THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares of Air China Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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)

MAJOR TRANSACTION
PURCHASE OF 20 AIRBUS 330-SERIES AIRCRAFT
AND
VERY SUBSTANTIAL ACQUISITION
PURCHASE OF 15 BOEING 777 AND 30 BOEING 737 AIRCRAFT

29 July 2008

CONTENTS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"AIE"	Air China Import and Export Co., a company incorporated in the People's Republic of China and a wholly-owned subsidiary of the Company
"Airbus Aircraft"	20 Airbus 330-Series aircraft to be purchased by the Company pursuant to the Airbus Aircraft Purchase Agreement
"Airbus Aircraft Purchase Agreement"	the aircraft acquisition agreement effective as of 26 June 2008 pursuant to which the Company has agreed to acquire and Airbus Company has agreed to sell the Airbus Aircraft
"Airbus Company"	Airbus S. A. S., a company incorporated in Toulouse, France
"Airbus Transaction"	the acquisition by the Company of the Airbus Aircraft pursuant to the Airbus Aircraft Purchase Agreement
"Air China Cargo"	Air China Cargo Co., Ltd. (中國國際貨運航空有限公司), a company with limited liability incorporated under the laws of the People's Republic of China and with 76% of its registered capital owned by the Company as at the date of this circular
"Air Macau"	Air Macau Company Limited, a company with limited liability incorporated under the laws of Macau and with 51.0% of its share capital owned by CNAC (Macau) as at the date of this circular
"Ameco"	Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司), a company with limited liability incorporated under the laws of the People's Republic of China and with 60% of its registered capital owned by the Company as at the date of this circular
"Board"	the board of directors of the Company
"Boeing Aircraft"	15 Boeing 777 and 30 Boeing 737 aircraft to be purchased by the Company pursuant to the Boeing Aircraft Purchase Agreement

"Boeing Aircraft Purchase Agreement"	the aircraft acquisition agreement effective as of 15 July 2008 pursuant to which the Company has agreed to acquire and Boeing Company has agreed to sell the Boeing Aircraft
"Boeing Company"	Boeing Company, a company incorporated under the Laws of Delaware of the United States
"Boeing Transaction"	the acquisition by the Company of the Boeing Aircraft pursuant to the Boeing Aircraft Purchase Agreement
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNAC"	China National Aviation Company Limited
"CNACG"	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this circular
"CNAHC"	China National Aviation Holding Company, a company incorporated in the People's Republic of China
"Company"	Air China Limited, a company incorporated in the People's Republic of China whose H shares have a primary listing on The Stock Exchange of Hong Kong Limited and secondary listing on the Official List of the UK Listing Authority and whose A shares are listed on the Shanghai Stock Exchange
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries and joint ventures
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Latest Practicable Date"	15 July 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"PRC"	People's Republic of China excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Supervisor(s)"	the supervisor(s) of the Company

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)

Directors:
Non-executive Directors:
Kong Dong *(Chairman)*
Wang Shixiang
Yao Weiting
Ma Xulun
Christopher Dale Pratt
Chen Nan Lok, Philip
Executive Directors:
Cai Jianjiang
Fan Cheng

Independent non-executive Directors:
Hu Hung Lick, Henry
Wu Zhipan
Zhang Ke
Jia Kang

Registered address:
9/F, Blue Sky Mansion
28 Tianzhu Road Zone A
Tianzhu Airport Industrial Zone
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Principal place of business in Hong Kong:
5th Floor, CNAC House
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Hong Kong International Airport
Hong Kong

29 July 2008

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION
(2) VERY SUBSTANTIAL ACQUISITION

1. INTRODUCTION

On 26 June 2008 the Company announced on the same date that the Board approved the Airbus Aircraft Purchase Agreement between the Company, AIE and Airbus Company pursuant to which the Company agreed to purchase 20 Airbus 330-Series aircraft from Airbus Company.

The Airbus Transaction constitutes a major transaction of the Company under the Listing Rules.

