39.073 billion (compared with RMB35.336 billion as of 31 December 2008), a number of shares in its associated companies with an aggregate market value of approximately RMB3.759 billion (compared with approximately RMB3.071 billion as of 31 December 2008), and land use rights with an aggregate net book value of approximately RMB35 million (compared with approximately RMB36 million as of 31 December 2008) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group of approximately RMB779 million (compared with approximately RMB1.75 billion as of 31 December 2008) were pledged as security in respect of certain operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

For the six months ended 30 June 2009, the capital expenditure of the Company amounted to RMB3.051 billion in total, of which the total investment in aircraft and engines for the first half of the year was RMB2.077 billion, including prepayment of RMB624 million for the purchase of aircraft for 2009 and for later years. The total investment and purchase in aircraft modifications, aircraft additions, flight simulators and valuable parts and components was RMB214 million.

Other capital expenditure amounted to RMB760 million, which was mainly applied towards the construction of infrastructure and IT systems as well as the ground facilities deployment and cash components for long-term investment projects.

EQUITY INVESTMENT

As of 30 June 2009, the aggregate amount of equity investment in the Group's associates was RMB6.8 billion, representing an increase of 8.42% as compared with 31 December 2008, of which the equity investments in Cathay Pacific, Shandong Airlines and Shenzhen Airlines were approximately RMB5.813 billion, RMB116 million and RMB184 million respectively, representing profits of RMB812 million, RMB100 million and RMB50 million respectively for the six months ended 30 June 2009.

The Group plans to further consolidate and optimise the businesses of the companies it has invested in and improve these companies' financial status and business results.

DEBT STRUCTURE ANALYSIS

As of 30 June 2009, the total liabilities of the Group amounted to RMB78.511 billion, representing an decrease of 1.79% as compared with 31 December 2008, of which current liabilities were RMB38.662 billion, which accounted for 49.24% of the total liabilities and non-current liabilities were RMB39.849 billion, which accounted for 50.76% of the total liabilities.

For the current liabilities, the liabilities under derivative financial instruments amounted to RMB3.64 billion, representing a decrease of 52.9% as compared with 31 December 2008. The interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB21.883 billion, representing an increase of 5.13% as compared with 31 December 2008. Other advances and payables amounted to RMB13.139 billion, representing a decrease of 7.37% as compared with 31 December 2008.

For the non-current liabilities, the interests-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB36.454 billion, representing an increase of 7.78% as compared with 31 December 2008 mainly due to the issue of RMB6 billion medium term notes.

COMMITMENTS AND CONTINGENT LIABILITIES

The capital commitment of the Group as of 30 June 2009 was RMB69.027 billion, representing a slight decrease as compared with RMB70.279 billion recorded as of 31 December 2008, which was primarily used for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years and for the construction of certain properties. The Group had operating lease commitments of RMB12.667 billion, representing an decrease of 6.72% as compared with 31 December 2008, which was primarily used for leasing aircraft, office premises and related equipments. The Group had investment commitment of RMB51 million which was approximately on the same level as that of 31 December 2008.

As of 30 June 2009, the Group's contingent liabilities in respect of guarantees to bank loans provided to its associates were RMB105 million. Details of contingent liabilities of the Group are set out in note 25 to the Group's interim condensed consolidated financial statements for 2009.

GEARING RATIO

As of 30 June 2009, the Group's gearing ratio (total liabilities divided by total assets) was 77.11%, representing a decrease of 2.52 percentage points as compared with 79.63% recorded as of 31 December 2008. This was primarily due to the decrease in the number of aircraft introduced and the liabilities pursuant to financial derivatives. Meanwhile, the Group recorded profits in the current reporting period which increased the equity interests of the Group attributable to its shareholders from RMB20.457 billion as at 31 December 2008 to RMB23.31 billion as at 30 June 2009. Considering that the prevailing gearing ratios of other air carriers in the aviation industry were at a relatively high level, the Group continues to maintain the leading position within the domestic industry in terms of its gearing ratio and its long-term insolvency risks are also within its control.

WORKING CAPITAL AND ITS SOURCES

As of 30 June 2009, the net current liabilities of the Group (i.e. the current liabilities minus the current assets) were RMB28.598 billion, representing a decrease of RMB3.709 billion as compared with 31 December 2008. The Group's current ratio, which represents current assets divided by current liabilities, was 0.26, representing a slight increase from 0.24 as at 31 December 2008. The decrease of the net current liabilities was mainly due to the significant decrease in the Group's financial liabilities.

The Group meets its working capital needs mainly through its operating activities and external financing activities. For the first half of 2009, the Group's net cash inflow from operating activities was RMB1.188 billion, representing a decrease of 49.67% from RMB2.361 billion for the same period in 2008. This was primarily due to a decrease of RMB2.443 billion in turnover in the current reporting period compared with the same period in 2008. Net cash outflow from investment activities was RMB1.958 billion, representing a decrease of 20.02% from RMB2.448 billion for the same period in 2008, primarily due to the decrease in the Group's outlay for fixed assets. The Group recorded a net cash inflow from financing activities of RMB1.004 billion, representing an decrease of RMB1.188 billion from RMB2.192 billion for the same period in 2008, primarily due to relatively more debt repayments made by the Group in the current reporting period. The Group's net amount of increase in cash and cash equivalents was RMB235 million in the first half of 2009, representing a decrease of approximately RMB1.871 billion compared with the same period in 2008. The Group has obtained bank facilities with an aggregate maximum amount of up to RMB109.019 billion from a number of banks in the PRC, of which approximately RMB46.033 billion was utilised with the balance fully capable of meeting the Group's working capital demand and its future capital commitments.

OBJECTIVES AND POLICIES OF FINANCIAL RISKS MANAGEMENT

The Group is exposed to fluctuations in jet fuel prices in its daily operation. International jet fuel prices have historically, and will continue to be, subject to market volatility and fluctuations in supply and demand. The Group's strategy for managing its jet fuel price risk aims to protect itself against sudden and significant price increases. The Group has been engaging in fuel hedging transactions since March 2001. The hedging instruments used were mainly derivatives of Singapore Kerosene together with Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. Considering the high volatility of the international fuel prices and the Company's high cost sensitivity, the Company will continue to utilise the hedging instruments to manage and control the risk in relation to rising fuel prices.

As of 30 June 2009, the total amount of interest-bearing debts of the Group were RMB58.337 billion, accounting for 74.3% of the Group's total liabilities, of which many were foreign debts and mainly denominated in US dollars, Hong Kong dollars and Japanese Yen. In addition, the Group also has sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimise any risks relating to foreign exchange rates and interest rates by adjusting the structure of the interest rates and currency denomination of its debts and by making use of financial derivatives.

Major Events

ANTITRUST INVESTIGATION

On 26 February 2007, the Eastern District Court of New York of the US Federal Courts issued summons to the Company and Air China Cargo in connection with the antitrust civil case relating to the air cargo services. Pursuant to such summons, various airlines, including the Company and Air China Cargo, were sued for their breach of the US Antitrust Law on the ground that these airlines were acting in concert in imposing excessive surcharges so as to impede the offering of discount that would be made available for the prices charged for air cargo services and that these airlines had reached an agreement on the allocation of revenues and consumers so as to achieve such purposes as setting, increasing, maintaining or stabilising the air cargo prices. Insofar as the case is in the course of initial examination, our Directors believe that at the present stage, they are unable to make a reasonable and reliable estimation on the ultimate results of the case and therefore no provisions has been made for such litigation for the time being.

