中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 753)

(I) 2008 ANNUAL RESULTS
(II) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION
(III) PROPOSED AMENDMENTS TO THE RULES AND PROCEDURE OF SHAREHOLDERS' MEETINGS, MEETINGS OF THE BOARD OF DIRECTORS AND MEETINGS OF THE SUPERVISORY COMMITTEE
(IV) APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR
(V) RESIGNATION OF DIRECTOR

The board of directors (the "**Board**") of Air China Limited (the "**Company**") hereby announces that a meeting of the Board (the "**Board Meeting**") was held on 16 April 2009 and passed resolutions relating to, inter alia,:

I. results for the financial year ended 31 December 2008;

II. proposed amendments to the articles of association of the Company (the "**Articles of Association**");

III. proposed amendments to the Rules and Procedure of Shareholders' Meetings, Meetings of the Board and Meetings of the Supervisory Committee of the Company (the "**Three Rules of Procedures**"); and

IV. the appointment of Mr. Fu Yang as an independent non-executive director of the Company.

(I) 2008 ANNUAL RESULTS

Group Results

The Board is pleased to announce the audited consolidated financial results of the Company, its subsidiaries and joint ventures (collectively, the "**Group**") for the year ended 31 December 2008 with comparative figures for the corresponding year of 2007 as follows:

A. Prepared under International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT

	Notes	**2008** *RMB'000*	2007 *RMB'000* (Restated)
TURNOVER			
Air traffic revenue	3	**50,536,695**	47,484,210
Other operating revenue	4	**2,371,466**	3,597,457
		52,908,161	51,081,667
OPERATING EXPENSES			
Jet fuel costs		**(22,613,935)**	(17,201,143)
Take-off, landing and depot charges		**(5,538,092)**	(5,537,907)
Depreciation		**(6,365,275)**	(5,554,443)
Aircraft maintenance, repair and overhaul costs		**(1,804,416)**	(2,076,119)
Employee compensation costs	5	**(5,843,887)**	(5,209,766)
Air catering charges		**(1,443,855)**	(1,473,543)
Aircraft and engine operating lease expenses		**(2,400,060)**	(2,239,359)
Other operating lease expenses		**(448,406)**	(311,262)
Other flight operation expenses		**(4,665,630)**	(4,232,726)
Selling and marketing expenses		**(2,602,904)**	(2,617,843)
General and administrative expenses		**(1,089,467)**	(951,377)
		(54,815,927)	(47,405,488)
PROFIT/(LOSS) FROM OPERATIONS	6	**(1,907,766)**	3,676,179
Finance revenue	7	**1,584,437**	2,376,572
Finance costs	7	**(9,948,518)**	(1,969,326)
Gain on disposal of subsidiaries and an associate	8	**477,680**	–
Share of profits and losses of associates		**(1,183,513)**	1,364,740
PROFIT/(LOSS) BEFORE TAX		**(10,977,680)**	5,448,165
Tax	9	**1,610,650**	(1,512,613)
PROFIT/(LOSS) FOR THE YEAR		**(9,367,030)**	3,935,552
Attributable to:			
Equity holders of the Company		**(9,255,822)**	4,046,213
Minority interests		**(111,208)**	(110,661)
		(9,367,030)	3,935,552
Dividends:			
Interim		**–**	–
Proposed final		**–**	837,987
		–	837,987
Earnings/(loss) per share attributable to equity holders of the Company:	12		
Basic		**(78.01) cents**	34.06 cents
Diluted		**NA**	NA

CONSOLIDATED BALANCE SHEET

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
NON-CURRENT ASSETS		
Property, plant and equipment	**71,821,000**	61,691,673
Lease prepayments	**1,945,258**	1,046,042
Intangible asset	**60,147**	75,194
Goodwill	**346,845**	–
Interests in associates	**6,271,533**	9,542,677
Advance payments for aircraft and related equipment	**7,052,508**	7,652,365
Deposits for aircraft under operating leases	**229,899**	257,505
Long term receivable from ultimate holding company	**231,813**	331,813
Available-for-sale investments	**1,997**	1,997
Deferred tax assets	**2,022,652**	870,645
	89,983,652	81,469,911
CURRENT ASSETS		
Aircraft held for sale	**350,896**	184,728
Inventories	**1,242,597**	1,142,050
Accounts receivable	**1,850,289**	2,794,280
Bills receivable	**1,604**	1,599
Prepayments, deposits and other receivables	**1,555,908**	1,318,062
Derivative financial instruments	**253,406**	6,493
Due from ultimate holding company	**361,892**	335,129
Due from related companies	**7,537**	22,881
Tax recoverable	**55,625**	–
Pledged deposits	**1,750,460**	118,624
Cash and cash equivalents	**2,987,358**	3,906,520
	10,417,572	9,830,366
TOTAL ASSETS	**100,401,224**	91,300,277
CURRENT LIABILITIES		
Air traffic liabilities	**(2,262,338)**	(2,570,897)
Accounts payable	**(6,923,895)**	(5,930,800)
Bills payable	**(1,420,438)**	–
Other payables and accruals	**(4,689,649)**	(4,153,696)
Derivative financial instruments	**(7,727,918)**	(14,826)
Tax payable	**(10,332)**	(1,111,404)
Obligations under finance leases	**(4,064,038)**	(2,216,680)
Interest-bearing bank and other borrowings	**(15,330,837)**	(10,978,835)
Provision for major overhauls	**(232,926)**	(83,907)
Due to related companies	**(62,924)**	(45,142)
	(42,725,295)	(27,106,187)

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
NET CURRENT LIABILITIES	**(32,307,723)**	(17,275,821)
TOTAL ASSETS LESS CURRENT LIABILITIES	**57,675,929**	64,194,090
NON-CURRENT LIABILITIES		
Obligations under finance leases	**(16,480,784)**	(13,328,193)
Interest-bearing bank and other borrowings	**(17,342,868)**	(16,615,291)
Provision for major overhauls	**(1,262,921)**	(1,190,415)
Provision for early retirement benefits obligations	**(211,209)**	(164,837)
Long term payables	**(44,785)**	(190,005)
Deferred income related to frequent-flyer programme	**(689,233)**	(780,895)
Deferred income related to government grant	**(795,080)**	(872,023)
Deferred tax liabilities	**(392,543)**	(300,181)
	(37,219,423)	(33,441,840)
NET ASSETS	**20,456,506**	30,752,250
EQUITY OF THE COMPANY ATTRIBUTABLE TO EQUITY HOLDERS		
Issued capital	**12,251,362**	12,251,362
Treasury shares	**(1,353,714)**	(1,283,492)
Reserves	**9,045,204**	18,808,343
Proposed final dividend	**–**	837,987
	19,942,852	30,614,200
MINORITY INTERESTS	**513,654**	138,050
TOTAL EQUITY	**20,456,506**	30,752,250

Notes:

1 BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) and the disclosure requirements of the Hong Kong Companies Ordinance.

As at 31 December 2008, the Group's net current liabilities amounted to approximately RMB32,308 million, which comprised current assets of approximately RMB10,417 million and current liabilities of approximately RMB42,725 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 financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value and assets held for sale which have been stated at the lower of their carrying amounts and fair values less costs to sell.

Impact of New and Revised IFRSs

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and* IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 – Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 12 *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 addresses on how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

Impact of Issued but not yet Effective IFRSs

Except for IFRIC-Int 13 *Customer Loyalty Programmes*, the Group has not applied the following new and revised IFRSs which have been issued but are not yet effective in these financial statements:

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*[1]
IFRS 2 Amendment	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures*[1]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendment	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendments	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 *"Reassessment of Embedded Derivatives"* and IAS 39 *"Financial Instruments: Recognition and Measurement"*[5]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC 18	*Transfers of Assets from Customers*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs** which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009

* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

(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 have no impact on the 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 are unlikely to have any significant implications on its accounting for share-based payments.

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

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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

The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

(d) IFRS 7 *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.

(e) 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.

(f) 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.

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

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

(h) IAS 32 and IAS 1 Amendments *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 are unlikely to have any financial impact on the Group.

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

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

(j) 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.