On 15 July 2008 the Company announced on the same date that the Board approved the Boeing Aircraft Purchase Agreement between the Company, AIE and Boeing Company pursuant to which the Company agreed to purchase 15 Boeing 777 and 30 Boeing 737 aircraft from Boeing Company.

The Boeing Transaction constitutes a very substantial acquisition transaction of the Company under the Listing Rules.

The purpose of this circular is to set out further details of the Airbus Transaction and Boeing Transaction.

2. THE AIRBUS AIRCRAFT PURCHASE AGREEMENT

(A) The Airbus Aircraft Purchase Agreement

(I) Effective date of the Airbus Transaction

26 June 2008

(II) Parties to the Airbus Transaction

(i) the Company, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;

(ii) AIE, as the import agent for the Company; and

(iii) Airbus Company, as the vendor, one of whose principal business activity is aircraft manufacturing.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Airbus Company and each of the ultimate beneficial owner of Airbus Company are independent third parties and not connected persons (as defined in the Listing Rules) of the Company.

(III) Aircraft to be acquired

Airbus Aircraft, i.e. 20 Airbus 330-Series aircraft

As at the Latest Practicable Date, the Group operated a fleet of 229 aircraft, including 221 passenger aircraft and 8 freighters.

(IV) Consideration

The aircraft basic price comprises the airframe price, optional features prices and engine price. The aircraft basic price of the Airbus Aircraft in aggregate is approximately US$3,821 million (HK$29,842 million). The aircraft price is subject to price escalation by applying a formula. Airbus Company has granted to the Company significant price concessions with regard to the Airbus Aircraft. These will take the form of credit memorandum which may be used by the Company towards the final price of the Airbus Aircraft or may be used for the purchase of goods and services from Airbus Company. Such credit memorandum were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Airbus Aircraft is lower than the aircraft basic price mentioned above.

The Airbus Transaction was negotiated and entered into in accordance with customary business practice. The extent of the price concessions granted to the Company in the Airbus Transaction is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between the Company and Airbus Company on 10 July 2007 (the *2007 Airbus Aircraft Purchase*). The Company believes that there is no material impact of the price concessions obtained in the Airbus Transaction on the unit operating cost of the Company's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of actual price, for aircraft acquisition. Disclosure of the actual consideration would result in the loss of the significant price concessions and hence a significant negative impact on the Company's cost for the Airbus Transaction, and would therefore not be in the interest of the Company and the Company's shareholders as a whole. The Company has applied to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance of Rule 14.58(4) of the Listing Rules in respect of disclosure of the actual consideration of the Airbus Aircraft.

As the 2007 Airbus Aircraft Purchase and the Airbus Transaction were entered into within a 12 month period and were both with Airbus Company, pursuant to Rule 14.22 of the Listing Rules, their transaction amounts should be aggregated for the purpose of determining relevant percentage ratios under Rule 14.07 of the Listing Rules. The aggregated transaction amount is approximately US$5,227 million (HK$40,823 million).

(V) Payment and delivery terms

The aggregate consideration for the acquisition of Airbus Aircraft is payable by cash in instalments. The Company is expecting to take delivery of the Airbus Aircraft in stages from early 2011 to 2014.

(VI) Source of funding

The Airbus Transaction will be funded through cash generated from the Company's business operations, commercial bank loans and other debt instruments of the Company. The Company does not expect the Airbus Transaction to have any material impact on its cash-flow position or its business operations.

(VII) Reasons for and benefits of the Airbus Transaction

Without taking into account the adjustment of fleet which may be made by the Company based on the market condition and the age of aircraft, the Airbus Aircraft will increase the fleet capacity of the Company in terms of available tonne kilometres per annum by approximately 16.5% compared with the Company's available tonne kilometres of 2007, and will principally reinforce Beijing's position as a transportation hub and increase frequency of flights, departing originally from Beijing, of a number of key domestic or international routes. The Company expects the Airbus Aircraft will deliver more cost-efficient performance and provide more comfortable services to passengers.