ISSUE OF MEDIUM TERM NOTES

On 26 February 2009, the Company issued its first tranche of medium-term notes for the year 2009 with a total offering size of RMB3 billion. The first-tranche notes have a coupon rate of 3.32% and a term of 3 years. As at 27 February 2009, all the proceeds of the first-tranche notes had been received. On 19 March 2009, the Company issued its second tranche of medium-term notes for the year 2009 with a total offering size of RMB3 billion. The second-tranche notes have a coupon rate of 3.48% and a term of 5 years. As at 20 March 2009, all the proceeds of the second-tranche notes had been received.

Change in Particulars of Directors and Supervisors

1.	Mr. Wang Shixiang	became chairman of China National Aviation Holding Construction and Development Company Limited
2.	Mr. Cao Jianxiong	became chairman of China National Aviation Finance Company Limited, Samsung Air China Life Insurance Company Limited, and is no longer director of China Air Express Company Limited
3.	Mr. Sun Yude	became chairman of Beijing Air Catering Company Limited and Deputy General Manager of China National Aviation Holding Company ("CNAHC")
4.	Mr. Christopher Dale Pratt	became chairman of Swire Beverages Limited
5.	Mr. Cai Jianjiang	is no longer director of Air China Cargo

Shareholdings of Directors, Supervisors and Chief Executive and Substantial Shareholders of the Company

(I) DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 30 June 2009, none of the Directors, supervisors or chief executive of the Company has interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notifiable to the Company and the Hong Kong Stock Exchange pursuant to SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notifiable to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific, which is a substantial shareholder of the Company and wholly owns Dragonair. Mr. Kong Dong is the chairman and a non-executive Director of the Company and is concurrently a non-executive director 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.

(II) SUBSTANTIAL SHAREHOLDERS' SIGNIFICANT INTERESTS IN THE COMPANY

Pursuant to the record of the register of the Company required to be kept under Section 336 of the SFO, as at 30 June 2009, to the best knowledge of the Directors, supervisors and chief executive of the Company, the interests or short position of the following persons (other than a Director, supervisor or chief executive of the Company), who were entitled to exercise or control the exercise of 5% or more of the voting rights in the Company's general meetings, in the Company's shares or underlying shares of the Company's equity derivatives were as follows:

Name	Type of Interests	Type and number of shares held in the Company	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	4,949,066,567 A shares	40.40%	63.08%	–	–
CNAHC(1)	Attributable interests	1,380,482,920 A shares	11.26%	17.60%	–	–
CNAHC(1)	Attributable interests	66,852,000 H shares	0.55%	_	1.52%	
China National Aviation Corporation (Group) Limited ("CNACG")	Beneficial owner	1,380,482,920 A shares	11.26%	17.60%	–	–

Shareholdings of Directors, Supervisors and Chief Executive and Substantial Shareholders of the Company

Name	Type of Interests	Type and number of shares held in the Company	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
CNACG	Beneficial owner	66,852,000 H Shares	0.55%	–	1.52%	–
Cathay Pacific	Beneficial owner	2,217,617,455 H shares	18.10%	–	50.34%	–
Swire Pacific Limited(2)	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
John Swire & Sons Limited(2)	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
John Swire & Sons (H.K.) Limited(2)	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
Barclays Global Investors UK Holdings Limited(3)	Attributable interests	283,896,696 H shares	2.32%	–	6.44%	–
		640,000 H shares (short position)	0.01%	–	0.01%	640,000 H shares
Barclays PLC(3)	Attributable interests	283,896,696 H shares	2.32%	–	6.44%	–
		640,000 H shares (short position)	0.01%		0.01%	640,000 H shares
JPMorgan Chase & Co.(4)	Attributable interests	270,747,615 H shares	2.21%	–	6.15%	–
		7,300,000 H shares (short position)	0.06%	–	0.17%	7,300,000 H shares
		47,619,271 H shares (Lending Pool)	0.39%	–	1.08%	–

Note:

Based on the information available to the Directors, chief executive and supervisors of the Company (including such information as was available on the website of the Stock Exchange) and so far as the Directors, chief executive and supervisors are aware, as at the latest practicable date (i.e. 30 June 2009):

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC is deemed to be interested in the 1,380,482,920 A shares and 66,852,000 H shares of the Company directly held by CHACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 38.50% equity interest and 56.65% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 39.97% interest in Cathay Pacific at 30th June 2009, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited are deemed to be interested in the 2,217,617,455 H shares of the Company directly held by Cathay Pacific.

3. Barclays PLC and Barclays Global Investors UK Holdings Limited, which is controlled by Barclays PLC, through their controlled entities, had an attributable interest in 283,896,696 H shares of the Company and maintained a short position of 640,000 H shares of the Company, out of which Barclays Global Investors, N.A. directly held 25,282,696 H shares and maintained a short position of 640,000 H shares, Barclays Global Fund Advisors directly held 234,098,000 H shares and Barclays Global Investors Ltd directly held 24,516,000 H shares.

4. JPMorgan Chase & Co, through its controlled entities, had an attributable interest in 270,747,615 H shares of the Company and maintained a short position of 7,300,000 H shares and a lending pool of 47,619,271 H shares, out of which JPMorgan Chase Bank, N.A. maintained a lending pool of 47,619,271 H shares, J.P. Morgan Whitefriars Inc. directly held 25,248,744 H shares and maintained a short position of 7,300,000 H shares, JF Asset Management Limited directly held 77,352,000 H shares, JPMorgan Asset Management (Singapore) Limited directly held 74,964,000 H shares, JPMorgan Asset Management (Taiwan) Limited directly held 774,000 H shares and China International Fund Management Co Ltd directly held 44,789,600 H shares.

Save as disclosed above, as at 30 June 2009, to the knowledge of the Directors, chief executive and supervisors of the Company, no other person (other than a Director, supervisor or chief executive of the Company) had any interests or short position in the Company's shares or underlying shares of the Company's equity derivatives which shall be disclosed to the Company pursuant to the SFO.

1. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the first half of 2009.

2. COMPLIANCE WITH THE MODEL CODE

The Company adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standards set out in the Model Code contained in Appendix 10 to the Listing Rules except the amendments to the Model Code which came into effect from 1 April 2009 (the "Amendments"). After making specific enquiries, the Company confirms that all of its Directors and supervisors have complied with the required standard set out in the Model Code including the Amendments throughout the first half of 2009. The Company will amend its code of conduct regarding directors' securities transactions to reflect the Amendments in due course.

The Company's own code of conduct mentioned above also applies to its supervisors and relevant employees.

Miscellaneous

1. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of 2009.

2. PUBLIC FLOAT

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

3. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2009.

4. REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2009 and the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

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 reviewed the interim financial information of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively the "Group") set out on pages 27 to 58 which comprises the Group's interim condensed consolidated statement of financial position as at 30 June 2009 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The Directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
25 August 2009

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
TURNOVER			
Air traffic revenue	*4*	**21,209,451**	24,378,838
Other operating revenue	*5*	**1,900,288**	1,173,909
		23,109,739	25,552,747
OPERATING EXPENSES			
Jet fuel costs		**(6,098,289)**	(10,608,221)
Movements in fair value of fuel derivative contracts		**1,449,791**	312,947
Take-off, landing and depot charges		**(2,706,284)**	(2,785,661)
Depreciation		**(3,405,580)**	(2,907,421)
Aircraft maintenance, repairs and overhaul costs		**(879,252)**	(984,264)
Employee compensation costs		**(2,936,752)**	(2,555,265)
Air catering charges		**(694,285)**	(739,434)
Aircraft and engine operating lease expenses		**(1,139,662)**	(1,214,134)
Other operating lease expenses		**(235,418)**	(206,622)
Other flight operation expenses		**(1,959,590)**	(2,169,924)
Selling and marketing expenses		**(1,322,048)**	(1,283,874)
General and administrative expenses		**(362,105)**	(494,589)
		(20,289,474)	(25,636,462)
PROFIT/(LOSS) FROM OPERATIONS	*6*	**2,820,265**	(83,715)
Finance revenue	*7*	**260,215**	1,968,527
Finance costs	*7*	**(729,335)**	(921,358)
Share of profits and losses of associates		**315,720**	(94,927)
Gain on disposal of subsidiaries and an associate		**–**	477,680
PROFIT BEFORE TAX		**2,666,865**	1,346,207
Tax	*8*	**150,384**	(298,637)
PROFIT FOR THE PERIOD		**2,817,249**	1,047,570
Attributable to:			
Equity holders of the Company		**2,878,224**	1,127,226
Minority interests		**(60,975)**	(79,656)
		2,817,249	1,047,570
Earnings per share attributable to equity holders of the Company:	*10*		
Basic		**24.3 cents**	9.5 cents
Diluted		**N/A**	N/A

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Note	For the six months ended 30 June 2009 *RMB'000* (Unaudited)	 30 June 2008 *RMB'000* (Unaudited and restated)
PROFIT FOR THE PERIOD		**2,817,249**	1,047,570
Share of reserve movements of associates	*11*	**36,106**	100,673
Exchange realignment		**(13,176)**	(691,302)
Others		**(3,000)**	58,420
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**19,930**	(532,209)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**2,837,179**	515,361
Attributable to:			
Equity holders of the Company		**2,899,200**	600,766
Minority interests		**(62,021)**	(85,405)
		2,837,179	515,361

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2009

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**73,473,364**	71,821,000
Lease prepayments	13	**1,928,407**	1,945,258
Intangible asset		**58,780**	60,147
Goodwill		**346,845**	346,845
Interests in associates	14	**6,800,411**	6,271,533
Advance payments for aircraft and related equipment		**6,604,024**	7,052,508
Deposits for aircraft under operating leases		**245,354**	229,899
Long term receivable from ultimate holding company		**181,813**	231,813
Available-for-sale investments		**1,997**	1,997
Deferred tax assets		**2,115,840**	2,022,652
		91,756,835	89,983,652
CURRENT ASSETS			
Aircraft and flight equipment held for sale		**204,280**	350,896
Inventories		**1,213,441**	1,242,597
Accounts receivable	15	**1,959,300**	1,850,289
Bills receivable		**1,287**	1,604
Prepayments, deposits and other receivables	16	**2,324,908**	1,555,908
Derivative financial instruments	17	**–**	253,406
Due from ultimate holding company		**325,280**	361,892
Due from related companies		**7,528**	7,537
Tax recoverable		**56,290**	55,625
Pledged deposits	18	**778,730**	1,750,460
Cash and cash equivalents	18	**3,193,054**	2,987,358
		10,064,098	10,417,572
TOTAL ASSETS		**101,820,933**	100,401,224
CURRENT LIABILITIES			
Air traffic liabilities		**(1,922,496)**	(2,262,338)
Accounts payable	19	**(6,377,417)**	(6,923,895)
Bills payable		**(2,616,467)**	(1,420,438)
Other payables and accruals	20	**(4,456,262)**	(4,689,649)
Derivative financial instruments	17	**(3,639,602)**	(7,727,918)
Tax payable		**(6,895)**	(10,332)
Obligations under finance leases		**(3,809,134)**	(4,064,038)
Interest-bearing bank and other borrowings		**(15,457,338)**	(15,330,837)
Provision for major overhauls		**(259,801)**	(232,926)
Due to related companies		**(116,963)**	(62,924)
		(38,662,375)	(42,725,295)
NET CURRENT LIABILITIES		**(28,598,277)**	(32,307,723)
TOTAL ASSETS LESS CURRENT LIABILITIES		**63,158,558**	57,675,929

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Obligations under finance leases		**(16,509,445)**	(16,480,784)
Interest-bearing bank and other borrowings		**(19,944,593)**	(17,342,868)
Provision for major overhauls		**(1,186,755)**	(1,262,921)
Provision for early retirement benefit obligations		**(190,635)**	(211,209)
Long term payables		**(18,975)**	(44,785)
Deferred income related to frequent-flyer programme		**(916,349)**	(689,233)
Deferred income related to government grants		**(756,608)**	(795,080)
Deferred tax liabilities		**(325,573)**	(392,543)
		(39,848,933)	(37,219,423)
NET ASSETS		**23,309,625**	20,456,506
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	21	**12,251,362**	12,251,362
Treasury shares	22	**(1,353,714)**	(1,353,714)
Reserves		**11,944,404**	9,045,204
		22,842,052	19,942,852
MINORITY INTERESTS		**467,573**	513,654
TOTAL EQUITY		**23,309,625**	20,456,506

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to equity holders of the Company									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
(Unaudited)										
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 period	**–**	**–**	**–**	**–**	**–**	**2,878,224**	**–**	**2,878,224**	**(60,975)**	**2,817,249**
Other comprehensive income/(loss)	**–**	**–**	**33,106**	**–**	**(12,130)**	**–**	**–**	**20,976**	**(1,046)**	**19,930**
Total comprehensive income	**–**	**–**	**33,106**	**–**	**(12,130)**	**2,878,224**	**–**	**2,899,200**	**(62,021)**	**2,837,179**
Acquisition of a subsidiary *(note 24)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,940**	**15,940**
At 30 June 2009	**12,251,362**	**(1,353,714)**	**12,462,101***	**1,615,700***	**(1,608,182)***	**(525,215)***	**–**	**22,842,052**	**467,573**	**23,309,625**
(Unaudited and restated)										
At 1 January 2008										
As previously reported	12,251,362	(1,283,492)	12,328,280	1,351,000	(989,762)	6,861,762	837,987	31,357,137	150,216	31,507,353
Prior year adjustments	–	–	–	–	1,742	(744,679)	–	(742,937)	(12,166)	(755,103)
As restated	12,251,362	(1,283,492)	12,328,280	1,351,000	(988,020)	6,117,083	837,987	30,614,200	138,050	30,752,250
Profit for the period	–	–	–	–	–	1,127,226	–	1,127,226	(79,656)	1,047,570
Other comprehensive income/(loss)	–	–	159,093	–	(685,553)	–	–	(526,460)	(5,749)	(532,209)
Total comprehensive income	–	–	159,093	–	(685,553)	1,127,226	–	600,766	(85,405)	515,361
Final 2007 dividend declared	–	–	–	–	–	–	(837,987)	(837,987)	–	(837,987)
Transfer to reserve funds	–	–	–	264,700	–	(264,700)	–	–	–	–
Acquisition of additional interest in a joint venture	–	–	–	–	–	–	–	–	400,568	400,568
Elimination for reciprocal shareholding *(note 22)*	–	(70,222)	–	–	–	–	–	(70,222)	–	(70,222)
At 30 June 2008	12,251,362	(1,353,714)	12,487,373	1,615,700	(1,673,573)	6,979,609	–	30,306,757	453,213	30,759,970

* The aggregate of these reserve accounts represents the consolidated reserves of RMB11,944,404,000 (31 December 2008: RMB9,045,204,000) on the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
Net cash inflow from operating activities		**1,188,535**	2,361,395
Net cash outflow from investing activities		**(1,957,533)**	(2,447,657)
Net cash inflow from financing activities		**1,003,953**	2,192,451
NET INCREASE IN CASH AND CASH EQUIVALENTS		**234,955**	2,106,189
Cash and cash equivalents at beginning of period		**2,949,062**	2,477,341
Effect of exchange rate changes on cash and cash equivalents		**(19,032)**	(54,413)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,164,985**	4,529,117
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**2,103,016**	2,820,169
Non-pledged time deposits with original maturity of less than three months when acquired	*18*	**1,061,969**	1,708,948
		3,164,985	4,529,117

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 (the "HKSE") and the London Stock Exchange (the "LSE") 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 26 February 2009, the Company issued its first tranche of medium-term notes (the "Notes") with a total offering size of RMB3,000 million. The first tranche will be matured in 3 years with a coupon rate of 3.32%. The second tranche of the Notes was issued on 19 March 2009 with a total offering size of RMB3,000 million. The second tranche of the Notes will be matured in 5 years with a coupon rate of 3.48%. The proceeds of both tranches of the Notes were received by the Company on 27 February 2009 and 20 March 2009, respectively.