(k) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires that customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

The Group has been operating a frequent-flyer programme and has early adopted IFRIC 13 for the accounting period beginning on 1 January 2008. 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 have been restated. The effect of the abovementioned changes is summarised as follows:

	2008	2007
	RMB'000	*RMB'000*
Consolidated income statement for the year ended 31 December		
Decrease in turnover	**(75,849)**	(248,874)
Decrease in selling and marketing expenses	**58,440**	90,927
Decrease/(increase) in deferred tax charge	**(141,000)**	(28,000)
Decrease in profit for the year	**(158,409)**	(185,947)
Consolidated balance sheet as at 1 January		
Increase in deferred income	**(1,095,002)**	(891,581)
Decrease in other payables and accruals	**95,899**	48,850
Increase in deferred tax assets	**244,000**	272,000
Decrease in total equity	**(755,103)**	(570,731)
Consolidated balance sheet as at 31 December		
Increase in deferred income	**(1,123,855)**	(1,095,002)
Decrease in other payables and accruals	**106,903**	95,899
Increase in deferred tax assets	**103,000**	244,000
Decrease in total equity	**(913,952)**	(755,103)

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

IFRIC 15 will replace IFRIC 3 Revenue – Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with IAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

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

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

(n) IFRIC 17 *Distribution of Non-cash Assets to Owners*

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

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

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognize such assets.

In May 2008, the IASB issued its first Improvements to IFRSs which sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2 SEGMENTS INFORMATION

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007:

Year ended 31 December 2008

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	51,512,906	613,784	547,571	233,900	–	52,908,161
Intersegment sales	–	794,571	–	418,566	(1,213,137)	–
Total revenue	51,512,906	1,408,355	547,571	652,466	(1,213,137)	52,908,161
PROFIT/(LOSS) FROM OPERATIONS						
Segment results	(1,815,873)	9,512	(128,709)	27,304	–	(1,907,766)
Finance revenue	1,529,955	25,151	–	29,331	–	1,584,437
Finance costs	(9,926,827)	(21,524)	–	(167)	–	(9,948,518)
Gain on disposal of subsidiaries and associates	477,680	–	–	–	–	477,680
Share of profits and losses of associates	(1,273,558)	7,272	61,817	20,956	–	(1,183,513)
Loss before tax						(10,977,680)
Tax						1,610,650
Loss for the year						(9,367,030)
ASSETS						
Segment assets	89,989,169	1,771,651	714,647	1,505,361	(1,929,414)	92,051,414
Interests in associates	5,896,050	154,086	39,525	181,872	–	6,271,533
Unallocated assets						2,078,277
Total assets						100,401,224
LIABILITIES						
Segment liabilities	(77,942,245)	(1,136,944)	(1,134,812)	(1,257,256)	1,929,414	(79,541,843)
Unallocated liabilities						(402,875)
Total liabilities						(79,944,718)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related equipment)	21,408,252	311,556	1,034,871	5,832	–	22,760,511
Depreciation of property, plant and equipment	6,249,646	53,840	54,359	7,430	–	6,365,275
Amortisation of lease prepayments	28,656	–	–	–	–	28,656
Impairment of property, plant and equipment	74,835	–	–	–	–	74,835
Impairment loss on aircraft held for sale	206,566	–	–	–	–	206,566
Unrealised loss on derivative financial instruments	7,706,894	–	–	–	–	7,706,894
Impairment of accounts receivable	653	–	–	–	–	653
Recognition of deferred income related to frequent-flyer programme	(678,925)	–	–	–	–	(678,925)
Recognition of deferred income related to government grant	(76,943)	–	–	–	–	(76,943)

Year ended 31 December 2007 (Restated)

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	49,779,975	487,710	509,450	304,532	–	51,081,667
Intersegment sales	–	674,123	–	190,758	(864,881)	–
Total revenue	49,779,975	1,161,833	509,450	495,290	(864,881)	51,081,667
PROFIT FROM OPERATIONS						
Segment results	3,642,045	12,478	7,238	14,419	–	3,676,180
Finance revenue	2,328,035	21,791	–	26,746	–	2,376,572
Finance costs	(1,954,476)	(13,400)	–	(1,450)	–	(1,969,326)
Share of profits and losses of associates	1,214,190	5,189	117,808	27,553	–	1,364,740
Profit before tax						5,448,166
Tax						(1,511,613)
Profit for the year						3,936,553
ASSETS						
Segment assets	79,308,581	1,441,639	371,119	1,096,601	(1,330,985)	80,886,955
Interests in associates	9,013,689	153,911	119,317	255,760	–	9,542,677
Unallocated assets						870,645
Total assets						91,300,277
LIABILITIES						
Segment liabilities	(58,140,630)	(827,806)	(608,978)	(890,013)	1,330,985	(59,136,442)
Unallocated liabilities						(1,411,585)
Total liabilities						(60,548,027)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related equipment)	20,591,633	215,990	134,954	3,852	–	20,946,429
Depreciation of property, plant and equipment	5,447,151	38,594	66,324	2,374	–	5,554,443
Amortisation of lease prepayments	22,478	–	–	–	–	22,478
Impairment loss on aircraft held for sale	142,800	–	–	–	–	142,800
Impairment loss on available-for-sale investments	–	–	–	4,481	–	4,481
Unrealised gain on derivative financial instruments	(133,840)	–	–	–	–	(133,840)
Recognition of deferred income related to frequent-flyer programme	(578,211)	–	–	–	–	(578,211)
Recognition of deferred income related to government grant	(76,943)	–	–	–	–	(76,943)

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the years ended 31 December 2008 and 2007:

Year ended 31 December 2008

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

Year ended 31 December 2007 (Restated)

	Mainland China *RMB'000*	Hong Kong and Macau *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan and Korea *RMB'000*	Asia Pacific and others *RMB'000*	Total *RMB'000*
Sales to external customers and total revenue	27,558,480	3,930,462	7,581,769	4,658,495	4,583,332	2,769,129	51,081,667

3 AIR TRAFFIC REVENUE

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

	Group	
	2008 *RMB'000*	2007 *RMB'000* (Restated)
Passenger	**43,352,020**	43,398,754
Cargo and mail	**7,184,675**	4,085,456
	50,536,695	47,484,210

Pursuant to the relevant business tax rules and regulations in Mainland China, air traffic revenue for all domestic and outbound international flights is subject to business tax at a rate of 3%. All inbound international, Hong Kong and Macau regional flights are exempted from business tax. Business tax incurred and set off against air traffic revenue for the year ended 31 December 2008 amounted to approximately RMB1,047 million (2007: RMB1,224 million).

4 OTHER OPERATING REVENUE

	Group	
	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Bellyhold income from a joint venture	**–**	1,579,185
Aircraft engineering income	**613,784**	487,710
Ground service income	**547,571**	509,450
Air catering income	**86,234**	162,886
Government grants:		
Recognition of deferred income related to government grant	**76,943**	76,943
Others	**331,358**	131,136
Service charges on return of unused flight tickets	**186,002**	152,107
Cargo handling service income	**129,167**	62,466
Sale of materials	**20,415**	12,648
Import and export service income	**8,784**	7,850
Training service income	**23,955**	20,837
Rental income:		
Aircraft and related equipment	**14,952**	12,688
Others	**24,974**	27,755
Gain on disposal of property, plant and equipment, net	**29,624**	165,311
Others	**277,703**	188,485
	2,371,466	3,597,457

5 EMPLOYEE COMPENSATION COSTS

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Wages, salaries and social security costs	**5,424,748**	4,817,539
Retirement benefit costs	**439,733**	368,241
Share-based benefits	**(20,594)**	23,986
	5,843,887	5,209,766

6 PROFIT/(LOSS) FROM OPERATIONS

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Auditors' remuneration	**14,065**	14,261
Depreciation	**6,365,275**	5,554,443
Gain/(loss) on disposal of property, plant and equipment, net	**29,624**	(165,311)
Loss on derecognition of property, plant and equipment	**26,300**	37,138
Amortisation of lease prepayments	**28,656**	22,478
Minimum lease payments under operating leases:		
Aircraft and engines	**2,400,060**	2,239,359
Land, buildings and others	**444,483**	311,262
Impairment of available-for-sale investments	**–**	4,481
Impairment of aircraft held for sale	**206,566**	142,800
Impairment of property, plant and equipment	**74,835**	–
Impairment of accounts receivable	**653**	–

7 FINANCE REVENUE AND FINANCE COSTS

An analysis of the Group's finance revenue and finance costs during the year is as follows:

Finance revenue

	Group	
	2008	2007
	RMB'000	*RMB'000*
Exchange gains, net	**1,486,746**	2,030,391
Interest income	**97,389**	110,013
Dividend income from available-for-sale investments	**302**	224
Gains on derivative financial instruments:		
Realised gains	**–**	102,104
Unrealised gains	**–**	133,840
	1,584,437	2,376,572

Finance costs

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest on bank loans, other loans and corporate bonds	**1,531,015**	1,572,793
Interest on finance leases	**580,447**	650,613
Loss on derivative financial instruments:		
Realised loss	**447,941**	–
Unrealised loss	**7,706,894**	–
	10,266,297	2,223,406
Less: Interest capitalised	**(317,779)**	(254,080)
	9,948,518	1,969,326

The interest capitalisation rates ranging from 2.3% to 7.0% (2007: 4.5% to 6.8%) per annum represent the cost of related borrowings during the year.