(VIII)Shareholders' approval

As the relevant percentage ratio for the Airbus Transaction as calculated under Rule 14.07 of the Listing Rules is above 25%, but less than 100%, the Airbus Transaction constitutes a major transaction and is therefore subject to approval by the Company's shareholders under the Listing Rules.

CNAHC currently, directly and indirectly, owns approximately 51.66% of the total issued share capital of the Company. Each of CNAHC and its associates (as defined in the Listing Rules) does not have any interest in the Airbus Transaction other than as a shareholder of the Company (where applicable). No shareholder of the Company is required to abstain from voting if the Company was to convene a general meeting for the approval to the Airbus Transaction. Pursuant to Rule 14.44 of the Listing Rules, a written approval of CNAHC may be accepted in lieu of holding a general meeting to approve the Airbus Transaction.

However, pursuant to the relevant regulations of the Shanghai Stock Exchange on which the Company's A shares are listed, the Airbus Transaction is required to be approved by the Company's shareholders at a general meeting. Therefore, an extraordinary general meeting of the Company will be convened to approve the Airbus Transaction.

The Directors believe that the terms of the Airbus Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole. Accordingly, the Board recommends that the shareholders of the Company should vote to approve the Airbus Transaction at the extraordinary general meeting.

(B) Effect of the Airbus Transaction

Based on the technical specifications of the Airbus Aircraft, the Company expects the Airbus Aircraft to operate with a higher utilization rate, more efficient jet fuel consumption and relatively low maintenance cost. This will enable the Company to operate on a cost-efficient basis and would potentially have a positive effect on the earnings of the Company.

As mentioned above, the Airbus Transaction will be partly financed by commercial bank loans and other debt instruments of the Company. The Airbus Transaction will therefore increase the Group's fixed assets and liabilities. The Airbus Transaction may also result in an increase in the Group's debt-to-equity ratio. The total cash outflow of the Company in 2008 in respect of the Airbus Transaction is approximately USD90.43 million. However, the Company does not expect the Airbus Transaction to have any material impact on its cash-flow position or its business operations.

Save as described above, the Airbus Transaction is not expected to have any material impact on earnings, assets and liabilities of the Group.

3. THE BOEING AIRCRAFT PURCHASE AGREEMENT

(A) The Boeing Aircraft Purchase Agreement

(I) Effective date of the Boeing Transaction

15 July 2008

(II) Parties to the Boeing Transaction

(i) the Company, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;

(ii) AIE, as the import agent for the Company; and

(iii) Boeing Company, as the vendor, one of whose principal business activity is aircraft manufacturing.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Boeing Company and each of the ultimate beneficial owner of Boeing Company are independent third parties and not connected persons (as defined in the Listing Rules) of the Company.

(III) Aircraft to be acquired

The Boeing Aircraft, i.e. 15 Boeing 777 and 30 Boeing 737 aircraft

As at the Latest Practicable Date, the Group operated a fleet of 229 aircraft, including 221 passenger aircraft and 8 freighters.

(IV) Consideration

The aircraft basic price comprises the airframe price, optional features prices and engine price. The aircraft basic price of the Boeing Aircraft in aggregate is approximately US$6,300 million (HK$49,140 million). The aircraft price is subject to price escalation by applying a formula. Boeing Company has granted to the Company significant price concessions with regard to the Boeing Aircraft. These will take the form of credit memorandum which may be used by the Company towards the delivery invoice for the respective Boeing Aircraft or may be used for the purchase of goods and services from Boeing Company. Such credit memorandum were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Boeing Aircraft is lower than the aircraft basic price mentioned above.

The Boeing Transaction was negotiated and entered into in accordance with customary business practice. The extent of the price concessions granted to the Company in the Boeing Transaction is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between the Company and Boeing Company on 19 April 2006 (the *2006 Boeing Aircraft Purchase*). The Company believes that there is no material impact of the price concessions obtained in the Boeing Transaction on the unit operating cost of the Company's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of actual price, for aircraft acquisition. Disclosure of the actual consideration would result in the loss of the significant price concessions and hence a significant negative impact on the Company's cost for the Boeing Transaction, and would therefore not be in the interest of the Company and the Company's shareholders as a whole. The Company has applied to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance of Rule 14.58(4) and Rule 14.69(2) of the Listing Rules in respect of disclosure of the actual consideration of the Boeing Aircraft.