On 2 April 2009, the Company entered into a sale and purchase agreement with Capital Airports Holding Company ("Capital Airports"), pursuant to which the Company has agreed to purchase from Capital Airports its 24% equity interest in the registered capital of Air China Cargo Co., Ltd. ("Air China Cargo"). The aggregate consideration payable by the Company for the transaction amounted to approximately RMB718 million. Upon the completion of the transaction, the Company's interest in Air China Cargo will increase from 76% to 100%. At 30 June 2009, the transaction was not yet completed and was pending for approval by the Ministry of Commerce of the PRC.

The principal activities of the Company, its subsidiaries and joint ventures (collectively the "Group") and associates consist of the provision of airline services and 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

At 30 June 2009, the Group's net current liabilities amounted to approximately RMB28,598 million, which comprised current assets of approximately RMB10,064 million and current liabilities of approximately RMB38,662 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the interim condensed consolidated financial statements for the six months ended 30 June 2009, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the interim condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2008, except for the adoption of the following new International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect).

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

(a) IFRS 1 and IAS 27 Amendments – *Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments had no impact on these interim condensed consolidated financial statements.

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

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments have had no significant implications on its accounting for share-based payments.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

(c) IFRS 7 Amendments *Financial Instruments: Disclosures*

IFRS 7 has been amended to enhance disclosures about fair value measurement and liquidity risk. In the first year of application, entities need not provide comparative information for the disclosures required by the amended paragraphs of IFRS 7.

(d) IFRS 8 *Operating Segments*

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Adoption of this standard did not have any effect on the financial position or performance of the Group. The new disclosures required by IFRS 8 are shown in note 3 to the interim condensed consolidated financial statements.

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

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has selected to present two statements.

(f) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no significant financial impact on the Group.

(g) IAS 32 and IAS 1 Amendments *Financial Instruments: Presentation and Puttable Financial Instruments and Obligations Arising on Liquidation*

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

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

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

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

In preparing the financial statements for the year ended 31 December 2008, the Group early adopted IFRIC 13 *Customer Loyalty Programmes* which requires that customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The fair value of the consideration received or receivable from the sales transaction is allocated between the loyalty award credits and the other components of the sale transactions. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed when the Group fulfils its obligations to supply the awards.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Prior to the adoption of IFRIC 13, the incremental cost of providing awards in exchange for miles earned by the members of the Group's frequent-flyer programme was accrued as operating expense after allowing for miles which were not expected to be redeemed. Upon the adoption of IFRIC 13, the miles earned by customers as part of a sales transaction are accounted for as a separate component of the sales transaction and is deferred until the miles are redeemed or the miles lapsed expired. IFRIC 13 has been adopted by the Group retrospectively and therefore certain comparatives in the interim condensed consolidated financial statements have been restated. The effect of the above mentioned changes on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2008 is as follows:

	2008 *RMB'000* (Unaudited)
Consolidated income statement for the period ended 30 June	
Decrease in turnover	(93,713)
Decrease in selling and marketing expenses	32,935
Increase in deferred tax charge	(75,000)
Decrease in profit for the period	(135,778)
Consolidated statement of financial position as at 1 January 2008	
Increase in deferred income	(1,095,002)
Decrease in other payables and accruals	95,899
Increase in deferred tax assets	244,000
Decrease in total equity	(755,103)
Consolidated statement of financial position as at 30 June 2008	
Increase in deferred income	(1,169,596)
Decrease in other payables and accruals	109,715
Increase in deferred tax assets	169,000
Decrease in total equity	(890,881)

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;

(b) the "others" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

In determining the Group's geographical segments, revenue is attributed to the segments based on the origin and destination of each flight segment. Assets, which consist principally of aircraft and ground equipment, supporting the entire worldwide transportation system, are mainly located in Mainland China. An analysis of assets of the Group by geographical distribution has therefore not been included.

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

Operating segments

The following tables present the Group's consolidated revenue and profit information regarding the Group's operating segments in accordance with China Accounting Standards for Business Enterprises (the "CAS") for the six months ended 30 June 2009 and 2008:

For the six months ended 30 June 2009

(Unaudited)	**Airline Operations** ***RMB'000***	**Others** ***RMB'000***	**Eliminations** ***RMB'000***	**Total** ***RMB'000***
REVENUE				
Sales to external customers	**22,362,259**	**42,766**	**–**	**22,405,025**
Intersegment sales	**–**	**222,412**	**(222,412)**	**–**
Total revenue	**22,362,259**	**265,178**	**(222,412)**	**22,405,025**
SEGMENT PROFIT	**2,883,454**	**42,195**	**–**	**2,925,649**

For the six months ended 30 June 2008

(Unaudited and restated)	Airline Operations *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	25,609,356	57,169	–	25,666,525
Intersegment sales	–	140,518	(140,518)	–
Total revenue	25,609,356	197,687	(140,518)	25,666,525
SEGMENT PROFIT	846,070	319,400	–	1,165,470

3. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables present the segment assets of the Group's operating segments in accordance with the CAS as at 30 June 2009 and 31 December 2008:

	Airline Operations *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
SEGMENT ASSETS				
At 30 June 2009 (Unaudited)	**99,110,180**	**3,155,656**	**(2,025,275)**	**100,240,561**
At 31 December 2008 (Audited)	97,532,350	3,231,135	(1,865,742)	98,897,743

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

	For the six months ended	
	30 June 2009 ***RMB'000*** **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
REVENUE		
Total revenue for reportable segments	**22,405,025**	25,666,525
Business tax not included in segment revenue	**(543,663)**	(623,957)
Other income not included in segment revenue	**991,644**	180,765
Effects of differences between IFRS and CAS	**256,733**	329,414
Revenue for the period	**23,109,739**	25,552,747
PROFIT		
Total profit for reportable segments	**2,925,649**	1,165,470
Effects of differences between IFRS and CAS	**(47,425)**	(38,244)
Profit for the period	**2,878,224**	1,127,226

	30 June 2009 ***RMB'000*** **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
ASSETS		
Total assets for reportable segments	**100,240,561**	98,897,743
Effects of differences between IFRS and CAS	**1,580,372**	1,503,481
Total assets	**101,820,933**	100,401,224

3. SEGMENT INFORMATION (continued)

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the six months ended 30 June 2009 and 2008:

For the six months ended 30 June 2009

(Unaudited)	Domestic *RMB'000*	Hong Kong/ Macau/ Taiwan *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan/ Korea *RMB'000*	Asia Pacific and others *RMB'000*	Total *RMB'000*
REVENUE							
Sales to external customers and total revenue	**14,472,838**	**1,273,386**	**2,618,340**	**1,791,109**	**1,600,613**	**1,353,453**	**23,109,739**

For the six months ended 30 June 2008

(Unaudited and restated)	Domestic *RMB'000*	Hong Kong/ Macau/ Taiwan *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan/ Korea *RMB'000*	Asia Pacific and other *RMB'000*	Total *RMB'000*
REVENUE							
Sales to external customers and total revenue	12,955,303	1,827,902	4,411,704	2,766,570	2,047,439	1,543,829	25,552,747

4. AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2009 ***RMB'000*** **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
Passenger	**19,242,976**	20,723,746
Cargo and mail	**1,966,475**	3,655,092
	21,209,451	24,378,838

Business tax incurred and set off against air traffic revenue for the six months ended 30 June 2009 and 30 June 2008 amounted to approximately RMB525 million and RMB606 million, respectively.

5. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Ground service income	**280,271**	297,994
Aircraft engineering income	**317,681**	325,659
Air catering income	**–**	85,962
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	**823,598**	–
Recognition of deferred income	**38,472**	38,472
Others	**109,145**	94,621
Service charges on return of unused flight tickets	**90,074**	91,144
Cargo handling service income	**33,395**	43,091
Training service income	**7,349**	12,797
Import and export service income	**6,696**	12,784
Sales of materials	**10,684**	5,406
Others	**182,923**	165,979
	1,900,288	1,173,909

In January 2009, the Ministry of Finance of the PRC ("MOF") and Civil Aviation Administration of China ("CAAC") jointly issued "Caijian 【2009】 No. 4 Document – Implementation Notice from the Ministry of Finance and Civil Aviation Administration of China regarding the refund of the CAAC Infrastructure Development Fund after collection" (the "Refund Document"). According to the Refund Document, the CAAC Infrastructure Development Fund collected during the period from 1 July 2008 to 30 June 2009 would be refunded to the Company.

6. PROFIT/(LOSS) FROM OPERATIONS

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

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment, net	**(3,861)**	(24,361)
Loss on derecognition of property, plant and equipment	**57,091**	26,262
Minimum lease payments under operating leases:		
Aircraft and related equipment	**1,139,662**	1,214,134
Land and buildings	**235,418**	206,622
Amortisation of lease prepayments *(note 13)*	**23,149**	12,468
Impairment of aircraft and flight equipment held for sale	**–**	164,697

7. FINANCE REVENUE AND FINANCE COSTS

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	**175,879**	1,923,420
Interest income	**13,049**	45,107
Gain on interest rate derivative contracts, net	**71,287**	–
	260,215	1,968,527
Finance costs		
Interest on interest-bearing bank and other borrowings	**605,607**	735,867
Interest on finance leases	**240,338**	325,808
Loss on interest rate derivative contracts, net	**–**	24,639
	845,945	1,086,314
Less: Interest capitalised	**(116,610)**	(164,956)
	729,335	921,358

The interest capitalisation rate represents the cost of capital from raising the related borrowings and is approximately 1% to 5% (six months ended 30 June 2008: 3% to 7%) per annum.

8. TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain preferential treatments available to the Company's subsidiary and a joint venture which are taxed at a preferential rate of 20% (six months ended 30 June 2008: 12.5% to 18%), the PRC entities within the Group are subject to corporate income tax at a rate of 25% (six months ended 30 June 2008: 25%) during the period.

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

8. TAX (continued)

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

	For the six months ended	
	30 June 2009 *RMB'000* **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
Current income tax – Mainland China:		
Provision for the period	**9,773**	20,406
Overprovision in prior years	**–**	(541,865)
Deferred income tax	**(160,157)**	820,096
Income tax charge/(credit) for the period	**(150,384)**	298,637

The share of tax attributable to associates amounting to RMB63,083,000 (six months ended 30 June 2008: RMB16,666,000) is included in the share of profits and losses of associates on the face of the interim condensed consolidated income statement for the six months ended 30 June 2009.

9. DIVIDEND

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

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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

The calculation of basic earnings per share for the six months ended 30 June 2009 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2009 of approximately RMB2,878,224,000, and the weighted average of approximately 11,863,300,373 ordinary shares in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific Airways Limited ("Cathay") through the reciprocal shareholding arrangement (note 22).

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2008 of approximately RMB1,127,226,000 (restated), and the weighted average of 11,865,149,750 ordinary shares in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay through the reciprocal shareholding arrangement (note 22).

Diluted earnings per share amounts for the six months ended 30 June 2009 and 30 June 2008 have not been disclosed because no diluting events existed during those periods.

11. OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited)
Share of reserve movements of associates during the period		
Gains arising during the period	**36,106**	106,050
Less: Reclassification adjustment upon disposal of subsidiaries and an associate	**–**	(5,377)
	36,106	100,673

12. PROPERTY, PLANT AND EQUIPMENT

(Unaudited)	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
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	2,209,766	456	17,358	25,257	57,730	2,811,045	5,121,612
Acquisition of a subsidiary *(note 24)*	–	9,760	8,013	1,029	1,146	–	19,948
Disposals	(70,025)	(2,114)	(2,142)	(311)	(632)	–	(75,224)
Transfer from construction in progress	2,575,697	60,118	46,544	9,589	3,254	(2,695,202)	–
Reclassification to aircraft and flight equipment held for sale under current assets	(8,316)	–	–	–	–	–	(8,316)
Depreciation charge for the period	(3,094,120)	(82,268)	(112,137)	(88,424)	(28,631)	–	(3,405,580)
Exchange realignment	(72)	(3)	–	(1)	–	–	(76)
At 30 June 2009, net of accumulated depreciation and impairment	63,553,065	3,616,093	1,250,058	757,170	238,446	4,058,532	73,473,364
At 1 January 2009							
Cost	103,087,583	5,082,355	3,012,386	1,863,624	487,525	3,942,689	117,476,162
Accumulated depreciation and impairment	(41,147,448)	(1,452,211)	(1,719,964)	(1,053,593)	(281,946)	–	(45,655,162)
Net book value	61,940,135	3,630,144	1,292,422	810,031	205,579	3,942,689	71,821,000
At 30 June 2009							
Cost	107,549,672	5,152,502	3,071,625	1,879,355	547,936	4,058,532	122,259,622
Accumulated depreciation and impairment	(43,996,607)	(1,536,409)	(1,821,567)	(1,122,185)	(309,490)	–	(48,786,258)
Net book value	63,553,065	3,616,093	1,250,058	757,170	238,446	4,058,532	73,473,364

12. PROPERTY, PLANT AND EQUIPMENT (continued)

At 30 June 2009, certain of the Group's aircraft and buildings with an aggregate net book value of approximately RMB9,141 million (31 December 2008: RMB12,057 million) were pledged to secure certain bank loans of the Group.

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB29,932 million (31 December 2008: RMB23,279 million).

As at 30 June 2009, the Group was in the process of applying for the title certificates of certain of its buildings with an aggregate net book value of approximately RMB99 million (31 December 2008: RMB101 million) transferred from Air China International Corporation, the predecessor of the Company, upon incorporation. The Group was also in the process of applying for the title certificates of certain buildings acquired by the Group after incorporation with an aggregate net book value of approximately RMB1,181 million (31 December 2008: RMB1,197 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 buildings. Therefore, the aforesaid matters would have no significant impact on the Group's financial position as at 30 June 2009.

13. LEASE PREPAYMENTS

	30 June 2009 ***RMB'000*** **(Unaudited)**
Cost	
At 1 January 2009	**2,039,004**
Acquisition of a subsidiary *(note 24)*	**6,298**
At 30 June 2009	**2,045,302**
Accumulated amortisation	
At 1 January 2009	**(93,746)**
Amortisation for the period *(note 6)*	**(23,149)**
At 30 June 2009	**(116,895)**
Net book value	
At 30 June 2009	**1,928,407**

The Group's lease prepayments comprise land use rights which are held under long term leases and are located in Mainland China.