8 GAIN ON DISPOSAL OF SUBSIDIARIES AND AN ASSOCIATE

On 10 June 2008, China National Aviation Company Limited ("CNAC", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement together with an agreement for indebtedness assignment with China National Aviation Corporation (Group) Limited ("CNACG", a shareholder of the Company) (collectively the "CNACG Agreement"). Pursuant to the CNACG Agreement, CNAC agreed to sell to CNACG the entire issued share capital of each of Fly Top Limited ("Fly Top", a wholly-owned subsidiary of CNAC) and China National Aviation Logistics Company Limited ("CNAL", another wholly-owned subsidiary of CNAC) and 50% of the issued share capital of Jardine Airport Services Limited ("JASL", an associate of CNAC). Fly Top held 60% of the issued share capital of each of Southwest Air Catering Company Limited and Beijing Air Catering Company Limited (two joint ventures of CNAC) and 20.2% of the issued share capital of Lufthansa Services Hong Kong Limited ("LSG", an associate of CNAC). CNAL held 25% of the issued share capital of Tradeport Hong Kong Limited (another associate of CNAC). The aggregate consideration payable by CNACG for the Sale Shares is RMB363,343,021. Pursuant to the Agreement to Assign Indebtedness, CNAC has agreed to assign to CNACG the indebtedness owed by Fly Top and CNAL to CNAC in the amounts of RMB438,072,034 and RMB48,584,945, respectively. The total transaction amount of the transactions above is RMB850,000,000. Details of the gain on disposal are as follows:

	2008
	RMB'000
Net assets of subsidiaries disposed of:	
Property, plant and equipment	**280,689**
Deferred tax assets	**7,604**
Interest in an associate	**91,082**
Inventories	**5,157**
Accounts receivable	**89,007**
Prepayments, deposits and other receivables	**9,141**
Cash and cash equivalents	**47,799**
Accounts payable	**(40,377)**
Other payables and accruals	**(80,663)**
Tax payable	**(2,902)**
Bank and other loans	**(100,680)**
Long term payables	**(22,294)**
	283,563
Share of net assets of an associate disposed of	**88,757**
Gain on disposal of subsidiaries and an associate	**477,680**
Satisfied by cash	**850,000**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries and an associate is as follows:

Cash consideration	**850,000**
Cash and bank balances disposed of	**(47,799)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries and an associate	**802,201**

9 TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain preferential treatment available to the Company's subsidiaries and joint ventures, which are taxed at preferential rates ranging from 12.5% to 18% (2007: 12% to 15%), the PRC entities within the Group are subject to corporate income tax at a rate of 25% (2007: 33%) during the year.

In accordance with an approval document issued by the relevant tax bureau on 28 November 2005 (the "Approval Document"), Air China Cargo Co., Ltd ("Air China Cargo") was subject to a state corporate income tax rate of 24% and was fully exempted from state corporate income tax for the year ended 31 December 2005, followed by a three-year 50% reduction in state corporate income tax during the period between 1 January 2006 and 31 December 2008. In addition, pursuant to the Approval Document, Air China Cargo has been granted a four-year local corporate income tax exemption during the period between 1 January 2005 and 31 December 2008, followed by a five-year 50% reduction in local corporate income tax during the period between 1 January 2009 and 31 December 2013.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New CIT Law") was approved and became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in a reduction of income tax rate from 33% to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007.

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Current income tax – Mainland China:		
Provision for the year	**38,121**	1,260,855
Overprovision in prior years	**(541,865)**	–
	(503,744)	1,260,855
Deferred income tax	**(1,106,906)**	251,758
Income tax charge/(credit) for the year	**(1,610,650)**	1,512,613

The share of tax credit attributable to associates amounting to RMB239,425,000 (2007: share of tax charge of RMB193,915,329) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement.

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

	Group			
	2008		2007	
	RMB'000	**%**	*RMB'000*	%
			(Restated)	
(Loss)/profit before tax	**(10,977,680)**		5,448,166	
Tax at statutory tax rate	**(2,744,420)**	**25.0**	1,797,895	33.0
Tax effect of share of profits and losses of associates, net	**295,815**	**(2.7)**	(450,364)	(8.3)
Lower income tax rates enacted by other territories	**28,038**	**(0.3)**	54,074	1.0
Effect on opening deferred income tax due to decrease in income tax rate	**–**	**–**	157,127	2.9
Adjustment in respect of current income tax of previous periods	**(142,802)**	**1.3**	(67,033)	(1.2)
Income not subject to tax	**(134,807)**	**1.3**	(27,716)	(0.5)
Expenses not deductible for tax	**35,333**	**(0.3)**	22,650	0.4
Tax losses recognised from previous periods	**(19,511)**	**0.2**	–	–
Deductible temporary differences and tax losses not recognised	**1,071,704**	**(9.8)**	25,980	0.5
At the Group's effective income tax rate	**(1,610,650)**	**14.7**	1,512,613	27.8

As at 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures as the Directors of the Company have no intention to request remittance of any significant amount of earnings to the Company in the foreseeable future.

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

10 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of approximately RMB8,375 million (2007: profit of RMB2,917 million, as restated), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB159 million (2007: RMB91 million) from the Company's loss of approximately RMB8,216 million (2007: profit of RMB3,008 million, as restated) that has been dealt with in the financial statements of the Company.

11 APPROPRIATIONS

	Company	
	2008	2007
	RMB'000	*RMB'000*
Proposed final dividend – Nil (2007: RMB0.684) per 10 shares	–	837,987

(a) No proposed final dividend has been proposed for 2008 (2007: RMB0.684).

(b) Under the PRC Company Law and the Company's articles of association, profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under Accounting Standards for Business Enterprises ("ASBE"). The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company;

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

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

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

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

The calculation of basic earnings per share for the year ended 31 December 2007 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB4,046 million (restated), and the weighted average number of 11,878,992,909 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathy through reciprocal shareholding.

Diluted earnings/(loss) per share for the years ended 31 December 2008 and 2007 have not been disclosed because no diluting events existed during both years.

B. Prepared in accordance with Accounting Standards for Business Enterprises ("ASBE").

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Revenue from operations	**52,969,998**	49,490,046
Less: Costs of operations	**48,606,512**	40,307,624
Business taxes and surcharges	**1,085,137**	1,205,082
Selling expenses	**3,281,648**	3,200,032
General and administrative expenses	**1,574,236**	1,311,598
Finance costs/(revenue)	**375,713**	(52,619)
Impairment losses in assets	**258,888**	52,821
Add: Gains/(losses) from changes in fair value	**(7,706,894)**	133,840
Investment income/(loss)	**(1,152,139)**	1,235,655
Including: Share of profits and losses of associates and joint ventures	**(1,182,141)**	1,131,024
Profit/(loss) from operations	**(11,071,169)**	4,835,003
Add: Non-operating income	**363,999**	333,608
Less: Non-operating expenses	**145,016**	123,424
Including: Loss on disposal of non-current assets	**14,549**	45,212
Profit/(loss) before tax	**(10,852,186)**	5,045,187
Less: Tax	**(1,591,898)**	1,457,284
Net profit/(loss)	**(9,260,288)**	3,587,903
Attributable to:		
Equity holders of the Company	**(9,149,080)**	3,698,564
Minority interests	**(111,208)**	(110,661)
Earnings/(loss) per share (RMB):		
(I) Basic	**(0.77)**	0.31
(II) Diluted	**N/A**	N/A