At 30 June 2009, certain of the Group's land use rights with an aggregate net book value of approximately RMB35 million (31 December 2008: RMB36 million) were pledged to secure certain of the Group's bank loans.

At 30 June 2009, the Group was in the process of applying for the title certificates of certain land use rights acquired by the Group after incorporation with an aggregate net book value of approximately RMB600 million (31 December 2008: RMB606 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 use rights. Therefore, the aforesaid matters would have no significant impact on the Group's financial position as at 30 June 2009.

14. INTERESTS IN ASSOCIATES

At 30 June 2009, the Group was in the process of completing the registration of its equity interests in certain associates with an aggregate investment cost of approximately RMB75 million (31 December 2008: RMB75 million) transferred from Air China International Corporation upon incorporation. The Directors of the Company are of the view that the aforesaid matters would have no significant impact on the Group's ownership in those equity interests and also the Group's financial position as at 30 June 2009.

15. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of ranging from 30 to 90 days to its sales agents and other customers while some major customers are granted a credit period of up to or above six months. 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 statement of financial position date, net of provision for impairment, is as follows:

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Within 30 days	**1,560,785**	1,533,390
31 to 60 days	**197,409**	166,412
61 to 90 days	**57,030**	59,916
Over 90 days	**144,076**	90,571
	1,959,300	1,850,289

Included in the Group's accounts receivable as at the statement of financial position date is the following amount due from a joint venture:

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Joint venture	**225**	79

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of the Group's prepayments, deposits and other receivables at the statement of financial position date is as follows:

	30 June 2009 *RMB'000* (Unaudited)	31 December 2008 *RMB'000* (Audited)
Prepayments		
Advances and others	**487,135**	578,775
Manufacturers' credits	**21,222**	21,860
Prepaid aircraft operating lease rentals	**200,929**	207,020
	709,286	807,655
Deposits and other receivables	**1,615,622**	748,253
	2,324,908	1,555,908

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2009 (Unaudited)		31 December 2008 (Audited)	
	Assets *RMB'000*	Liabilities *RMB'000*	Assets *RMB'000*	Liabilities *RMB'000*
Fuel derivative contracts	**–**	**3,462,967**	253,406	7,478,463
Interest rate derivative contracts	**–**	**176,635**	–	249,455
	–	**3,639,602**	253,406	7,727,918

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 counterparties and within approved limits. The Group's management is of the view that it is more appropriate to disclose the realised and unrealised gain or loss of fuel derivative contracts as movements in fair value of fuel derivative contracts on the Group's consolidated income statement to reflect the objective of the transactions and have therefore reclassified the comparative amounts accordingly. The movements in fair value of fuel derivative contracts for the six month ended 30 June 2009 was RMB1,449,791,000 (six months ended 30 June 2008: RMB312,947,000), which consisted of the recovery in fair value of RMB4,002,803,000 (six months ended 30 June 2008: RMB96,330,000) and the decrease in fair value of RMB2,553,012,000 (six months ended 30 June 2008: decrease in fair value gain of RMB214,616,000) resulted from the settlement of fuel derivative contracts.

The fair value of the fuel derivative contracts as at the statement of financial position date was estimated by using the 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, mean-reverting speed, long term equilibrium price and risk-free rate which can be obtained from observable markets.

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

18. CASH AND CASH EQUIVALENTS

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Cash and bank balances	**1,631,390**	2,283,485
Cash placed with China National Aviation Finance Co., Ltd.	**471,626**	385,243
Total cash and bank balances	**2,103,016**	2,668,728
Time deposits placed with banks	**1,868,768**	2,069,090
Less: Deposits pledged against:		
Aircraft operating leases and financial derivatives	**(778,535)**	(1,746,210)
Others	**(195)**	(4,250)
Non-pledged deposits	**1,090,038**	318,630
Cash and cash equivalents	**3,193,054**	2,987,358

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

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Non-pledged time deposits with original maturity of:		
Less than 3 months when acquired	**1,061,969**	280,334
Over 3 months when acquired	**28,069**	38,296
	1,090,038	318,630

19. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable as at the statement of financial position date is as follows:

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Within 30 days	**3,817,015**	4,645,064
31 to 60 days	**1,120,615**	948,831
61 to 90 days	**526,320**	413,886
Over 90 days	**913,467**	916,114
	6,377,417	6,923,895

19. ACCOUNTS PAYABLE (continued)

Included in the accounts payable as at the statement of financial position date is the following amounts due to a joint venture:

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Joint venture	**167,683**	114,637

20. OTHER PAYABLES AND ACCRUALS

An analysis of the Group's other payables and accruals as at the statement of financial position date is as follows:

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Provision for staff housing benefits	**43,021**	46,857
Accrued salaries, wages and benefits	**1,004,578**	981,774
Interest payable	**334,502**	305,416
Custom duties and levies payable	**260,795**	455,210
Current portion of long term payables	**121,260**	120,725
Current portion of deferred income related to frequent-flyer programme	**210,371**	434,622
Current portion of deferred income related to government grants	**76,944**	76,944
Deposits received from sales agents	**415,618**	463,244
Accrued operating expenses	**1,206,665**	1,035,535
Others	**782,508**	769,322
	4,456,262	4,689,649

21. SHARE CAPITAL

The number of shares of the Company and their nominal value as at 30 June 2009 and 31 December 2008 are as follows:

	Number of shares	**Nominal value** *RMB'000*
Registered, issued and fully paid:		
H shares of RMB1.00 each	4,405,683,364	4,405,683
A shares of RMB1.00 each:		
Tradable	1,639,000,000	1,639,000
Trade-restricted	6,206,678,909	6,206,679
	12,251,362,273	12,251,362

The above H shares and A shares rank pari passu in all material respects.

22. TREASURY SHARES

At 30 June 2009, the Group owned 17.5% (31 December 2008:17.5%) equity interest in Cathay, which in turn owned 18.1% (31 December 2008: 18.1%) equity interest in the Company. Accordingly, the 17.5% of Cathay's shareholding in the Company was recorded in the Group's interim condensed consolidated financial statements as treasury shares through deduction from equity.

23. SHARE APPRECIATION RIGHTS

The Company has adopted a share appreciation rights ("SARs") 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, mainly 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, SARs will be granted to no more than 200 individuals.

Under the Plan, the holders of SARs are entitled 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 and 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.

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 the 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 number of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants. As at 30 June 2009, all SARs granted remained and had an aggregate fair value of RMB9,043,230.

Pursuant to the "Notice on Issues relating to Governing the Implementation of Stock Incentive Program of Sate-owned and Controlled Listed Companies" (the "Notice") issued by the State-owned Assets Supervision and Administration Commission of the State Council and the MOF, state-owned and controlled listed companies are required to amend their stock incentive programs and implement the amended incentive programs after they have been approved in the general meetings of shareholders or board of directors meetings. On 25 August 2009, the Company's board of directors resolved that the Plan would be suspended, amended in accordance with the Notice and the relevant regulations and submitted for approval in the general meeting of shareholders. The Directors of the Company are of the view that the aforesaid matter has had no significant impact on the Group's financial position as at 30 June 2009.

24. BUSINESS COMBINATION

On 26 June 2009, the Group acquired a 24.4% equity interest in Chengdu Falcon Aircraft Engineering Services Co., Ltd. ("Chengdu Falcon") in addition to the 35.6% equity interest it already held. Upon completion of the transaction, the Company's interest in Chengdu Falcon increased from 35.6% to 60%. Chengdu Falcon was then changed from an associate to a subsidiary of the Company.

The fair values of the identifiable assets and liabilities of Chengdu Falcon as at the date of acquisition and the corresponding carrying amounts immediately after the acquisition are as follows:

	Notes	Fair value recognised on acquisition *RMB'000* (Unaudited)	Previous carrying amount *RMB'000* (Unaudited)
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	19,948	19,948
Lease prepayments	*13*	6,298	6,298
CURRENT ASSETS			
Inventories		8,486	8,486
Accounts receivable		12,360	12,360
Prepayments, deposits and other receivables		1,444	1,444
Cash and cash equivalents		6,305	6,305
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		(9,000)	(9,000)
Accounts payable		(3,285)	(3,285)
Other payables and accruals		(2,702)	(2,702)
NET ASSETS		39,854	39,854
Fair value of acquiring the 24.4% equity interest		9,724	
Excess over the amount of a business combination recognised in the income statement		(129)	
Satisfied by cash		9,595	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	RMB'000
Cash consideration	–
Net cash acquired with the subsidiary	6,305
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	6,305

As agreed among all the contracting parties, the transaction was completed before 30 June 2009, and the business registration is in process up to 30 June 2009. The consideration for this transaction will be settled within 30 days after the completion of business registration.

25. CONTINGENT LIABILITIES

As at 30 June 2009, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC 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 businesses undertaken by the Company after the restructuring, no other 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 by CNAHC and CNACG prior to the restructuring. 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 the Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed airplane. Investigations were conducted by both the Chinese and civil aviation authorities and have yet to be concluded at the date of approval of these financial statements. Certain injured passengers and family members of the deceased passengers as well as 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 or any possible appeal actions. Up to 30 June 2009, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB238 million (31 December 2008: RMB238 million) in respect of passenger liability and other auxiliary costs. Included in the RMB238 million (31 December 2008: RMB238 million) was an amount of approximately RMB230 million (31 December 2008: RMB230 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 the accident 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. Also, the Directors of the Company are of the view that there would be valid defence against this claim and consider that no provision for this claim is needed accordingly.

(d) The Group has issued guarantees to banks in respect of the bank loans granted to the following party:

	30 June 2009 ***RMB'000*** **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Associate	**105,199**	105,770

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, aircraft and related equipment under operating lease arrangements. Leases for these assets are negotiated for terms ranging from 1 to 20 years.

At the statement of financial position date, the Group had the following future minimum lease payments under non-cancellable operating leases:

	30 June 2009 ***RMB'000*** **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Within one year	**2,280,850**	2,625,969
In the second to fifth years, inclusive	**6,050,296**	6,752,785
Over five years	**4,335,362**	4,198,883
	12,666,508	13,577,637

27. COMMITMENTS

(a) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the statement of financial position date:

	30 June 2009 ***RMB'000*** **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Contracted, but not provided for:		
Aircraft and flight equipment	**64,347,226**	65,680,080
Buildings	**539,339**	459,682
Others	**54,654**	236,432
	64,941,219	66,376,194
Authorised, but not contracted for:		
Aircraft and flight equipment	**88,210**	88,210
Buildings	**3,171,033**	2,997,790
Others	**826,363**	816,728
	4,085,606	3,902,728
Total capital commitments	**69,026,825**	70,278,922

27. COMMITMENTS (continued)

(b) Investment commitments

The Group had the following amounts of investment commitments as at the statement of financial position date:

	30 June 2009 ***RMB'000*** **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
Contracted, but not provided for:		
Associate	**50,660**	50,680

28. RELATED PARTY TRANSACTIONS

During the period, 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) its associates:

		For the six months ended	
		30 June 2009 ***RMB'000*** **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited)
(a)	Included in air traffic revenue		
	Sale of cargo space:		
	CNAHC Group	**50,708**	83,604
	Government charter flights:		
	CNAHC Group	**341,004**	182,889

28. RELATED PARTY TRANSACTIONS (continued)

	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited)
(b) Included in other operating revenue		
Equipment leasing income:		
Associate	**60**	–
Aircraft engineering income:		
Associates	**18,113**	31,955
Ground services income:		
CNAHC Group	**116**	–
Joint venture	**69**	28
Associates	**31,849**	33,532
	32,034	33,560
Others:		
CNAHC Group	**13,733**	13,943
Joint venture	**7,029**	3,512
Associates	**5,768**	16,500
	26,530	33,955
(c) Included in finance revenue and finance costs		
Interest income:		
Associate	**2,293**	5,405
Interest expense:		
Associate	**25,025**	10,269
(d) Included in gain on disposal of subsidiaries and an associate		
CNAHC Group	**–**	850,000

28. RELATED PARTY TRANSACTIONS (continued)

	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited)
(e) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	**34,569**	33,213
Associates	**48,707**	149,896
	83,276	183,109
Air catering charges:		
CNAHC Group	**23,109**	26,540
Joint ventures	**–**	65,048
Associates	**7,030**	10,708
	30,139	102,296
Repair and maintenance costs:		
Joint venture	**289,563**	253,415
Associates	**131,381**	61,190
	420,944	314,605
Sales commission expenses:		
CNAHC Group	**1,177**	2,252
Associates	**1,370**	1,497
	2,547	3,749
Management fees:		
CNAHC Group	**4,231**	4,357
Aircraft and flight equipment leasing fees:		
Associates	**306,644**	278,262
Others:		
CNAHC Group	**70,586**	71,438
Joint venture	**3,178**	447
Associates	**3,320**	10,610
	77,084	82,495

28. RELATED PARTY TRANSACTIONS (continued)

		30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
(f)	Deposits, loans and bills payable		
	Deposits placed with an associate	**471,626**	385,243
	Loans from an associate	**638,424**	1,046,619
(g)	Outstanding balances with related parties		
	Long term receivable from ultimate holding company	**181,813**	231,813
	Due from ultimate holding company	**325,280**	361,892
	Due from related companies	**7,528**	7,537
	Due from associates	**214,788**	161,219
	Due from a joint venture	**15,376**	12,080
	Due to related companies	**(116,963)**	(62,924)
	Due to associates	**(316,894)**	(472,921)
	Due to joint ventures	**(169,511)**	(164,968)

The long term receivable from the ultimate holding company is unsecured, interest-free and is not repayable within one year from the statement of financial position date. Except for the long term receivable from the ultimate holding company, the outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

(h) An analysis of the compensation of key management personal of the Group is as follows:

	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited)
Compensation of key management personnel of the Group		
Short term employee benefits	**1,774**	1,807
Equity-settled share option expense	**1,185**	3,331
Post-employment benefits	**140**	125
	3,099	5,263

(i) On 25 August 2004, CNACG entered into two licences agreements with China National Aviation Company Limited ("CNAC", a wholly-owned subsidiary of the Company) 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 the six months ended 30 June 2009 and 2008.

28. RELATED PARTY TRANSACTIONS (continued)

(j) The Company entered into several agreements with CNAHC which govern the use of trademarks granted by the Company to CNAHC; the provision of financial services by China National Aviation Finance Co., Ltd.; 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 with CNAHC; the media and advertising services 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 and other ground services 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 the "State-owned Enterprises"). During the period, the Group had transactions with the 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 other 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 the other 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 of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

29. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 17 August 2009, the Company and CITIC Pacific Limited ("CITIC Pacific") entered into a share purchase agreement (the "Agreement"), pursuant to which the Company has agreed to purchase, and CITIC Pacific has agreed to sell, 491,864,724 shares in Cathay owned by CITIC Pacific for an aggregate consideration of approximately HK$6,335 million, representing a price of HK$12.88 per share in Cathay. After completion of such sale and purchase, the Company will increase its shareholding in Cathay from 687,895,263 to 1,179,759,987 shares, or from approximately 17.5% to 29.99% of the issued capital of Cathay.