ASSETS	**31 December 2008** *RMB'000*	31 December 2007 *RMB'000* (Restated)
CURRENT ASSETS:		
Cash and bank balances	**4,663,792**	3,787,152
Derivative financial instruments	**253,406**	6,493
Bills receivable	**1,604**	1,599
Accounts receivable	**2,074,178**	2,812,327
Other receivables	**1,110,524**	997,205
Prepayments	**309,945**	311,784
Inventories	**812,941**	755,340
Total current assets	**9,226,390**	8,671,900
NON-CURRENT ASSETS:		
Long term receivables	**231,586**	255,340
Long term equity investments	**7,323,075**	11,404,643
Fixed assets	**66,244,815**	55,000,376
Construction-in-progress	**10,887,225**	10,967,888
Intangible assets	**2,563,887**	1,396,620
Goodwill	**349,055**	131,945
Long-term deferred expenses	**141,601**	80,684
Deferred tax assets	**1,930,109**	629,843
Total non-current assets	**89,671,353**	79,867,339
Total assets	**98,897,743**	88,539,239

LIABILITIES AND SHAREHOLDERS' EQUITY	**31 December 2008** *RMB'000*	31 December 2007 *RMB'000* (Restated)
CURRENT LIABILITIES:		
Short-term loans	**9,379,700**	6,546,088
Derivative financial instruments	**7,727,918**	14,826
Bills payable	**1,493,815**	–
Accounts payable	**7,792,638**	6,338,341
Domestic air traffic liabilities	**744,804**	666,207
International air traffic liabilities	**1,517,530**	1,888,548
Receipts in advance	**56,022**	53,778
Employee compensations	**163,918**	145,792
Taxes payable	**300,198**	1,677,332
Interest payable	**303,066**	273,824
Other payables	**3,030,210**	2,141,939
Non-current liabilities repayable within one year	**10,186,078**	6,658,319
Total current liabilities	**42,695,897**	26,404,994
NON-CURRENT LIABILITIES:		
Long-term loans	**14,109,828**	12,938,092
Corporate bonds	**3,000,000**	3,000,000
Long-term payables	**1,307,706**	1,301,844
Obligations under finance leases	**16,480,784**	13,328,193
Accrued liabilities	**112,754**	97,015
Deferred income	**689,232**	780,895
Deferred tax liabilities	**214,000**	5,000
Total non-current liabilities	**35,914,304**	31,451,039
Total liabilities	**78,610,201**	57,856,033
SHAREHOLDERS' EQUITY		
Share capital	**12,251,362**	12,251,362
Capital reserve	**11,676,739**	11,852,408
Reserve fund	**1,563,914**	1,299,214
Retained earnings/(loss)	**(4,107,603)**	6,144,164
Including: Discretionary reserve fund proposed by Board of Directors	**–**	264,700
Dividend proposed by Board of Directors	**–**	837,987
Foreign exchange translation reserve	**(1,610,522)**	(1,001,990)
Equity attributable to equity holders of the Company	**19,773,890**	30,545,158
Minority interests	**513,652**	138,048
Total shareholders' equity	**20,287,542**	30,683,206
Total liabilities and shareholders' equity	**98,897,743**	88,539,239

C. Effects of significant differences between IFRS and ASBE

The consolidated income statement and consolidated balance sheet set out in Section A were prepared in accordance with IFRS.

The differences between the Group's consolidated financial statement prepared under ASBE and IFRS are as follows:

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Profit/(loss) attributable to the equity holders of the Company under ASBE	**(9,149,080)**	3,698,564
IFRS adjustments:		
Deferred taxes	**39,000**	(40,916)
Additional depreciation from restatement of costs of fixed assets	**(150,481)**	(149,060)
Reversal of depreciation and amortisation arising on revaluation	**278,195**	446,936
Government grant	**15,016**	16,900
Effect of component accounting	**(288,463)**	57,635
Others	**(9)**	16,154
Profit/(loss) attributable to the equity holders of the Company under IFRS	**(9,255,822)**	4,046,213

	31 December 2008	31 December 2007
	RMB'000	*RMB'000*
		(Restated)
Equity attributable to the equity holders of the Company under ASBE	**19,773,890**	30,545,158
IFRS adjustments:		
Deferred taxes	**(86,000)**	(62,319)
Restatement of costs of fixed assets	**567,205**	743,768
Reversal of revaluation surplus	**(333,720)**	(972,848)
Government grant	**(395,226)**	(410,242)
Effect of component accounting	**248,565**	603,038
Others	**168,138**	167,645
Equity attributable to the equity holders of the Company under IFRS	**19,942,852**	30,614,200

2008 REVIEW

2008 was the most challenging year for our Group since its establishment. Due to the impact of a number of adverse factors, which included the natural disasters such as the snow storms that ravaged southern China and the earthquake in Wenchuan, Sichuan, the security measures adopted during the Olympic Games and the global financial crisis that broke out and spread in the second half of 2008 etc., both the air passenger and air cargo operations of the Group faced enormous pressure arising from the market slowdown and the rising jet fuel price while the drastic plunge in the international fuel price since July 2008 led to fair value losses on the fuel hedging contracts entered into by the Company, which had also significantly affected the Group's 2008 operating results. In 2008, the Group incurred a loss of RMB9,256 million attributable to shareholder. In 2007, the profit attributable to shareholder was RMB4,046 million.

In accordance with market change, the Group will continue with its implementation of the hub strategy and adjust its air routes and transportation capacity in a timely manner with an aim to improve the operational efficiency of its air flights.

Despite being affected by the natural disasters and the drastic market volatility, the Group did not forsake its social responsibilities. After the ravage by the snow storms in southern China and the earthquake in Wenchuan, Sichuan, the Company arranged more than 1,000 flights to join the rescue efforts on several occasions, making the Company the first airline to arrive at the affected areas after the earthquake and the airline that had transported the largest number of injured victims.

Being the exclusive airline partner of the 2008 Beijing Olympic Games, the Group conscientiously fulfilled its commitment by completing in a satisfactory manner the transport services provided for the torch relay both within and outside China, the Olympic Games and Paralympic Games. The Company has made contribution towards achieving the goal of "Two Olympics, Same Success".

1. Business review of passenger service operation

In 2008, the Company's available seat kilometres reached 88,101 million ASKs, representing an increase of 3.32% from 2007 and its passenger traffic was 66,160 million RPKs, representing a decrease of 1.25% from 2007, among which the passenger traffic of Mainland China routes increased by 1.31%, the passenger traffic of international routes decreased by 4.14% and the passenger traffic of Hong Kong, Macau and Taiwan routes decreased by 7.01%. The number of passengers carried by the Company was 34.26 million person-times in 2008, representing a decrease of 1.68% from 2007. The Company recorded an average passenger load factor of 75.1% in 2008, representing a decrease of 3.48 percentage points from 2007.

Air Macau Company Limited ("**Air Macau**"): for 2008, its available seat kilometres was 3,709 million ASKs, representing a decrease of 6.44% from 2007; its passenger traffic decreased by 14.52% from 2007 to 2,587 million RPKs; the number of passengers carried by it decreased by 22.17% from 2007 to 1.88 million person-times; and its passenger load factor was 69.75%, representing an decrease of 6.6 percentage points from 2007.

The Group's revenue per RPK increased by 1.75% from 2007 to RMB0.63.

2. **Business review of cargo service operation**

In 2008, the available freight tonne kilometres of the Company's subsidiary Air China Cargo Co., Ltd ("**Air China Cargo**") (including its cargo planes and the bellyhold space of the Company's passenger aircraft) decreased by 6.07% from 2007 to 6,217 million AFTKs and its cargo and mail traffic was 3,513 million AFTKs, representing a decrease of 4.82% from 2007, of which Mainland China routes, international routes, and Hong Kong, Macau and Taiwan routes decreased by 2.25%, 5.42% and 8.81% respectively. Air Cargo carried 899,800 tonnes of cargo and mail in 2008, representing a decrease of 3.67% from 2007 and its cargo and mail load factor increased by 0.74 percentage points from 2007 to 56.5%.

Air Macau: for 2008, its available freight tonne kilometres was 139 million AFTKs, representing a decrease of 44.30% from 2007; its cargo and mail traffic decreased by 47% from 2007 to 98 million RFTKs; the amount of cargo and mail carried by it decreased by 52.7% from 2007 to 80,300 tonnes; and its freight and mail load factor for 2008 was 70.66%, representing a decrease of 3.7 percentage points from 2007.

The Group's revenue per RFTK in 2008 increased by 5.13% from 2007 to RMB1.99.

3. **Business review of associated airlines**

*Shandong Airlines Company Limited ("***Shandong Airlines***")*

The Company holds 22.8% of the share capital of Shandong Airlines, and 49.4% of the share capital of Shandong Aviation Group Corporation, which in turn holds 42.0% of the share capital of Shandong Airlines. In 2008, the total traffic turnover of Shandong Airlines increased by 4.7% from 2007 to 630 million tonne kilometres, while the number of passengers carried by it increased by 1.10% from 2007 to 5.42 million person-times.

*Shenzhen Airlines Company Limited ("***Shenzhen Airlines***")*

The Company holds 25% of the share capital of Shenzhen Airlines. In 2008, the total traffic turnover of Shenzhen Airlines increased by 25.4% from 2007 to 1,780 million tonne kilometres, while the number of passengers carried by it increased by 25.5% from 2007 to 11.95 million person-times.

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

ANALYSIS OF THE PROFITABILITY

In 2008, the Group incurred a loss from operations of RMB1.908 billion and the loss attributable to equity holders of the Company was RMB9.256 billion with a loss per share of RMB0.78. In 2007, the restated profit from operations was RMB3.676 billion and the profit attributable to equity holders of the Company was RMB4.046 billion with earnings per share of RMB0.34.

TURNOVER

In 2008, the Group's total turnover (net of business taxes and surcharges) was RMB52.908 billion, an increase of RMB1.826 billion or 3.58% compared with 2007. As the Group acquired an additional 25% shareholding in Air China Cargo in 2008, Air China Cargo, which was previously a joint venture of the Group, became the Group's subsidiary after the acquisition and was therefore fully consolidated into the Group's consolidated financial statements for the year ended 31 December 2008. If the Group's comparative information in 2007 was restated on the basis that Air China Cargo had been consolidated into the Group's consolidated financial statements for the year ended 31 December 2007, the Group's total turnover in 2008 will have only increased by RMB74 million compared with 2007, which was mainly due to the significant increase of the revenue from the engineering services provided by the Group's joint venture Aircraft Maintenance and Engineering Corporation, Beijing compared with 2007.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	2008		2007		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**27,272,415**	**51.55%**	27,558,480	53.95%	-1.04%
Hong Kong and Macau	**3,559,564**	**6.73%**	3,930,462	7.69%	-9.44%
Europe	**8,971,139**	**16.96%**	7,581,769	14.84%	18.33%
North America	**5,708,150**	**10.79%**	4,658,495	9.12%	22.53%
Japan and Korea	**4,205,811**	**7.95%**	4,583,332	8.97%	-8.24%
Asia Pacific and others	**3,191,082**	**6.02%**	2,769,129	5.43%	15.24%
Total	**52,908,161**	**100.00%**	51,081,667	100.00%	3.58%

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

	2008		2007		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Air passenger	**43,352,020**	**81.94%**	43,398,754	84.96%	-0.11%
Air cargo	**7,184,675**	**13.58%**	4,085,456	8.00%	75.86%
Engineering Services	**613,784**	**1.16%**	487,710	0.95%	25.85%
Airport terminal services	**547,571**	**1.03%**	509,450	1.00%	7.48%
Others	**1,210,111**	**2.29%**	2,600,297	5.09%	-53.46%
Total	**52,908,161**	**100.00%**	51,081,667	100.00%	3.58%

AIR PASSENGER REVENUE

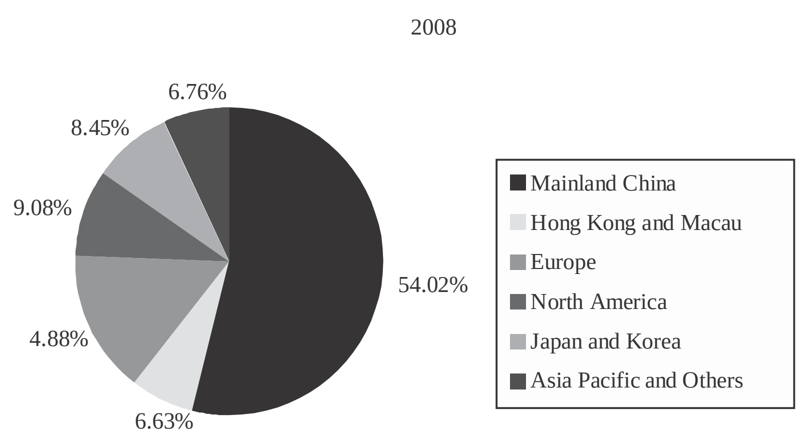
In 2008, the Group's air passenger revenue was RMB43.352 billion, representing a slight decrease compared with RMB43.399 in 2007. The traffic capacity, passenger load factor and revenue per seat kilometre in 2008 are as follows:

	2008	2007	Change
Available seat kilometres *(million)*	**91,809.88**	89,233.74	2.89%
Passenger load factor *(%)*	**74.88**	78.47	-3.59bp
Passenger yield per kilometre *(RMB)*	**0.63**	0.62	1.75%

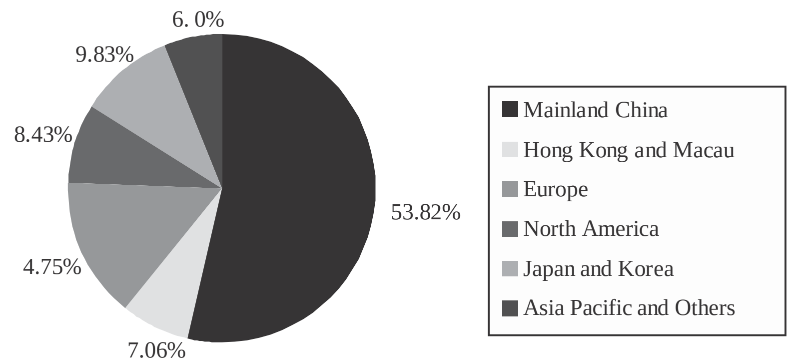
Compared with 2007, the increase in traffic capacity and revenue per seat kilometre contributed to an increase in revenue of RMB1.253 billion and RMB0.746 billion while the decrease in passenger load factor caused a decrease in revenue of RMB2.045 billion in 2008.

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2008		2007		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**23,498,230**	**54.20%**	23,357,973	53.82%	0.60%
Hong Kong and Macau	**2,872,176**	**6.63%**	3,063,467	7.06%	-6.24%
Europe	**6,450,513**	**14.88%**	6,403,212	14.75%	0.74%
North America	**3,934,709**	**9.08%**	3,660,605	8.43%	7.49%
Japan and Korea	**3,664,419**	**8.45%**	4,266,923	9.83%	-14.12%
Asia Pacific and others	**2,931,973**	**6.76%**	2,646,574	6.10%	10.78%
Total	**43,352,020**	**100.00%**	43,398,754	100%	-0.11%



2007



AIR CARGO REVENUE

In 2008, the Group's air cargo and mail revenue was RMB7.185 billion, a decrease of RMB0.15 billion compared with 2007, which was mainly due to the sudden deterioration of the air cargo market conditions caused by the global financial crisis in the second half of 2008, and especially in the 4th quarter of 2008.

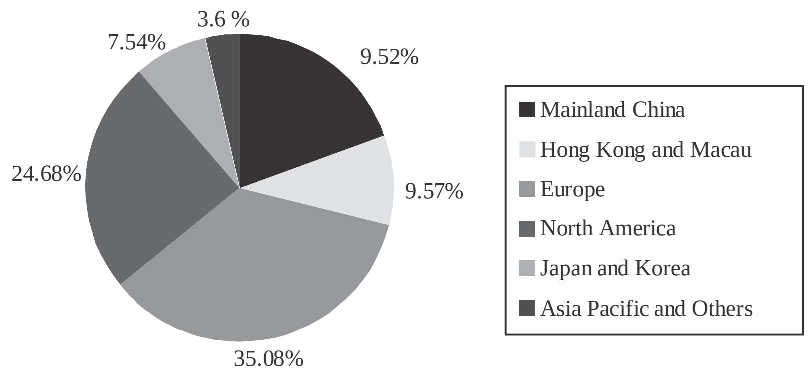
In order to provide an objective description of the actual change of the Group's business results, the comparative data of the Group for 2007 in the following analysis on the Group's air cargo revenue has included the total revenue of Air China Cargo for 2007 (adjustments were made to the data set out in the consolidated financial statements and its explanatory notes of the Group for the year ended 31 December 2008).