30. COMPARATIVE AMOUNTS

As further explained in notes 2 and 17 to the financial statements, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

31. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 August 2009.

Unaudited Interim Consolidated Income Statement

For the six months ended 30 June 2009
(Prepared under China Accounting Standards for Business Enterprises)

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Revenue from operations	**22,405,025**	25,666,525
Less: Cost of operations	**18,975,773**	23,134,131
Business taxes and surcharges	**543,663**	623,796
Selling expenses	**1,640,424**	1,577,527
General and administrative expenses	**684,816**	673,303
Finance costs/(revenue)	**606,798**	(996,332)
Impairment losses in assets	**–**	(880)
Add: Gains from changes in fair value	**1,521,078**	288,308
Investment income	**311,125**	410,348
Including: Investment income/(loss) from associates and joint ventures	**311,125**	(66,458)
Profit from operations	**1,785,754**	1,353,636
Add: Non-operating income	**952,844**	146,399
Less: Non-operating expenses	**8,423**	135,108
Including: Loss on disposal of non-current assets	**4,248**	18,960
Total Profit	**2,730,175**	1,364,927
Less: Tax	**(134,500)**	291,949
Net profit	**2,864,675**	1,072,978
Net profit attributable to equity holders of the Company	**2,925,649**	1,165,470
Minority interests	**(60,974)**	(92,492)

Unaudited Interim Consolidated Balance Sheet

For the six months ended 30 June 2009
(Prepared under China Accounting Standards for Business Enterprises)

	30 June 2009 *RMB'000* (Unaudited)	31 December 2008 *RMB'000* (Audited)
ASSETS		
Current assets:		
Cash and bank balances	**3,902,568**	4,663,792
Financial assets held for trading	**–**	253,406
Bills receivable	**1,287**	1,604
Accounts receivable	**2,175,082**	2,074,178
Other receivables	**1,658,791**	1,110,524
Prepayments	**347,164**	309,945
Inventories	**809,228**	812,941
Total current assets	**8,894,120**	9,226,390
Non-current assets:		
Long term receivables	**247,004**	231,586
Long term equity investments	**7,876,966**	7,323,075
Fixed assets	**67,677,952**	66,244,815
Construction in progress	**10,480,741**	10,887,225
Intangible assets	**2,558,048**	2,563,887
Goodwill	**349,055**	349,055
Long term deferred expenses	**121,408**	141,601
Deferred tax assets	**2,035,267**	1,930,109
Total non-current assets	**91,346,441**	89,671,353
Total assets	**100,240,561**	98,897,743

Unaudited Interim Consolidated Balance Sheet

For the six months ended 30 June 2009
(Prepared under China Accounting Standards for Business Enterprises)

	30 June 2009 *RMB'000* (Unaudited)	31 December 2008 *RMB'000* (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term loans	**6,745,850**	9,379,700
Financial liabilities held for trading	**3,639,602**	7,727,918
Bills payable	**2,616,467**	1,493,815
Accounts payable	**7,674,256**	7,792,638
Domestic air traffic liabilities	**659,709**	744,804
International traffic liabilities	**1,262,788**	1,517,530
Receipts in advance	**49,614**	56,022
Employee compensations	**226,817**	163,918
Taxes payable	**133,277**	300,198
Interest payable	**327,381**	303,066
Other payables	**2,696,242**	3,030,210
Non-current liabilities repayable within one year	**12,256,294**	10,186,078
Total current liabilities	**38,288,297**	42,695,897
Non-current liabilities:		
Long term loans	**10,854,593**	14,109,828
Corporate bonds	**9,000,000**	3,000,000
Long term payables	**1,205,730**	1,307,706
Obligations under finance leases	**16,509,445**	16,480,784
Accrued liabilities	**97,526**	112,754
Deferred income	**916,349**	689,232
Deferred tax liabilities	**180,000**	214,000
Total non-current liabilities	**38,763,643**	35,914,304
Total liabilities	**77,051,940**	78,610,201
Shareholders' equity:		
Share capital	**12,251,362**	12,251,362
Capital reserve	**11,709,845**	11,676,739
Reserve funds	**1,563,914**	1,563,914
Accumulated losses	**(1,181,954)**	(4,107,603)
Foreign exchange translation reserve	**(1,622,126)**	(1,610,522)
Equity attributable to equity holders of the Company	**22,721,041**	19,773,890
Minority interests	**467,580**	513,652
Total shareholders' equity	**23,188,621**	20,287,542
Total liabilities and shareholders' equity	**100,240,561**	98,897,743

Effects of Significant Differences Between IFRS and CAS

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

	Notes	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
Net profit attributable to the equity holders of the Company under CAS		**2,925,649**	1,165,470
Deferred tax	*(i)*	**21,000**	4,712
Additional depreciation from restatement of costs of fixed assets	*(ii)*	**(71,469)**	(72,493)
Reversal of depreciation and amortisation arising on revaluation	*(iii)*	**75,115**	155,695
Government grants	*(iv)*	**(8,056)**	17,372
Effect of component accounting	*(v)*	**(61,672)**	(120,281)
Others		**(2,343)**	(23,249)
Net profit attributable to equity holders of the Company under IFRS		**2,878,224**	1,127,226

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Equity attributable to the equity holders of the Company under CAS		**22,721,041**	19,773,890
Deferred tax	*(i)*	**(65,000)**	(86,000)
Restatement of costs of fixed assets	*(ii)*	**495,736**	567,205
Reversal of revaluation surplus	*(iii)*	**(258,605)**	(333,720)
Government grants	*(iv)*	**(403,282)**	(395,226)
Effect of component accounting	*(v)*	**186,893**	248,565
Others	*(vi)*	**165,269**	168,138
Equity attributable to equity holders of the Company under IFRS		**22,842,052**	19,942,852

Notes:

(i) The differences in deferred tax were mainly caused by the other differences under CAS and IFRS as explained below.

(ii) The differences in the costs of fixed assets mainly relate to 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 IFRS, the costs of fixed asset acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e. the swap rate) and therefore resulted in differences in the costs of fixed asset in the financial statements prepared under CAS and IFRS. Such differences are expected to be eliminated gradually through depreciation or disposals of the related fixed assets in future.

(iii) In accordance with the accounting policies under IFRS, 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 IFRS. Such differences are expected to be eliminated gradually through depreciation or disposals of the related fixed assets in future.

(iv) Under both CAS and IFRS, government grants or government subsidies should be debited as government grants/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 grants 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 IFRS. Therefore in the Group's financial statement prepared in accordance with CAS, government grants 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.

(v) The differences were caused by the adoption of component accounting in different years under CAS and IFRS. Component accounting was adopted by the Group on a prospective basis under IFRS in 2005 and under CAS in 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(vi) The difference was mainly caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay and is expected to be eliminated when the Group's interest in Cathay is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

"available seat kilometres" or "ASKs"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTKs"	the number of tonnes of capacity available for the carriage of cargo and mail multipled by kilometres flown
"available tonne kilometres" or "ATKs"	the number of tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
"tonne"	a metric tonne, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

"revenue passenger kilometres" or "RPKs"	the number of revenue passengers carried multiplied by the kilometres flown
"passenger traffic"	measured in RPKs, unless otherwise specified
"revenue freight tonne kilometres" or "RFTKs"	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 "RTKs"	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

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 hours"	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