	2008	2007	Change
Available freight tonne kilometres *(million)*	**6,355.89**	6,868.07	-7.46%
Load factor *(%)*	**56.81**	56.43	0.38bp
Cargo yield per tonne kilometre *(RMB)*	**1.99**	1.89	5.13%

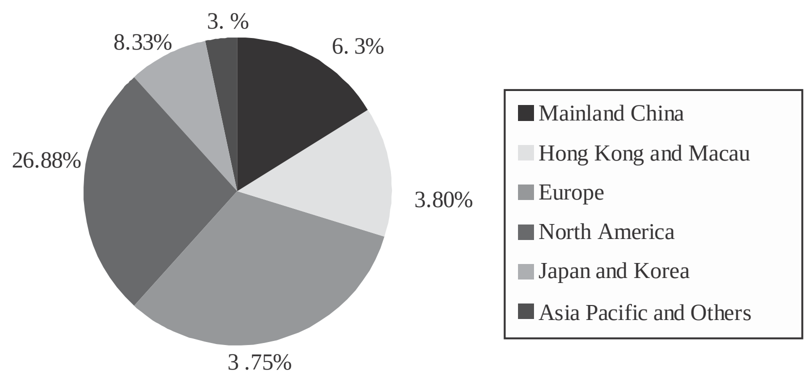
AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2008		2007		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**1,402,720**	**19.52%**	1,183,014	16.13%	18.57%
Hong Kong and Macau	**687,388**	**9.57%**	1,012,321	13.8%	-32.10%
Europe	**2,520,626**	**35.08%**	2,328,636	31.75%	8.24%
North America	**1,773,441**	**24.68%**	1,971,669	26.88%	-10.05%
Japan and Korea	**541,392**	**7.54%**	611,206	8.33%	-11.42%
Asia Pacific and others	**259,108**	**3.61%**	228,453	3.11%	13.42%
Total	**7,184,675**	**100%**	7,335,298	100%	-2.05%

2008



2007

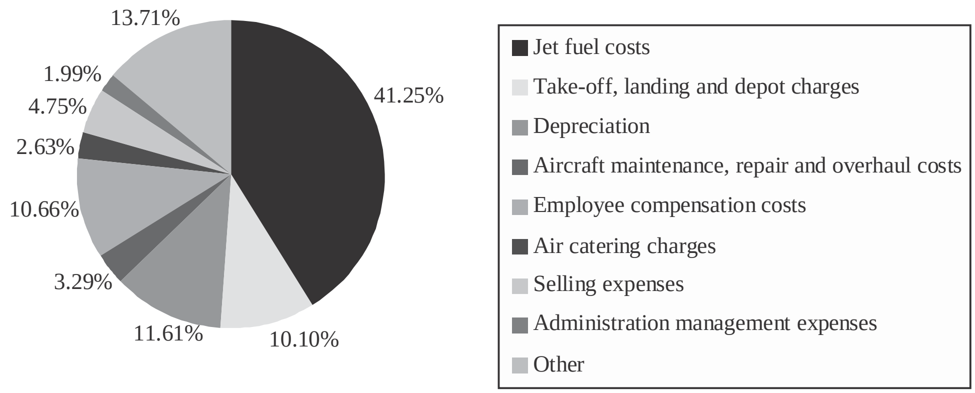


OPERATING EXPENSES

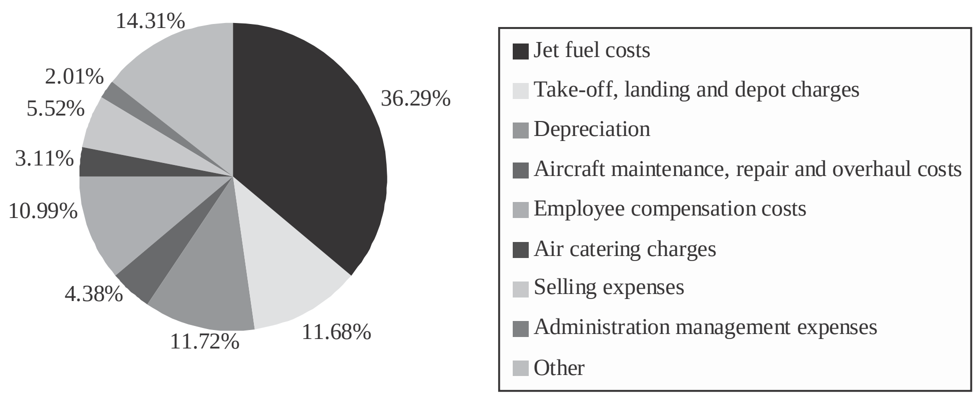
In 2008, the Group's aggregate operating expenses amounted to RMB54.816 billion, representing an increase of 15.63% compared with RMB47.405 billion in 2007. The breakdown of the operating expenses are set out below:

	2008		2007		Change
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Jet fuel costs	**22,613,935**	**41.25%**	17,201,143	36.29%	31.47%
Take-off, landing and depot charges	**5,538,092**	**10.10%**	5,537,907	11.68%	0.00%
Depreciation	**6,365,275**	**11.61%**	5,554,443	11.72%	14.10%
Aircraft maintenance, repair and overhaul costs	**1,804,416**	**3.29%**	2,076,119	4.38%	-13.09%
Employee compensation costs	**5,843,887**	**10.66%**	5,209,766	10.99%	12.17%
Air catering charges	**1,443,855**	**2.64%**	1,473,543	3.11%	-2.01%
Selling expenses	**2,602,904**	**4.75%**	2,617,843	5.52%	-0.57%
Administration management expenses	**1,089,467**	**1.99%**	951,377	2.01%	14.52%
Other	**7,514,096**	**13.71%**	6,783,347	14.30%	11.18%
Total	**54,815,927**	**100%**	47,405,488	100%	15.63%

2008



2007



- Jet fuel costs increased by 31.47% to RMB22.614 billion in 2008 compared with RMB17.201 billion in 2007, which accounted for 41.25% of total operating expenses in 2008 compared with 36.29% in 2007. If the jet fuel costs of the Group for the year 2007 were restated on the basis that the jet fuel cost incurred by Air China Cargo had been fully consolidated in the Group's cost, the jet fuel cost incurred by the Group in 2008 would have increased by 24.98% compared with 2007. The significant increase in the Group's jet fuel costs was mainly due to the rapid rise of the jet fuel price in the first half of 2007. Although the jet fuel price in the international market dropped rapidly after July, the average jet fuel price in 2008 still increased by 29% compared with 2007.

- Take-off, landing and depot charges was approximately the same as that in 2007, which decreased from constituting 11.68% of the operating expenses in 2007 to constituting 10.10% of the operating expenses in 2008.

- The depreciation expenses increased in 2008 due to an increase in the number of the self-owned aircrafts and those under finance leases.

- The aircraft maintenance, repair and overhaul costs amounted to RMB1.804 billion and accounted for 3.3% of the total operating expenses in 2008, a decrease of RMB0.272 billion compared with 2007. The decrease was mainly due to some of the operating leased aircrafts were surrendered in 2008, which resulted in a decease in the provision made for the overhauls for 2008. In addition, the repair price decreased after the Group's further negotiation with its supplier of repair services.

- Employee compensation costs increased due to the increase in the number of employees and employees' basic income.

- The decrease in the air catering charges was primarily due to a decrease in the number of passengers carried.

- Selling expenses and general and administrative expenses were approximately the same as that incurred in 2007.

- Other operating expenses mainly included the aircraft and engines operating lease expenses, civil aviation infrastructure construction fund and the daily expenses arising from core air traffic business not included in the aforesaid items.

PROFIT CONTRIBUTION BY BUSINESS SEGMENT

(in RMB'000)	**2008**	2007	Change
Air businesses	**(1,815,873)**	3,642,044	-149.86%
Engineering services	**9,512**	12,478	-23.77%
Airport terminal services	**(128,709)**	7,238	-1,878.24%
Others	**27,304**	14,419	89.36%
Total	**(1,907,766)**	3,676,179	-151.90%

FINANCIAL REVENUE AND FINANCIAL COSTS

In 2008, the financial derivative operations of the Group were affected by the global financial crisis and incurred a loss arising from the contracts entered into for fuel hedging activities, which included unrealised fair value losses relating to fuel hedging activities of RMB7.472 billion and realized losses after settlement of RMB0.427 billion. In 2008, the fair value losses on swap transactions entered into by the Group was RMB0.249 billion and the actual gain after settlement was RMB0.6274 million. The fair value gain and the realized gain after settlement recorded by the Group from its financial derivative transactions amounted to RMB236 million in total in 2007.

In 2008, primarily due to the continued appreciation of Renminbi against US dollars, the Group recorded a net exchange gain of RMB1.487 billion, a decrease of RMB0.543 billion or 26.78% compared with 2007, and interest expenses of RMB2.111 billion, which was slightly less than the RMB2.224 billion in 2007.

SHARE OF PROFITS AND LOSSES OF THE GROUP'S ASSOCIATES AND GAIN ON DISPOSAL OF ASSOCIATES AND SUBSIDIARIES

In 2008, the Group's share of losses of the Group's associates was RMB1.183 billion, compared with its share of profits of RMB1.365 billion in 2007, which was mainly attributable by sharing the RMB1.188 billion loss suffered by Cathay.

In 2008, the Group recorded a gain on disposal of its subsidiaries and associates of RMB0.477 billion, primarily due to the gain from the premium generated from the disposal of the equity interests in Beijing Air Catering Co., Ltd. (北京航食) and Southwest Air Catering Co., Ltd. (西南航食) by China National Aviation Company Limited (中航興業), a subsidiary of the Company.

ANALYSIS OF ASSETS STRUCTURE

As of 31 December 2008, the total assets of the Group amounted to RMB100.401 billion, an increase of 9.97% compared with 31 December 2007, among which the current assets were RMB10.418 billion and accounted for 10.38% of the total assets, while non-current assets were RMB89.984 billion and accounted for 89.62% of the total assets.

Of the current assets, cash and cash equivalents amounted to RMB2.987 billion, a decrease of 23.53% compared with 31 December 2007, while accounts receivable decreased by 33.78% to RMB1.85 billion compared with 31 December 2007. Of the non-current assets, the net book value of property, plant and equipment as of 31 December 2008 was RMB71.821 billion, an increase of 16.42% compared with the net book value of property, plant and equipment as of 31 December 2007.

ASSETS MORTGAGE

As of 31 December 2008, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB35.336 billion (compared with RMB34.203 billion as of 31 December 2007), certain number of shares in the associated companies with an aggregate market value of RMB3.071 billion (compared with approximately RMB7.609 billion as of 31 December 2007), and the land use rights with an aggregate net book value of approximately RMB36 million (compared with approximately RMB37 million as of 31 December 2007) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group of approximately RMB1.75 billion (compared with approximately RMB119 million as of 31 December 2007) were pledged against the obligations in respect of certain bank loans, operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

In 2008, the capital expenditure of the Company amounted to RMB12.876 billion in total, of which the total investment in aircraft and engines was RMB9.726 billion, including prepayment of RMB3.654 billion for the purchases of aircrafts for 2009 and for the years afterwards.

Other capital expenditure amounted to RMB3.15 billion, which was mainly applied towards the parts and components for aircraft, flight stimulators, improvement of first class and business class cabins of certain aircraft, investment in the ancillary project in Terminal 3 of the Beijing Capital International Airport, the 11th Five Years Plan regarding the ground handling facilities as well as certain long-term investment projects.

EQUITY INVESTMENT

As of 31 December 2008, the aggregate amount of equity investment in the Group's associates was approximately RMB6.272 billion, a decrease of 34.28% compared with 2007, of which the equity investment in Cathay, Shandong Aviation Group Corporation and Shenzhen Airlines was approximately RMB4.181billion, RMB64 million and 171 million, respectively. Due to the special market conditions in 2008, Cathy and Shenzhen Airlines recorded a loss of RMB6.79 billion and RMB0.445 billion respectively, while Shandong Aviation Group Corporation achieved a profit of RMB15 million.

As of 31 December 2008, the attributable equity interests of the Group in its subsidiaries Air China Cargo (76%) and Air Macau (51%) were RMB1.951 billion and RMB-0.139 billion respectively. The Air China Cargo recorded a net profit of RMB26 million and Air Macau Company Limited recorded a net loss of RMB367 million for the year ended 31 December 2008.

The Group plans to further consolidate and optimize the businesses of the companies it has invested and make more improvements on these companies' financial status and business results.

DEBT STRUCTURE ANALYSIS

As of 31 December 2008, the total liabilities of the Group amounted to RMB79.945 billion, an increase of 32.04% compared with 31 December 2007. The total current liabilities were RMB42.725 billion, which accounted for 53.44% of the total liabilities and the total non-current liabilities were RMB37.219 billion, which accounted for 46.56% of the total liabilities.

Of the current liabilities, the derivative financial instruments payable amounted to RMB7.728 billion, an increase of RMB7.713 billion compared with 31 December 2007. The interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB20.815 billion, an increase of 57.74% compared with 31 December 2007. Other payables and advances amounted to RMB14.182 billion, an increase of 2.07% compared with 31 December 2007.

Of the non-current liabilities, the interests-bearing debt (including bank and other loans, obligations under finance leases and corporate bonds) amounted to RMB33.824 billion, an increase of 12.96% compared with 31 December 2007.

	Bank loans, other loans bills payable and corporate bonds		**Obligations under finance leases**	
(RMB'000)	**31 December 2008**	31 December 2007	**31 December 2008**	31 December 2007
Within one year	**16,751,275**	10,978,835	**4,064,038**	2,216,680
In the second year	**8,001,444**	4,039,529	**3,599,513**	2,821,518
In the third to fifth years (inclusive)	**5,432,584**	8,181,988	**5,109,696**	5,484,352
After five years	**3,908,840**	4,393,774	**7,771,575**	5,022,323
Total	**34,094,143**	27,594,126	**20,544,822**	15,544,873

COMMITMENTS AND CONTINGENT LIABILITIES

As of 31 December 2008, capital commitments of the Group increased substantially from RMB58.878 billion in 2007 to approximately RMB70.279 billion, which was primarily used for the purchase of certain aircrafts and relevant flight equipments to be delivered in the coming years and the construction of certain properties. The Group had operating lease commitments of RMB13.578 billion, an increase of 6% compared with 2007, which was primarily used to lease office premises, aircrafts and related equipments. The Group had investment commitments of RMB51 million, a decrease of 5.56% compared with 2007.

As of 31 December 2008, the Group's contingent liabilities in respect of bank loans and other guarantees and other matters arising in the ordinary course of business was RMB106 million. Details of contingent liabilities of the Group are set out in note 50 to the Group's consolidated financial statements for the year ended 31 December 2008.

GEARING RATIO

As of 31 December 2008, the Group's gearing ratio (total liabilities divided by total assets) was 79.63%, an increase of 13.31 percentage points compared with 66.32% as of 31 December 2007, which was primarily due to the introduction of additional aircrafts and the increase of debt financing activities. In the meanwhile, due to the loss recorded by the Group in 2008, the equity interests of the Group attributable to its shareholders decreased from RMB30.752 billion as of 31 December 2007 to RMB20.457 billion as of 31 December 2008. Considering the prevailing gearing ratios of other air carriers in the same industry stood at a relatively high level, the Group's gearing ratio remains comparatively ideal and the long-term insolvency risks are within its control.

WORKING CAPITAL AND ITS SOURCES

As of 31 December 2008, the net current liabilities of the Group (i.e. the current liabilities minus the current assets) was RMB32.308 billion, an increase of RMB15.032 billion compared with 31 December 2007. The Group's current ratio, which represents current assets divided by current liabilities, was 0.24, a decrease of 0.12 percentage point from 0.36 as of 31 December 2007. The increase of the net current liabilities was mainly due to the significant increase of the Group's current liabilities.

The Group mainly meets its working capital needs through its operating activities and external financing activities. In 2008, the Group's net cash inflow from operating activities decreased by 30.70% to RMB5.060 billion from RMB7.302 billion in 2007, which was primarily due to the fast increase of the jet fuel cost and a corresponding increase of the Group's cash outflow for the purpose of purchasing jet fuel. Net cash outflow from investment activities in 2008 decreased by 28.82% to RMB7.269 billion from RMB10.212 billion in 2007, primarily due to the Group's acquisition of the minority interests in China National Aviation Company Limited in 2007 by cash in the amount of RMB3.033 billion. The Group recorded a net cash inflow from financing activities of RMB2.870 billion, an increase of RMB1.031 billion from RMB1.839 billion in 2007, primarily due to less repayments made by the Group in 2008. The Group's cash and cash equivalent increased by RMB472 million in 2008 (in 2007 the Group's cash and cash equivalent decreased by RMB1.111 billion). The Group had already obtained bank facilities with an aggregate amount of up to RMB108.4 billion from a number of banks in the PRC of which an amount of approximately RMB40.0 billion was utilised and was therefore well positioned to fully meet its own demand on working capital and its future capital commitments.

OBJECTIVES AND POLICIES OF FINANCIAL RISKS MANAGEMENT

The Group is exposed to the fluctuations in jet fuel price in its daily operation. International jet fuel prices have historically, and will continue to be, subject to market volatility and fluctuation 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. In 2008 the Group entered into hedging transactions equivalent to 34% to its spot purchase of jet fuel. Due to the extreme price volatility of fuel prices in 2008, the fuel hedging contracts entered into by the Group had large fair value losses, part of which was actually settled. 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.

A large percentage of the Group's liabilities are interest-bearing debts and most of these debts are foreign debt. As of 31 December 2008 the total amount of interest-bearing debt of the Group was RMB54.639 billion, which accounted for 68.35% of the Group's total liabilities. Among these, the loans denominated in US dollars was RMB38.829 billion, the loans denominated in Hong Kong dollars was RMB2.346 billion and the loans denominated in Japanese Yen was RMB2.795 billion. In addition, the Group also has sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimize any risks relating to foreign exchange rate and interest rate by adjusting the structure of the interest rates and denominating currencies of its debt and by making use of the financial derivatives.

Information on financial risk management objectives and polices in other aspects of the Group's operations are set out in note 54 to the Group's 2008 annual consolidated financial statements.

OUTLOOK FOR 2009

In 2009, the Group will continue to firmly strive toward its current strategic goals, strengthen business cooperation with its strategic partner Cathay Pacific Airways Limited and further utilize the cooperation platform provided by Star Alliance. The Company believes that backed by the general prospect of the PRC's macro-economy and the relevant policies adopted by the PRC government, and with the continued improvement on its capability to grasp market opportunities and effectively control costs, the Company is well positioned to overcome the current difficulties, continue to offer quality services to its customers and create more values for both the society and its shareholders.

SHARE CAPITAL

As at 31 December 2008, the total share capital of the Company was RMB12,251,362,273, divided into 12,251,362,273 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2008:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	7,845,678,909	64.04%
H shares	4,405,683,364	35.96%
Total	12,251,362,273	100%

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

1. Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") throughout the year of 2008.

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

The Company has adopted and established a code of conduct on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all directors and supervisors have confirmed their compliance with the required standards of the Model Code throughout the period of 2008. The code of the Company is also applicable to Supervisors and relevant employees.

DIVIDENDS

The Board do not recommend the payment of any final dividend in respect of the year ended 31 December 2008. The relevant resolution will be proposed for the approval of the shareholders at the 2008 Annual General Meeting.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the PRC provide for any preemptive rights requiring the Company to offer new shares to existing shareholders in proportion to their existing shareholdings.

SERVICE CONTRACTS OF THE DIRECTORS

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

None of the directors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

ANNUAL REPORT

The Annual Report for the year ended 31 December 2008 containing all information required by Appendix 16 of the Listing Rules will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

We would like to caution readers of this announcement that the airline operations are substantially influenced by global political and economical developments. Accidental and unexpected incidents may have a material impact on our operations or the industry as a whole. This 2008 Annual Results Announcement of the Group contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT AND RISK CONTROL COMMITTEE

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

(II) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Pursuant to the latest amendments to the Listing Rules in relation to electronic corporate communications which came into effect on 1 January 2009, the new requirements on cash dividend policy issued by the China Securities Regulatory Commission, The Shanghai Stock Exchange and other rules and regulations applicable to the Company, the Company is proposing amendments to articles relating to corporation communications and their despatch and the cash dividend policy. Further, the Company is also proposing amendments to refine certain of its articles in accordance with rules and regulations applicable to the Company. The main amendments proposed by the Company include but is not limited to (i) articles relevant to corporate communications and despatch (including the use of electronic corporate communication or the Company's website for the Company's H-share shareholder subject to the requirements of the Listing Rules); (ii) clarification of its cash dividend policy; and (iii) refinement of the articles which relate to the convening of extraordinary general meeting, proposals for resolution at extraordinary general meetings, powers of the directors and the giving of notice of board meeting. Details of the proposed amendments to the Articles of Association will be provided in an announcement and circular to be released in due course.

(III) PROPOSED AMENDMENTS TO RULES AND PROCEDURE OF SHAREHOLDERS' MEETING, MEETINGS OF THE BOARD OF DIRECTORS AND MEETINGS OF THE SUPERVISORY COMMITTEE

To align the Three Rules of Procedures with the amendments made in 2005 to Company Law of the People's Republic of China and substantial amendments made by the China Securities Regulatory Commission (the "**CSRC**") in 2006 to the relevant requirements on A share listed companies under the Guidelines for Articles of Association of Listed Companies and the Rules Governing the Shareholders' Meetings of Listed Companies, the Company is proposing amendments to the existing Three Rules of Procedures. Such amendments to the Three Rules of Provisions include, but is not limited to, (1) amendments to relevant provisions on the convening, presiding and taking of minutes of meetings and the authority and cap in value approving any provision of external guarantees; (2) amendments to align the Three Rules of Procedure with the proposed amendments to the Articles of Association to ensure consistency; and (3) amendments to refine the provisions relating to the authority to approve the Company's investment and the cap in investment value of such authority in accordance with the Company's actual situation and the applicable listing rules. Details of the proposed amendments to the Three Rules of Procedure will be provided in an announcement and circular to be released in due course.

(IV) APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company is pleased to announce that Mr. Fu Yang has been appointed as an independent non-executive director of the Company subject to the approval of the shareholders of the Company.

Mr. Fu Yang (付洋), age 60, is a partner and director of Kang Da Law Firm (北京市康達律師 事務所), a law firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) and independent non-executive director of Tsingtao Brewery Company Limited. Previously, Mr. Fu served as the Deputy Director of the Economic Law Office of the National People's Congress Law Committee (全 國人大法制工作委員會經濟法室), Vice-President of the Third, Fourth and Fifth sessions of the All China Lawyers Association (中華全國律師協會), independent non-executive director of CITIC Guoan Information Industry Co., Ltd, specially-engaged professor of China University of Political Science and Law (中國政法大學), associate mentor to Tsinghua University School of Law (清華大學法學院) masters students and specially-engaged professor of Nankai University School of Law (南開大學法學院).

The director's fee of Mr. Fu, if any, will be determined with reference to the emoluments of the independent non-executive Directors of the second session of the Board (which is RMB60,000 per annum). The term of Mr. Fu's office shall commence on the date of approval by the shareholders of his appointment and shall end on the expiry of the term of the current session of the Board.

Save as disclosed above, Mr. Fu has not held any other directorships in public companies the securities of which are listed in any securities market in Hong Kong or overseas or taken up a post in any affiliated companies of the Company in the past three years. Save as disclosed above, Mr. Fu does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholder of the Company. Mr. Fu does not have any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). There is no information to be disclosed on items from (h) to (v) in Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No other matter needs to be brought to the attention of the shareholders of the Company in respect of the Company and its directors and supervisors.

(V) RESIGNATION OF DIRECTOR

In accordance with recent PRC regulations providing that members of the Communist Party Management Team of General Institutions of Higher Education (of which Mr. Wu is a member) should not hold office in any economic entities, Mr. Wu Zhipan has resigned as an independent non-executive director of the Company with effect from the date of approval by the shareholders of the appointment of Mr. Fu Yang as an independent non-executive director. Mr. Wu shall also cease to serve as a member of the audit and risk control committee and the nomination and remuneration committee from the effective date of his resignation. Mr. Wu has confirmed that he has no disagreement with the Board and the Company and that he is not aware of any matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

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

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

Beijing, PRC, 16 April 2009

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

* *Independent non-executive Director of the Company*