(V) Payment and delivery terms

The aggregate consideration for the acquisition of Boeing Aircraft is payable by cash in instalments. The Company is expecting to take delivery of the Boeing Aircraft in stages from early 2011 to 2015.

(VI) Source of funding

The Boeing Transaction will be funded through cash generated from the Company's business operations, commercial bank loans and other debt instruments of the Company. The Company does not expect the Boeing Transaction to have any material impact on its cash-flow position or its business operations.

(VII) Reasons for and benefits of the Boeing Transaction

Without taking into account the adjustment of fleet which may be made by the Company based on the market condition and the age of aircraft, the Boeing Aircraft will increase the fleet capacity of the Company in terms of available tonne kilometres per annum by approximately 35% compared with the Company's available tonne kilometres of 2007, and will principally reinforce Beijing's position as a transportation hub and increase frequency of flights, departing originally from Beijing, of a number of key domestic routes and international routes. The Company expects the Boeing Aircraft will deliver more cost-efficient performance and provide more comfortable services to passengers.

(VIII) Shareholders' approval

As the relevant percentage ratio under Rule 14.07 of the Listing Rules for the Boeing Transaction is more than 100%, the Boeing Transaction constitutes a very substantial acquisition and is therefore subject to approval by the Company's shareholders under the Listing Rules. An extraordinary general meeting of the Company will be convened to approve the Boeing Transaction.

The Directors believe that the terms of the Boeing Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole. Accordingly, the Board recommends that the shareholders of the Company should vote to approve the Boeing Transaction at the extraordinary general meeting.

(B) Effect of the Boeing Transaction

Based on the technical specifications of the Boeing Aircraft, the Company expects the Boeing Aircraft to operate with a higher utilization rate, more efficient jet fuel consumption and relatively low maintenance cost. This will enable the Company to operate on a cost-efficient basis and would potentially have a positive effect on the earnings of the Company.

As mentioned above, the Boeing Transaction will be partly financed by commercial bank loans and other debt instruments of the Company. The Boeing Transaction will therefore increase the Group's fixed assets and liabilities. The Boeing Transaction may also result in an increase in the Group's debt-to-equity ratio. The total cash outflow of the Company in 2008 in respect of the Boeing Transaction is approximately USD29.31 million. However, the Company does not expect the Boeing Transaction to have any material impact on its cash-flow position or its business operations.

Save as described above, the Boeing Transaction is not expected to have any material impact on earnings, assets and liabilities of the Group.

4. FINANCIAL AND OPERATIONAL PROSPECTS

As disclosed in the 2007 annual report of the Company dated 17 March 2008, for the financial year ended 31 December 2007, air traffic revenue and other operating revenue reached RMB47,717 million and RMB3,612 million, respectively, representing increases of 14.69% and 8.48% over 2006. The Directors believe that rising aviation fuel prices and increasing competition in the airline business will present new challenges for the Group in 2008. However, the Directors view the future prospects during the current financial year of the Company with confidence and believe that the Group is well placed to continue to develop its business in line with its strategy.

5. WORKING CAPITAL

Taking into account the financial resources available to the Group, the Directors are of the opinion that the Group will have sufficient working capital for the next 12 months following the date of this circular.

6. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Kong Dong
Chairman

Beijing

I. SUMMARY OF CONSOLIDATED INCOME STATEMENTS AND CONSOLIDATED BALANCE SHEETS

The following consolidated income statements of the Group for the three years ended 31 December 2007 and the consolidated balance sheets of the Group as at 31 December 2007, 2006 and 2005 are extracted from the Company's annual reports for the two years ended 31 December 2007 and reclassified as appropriate.

CONSOLIDATED INCOME STATEMENT

	2007	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Air traffic revenue	47,717,546	41,606,130	35,300,826
Other operating revenue	3,612,995	3,330,476	2,990,140
Turnover	51,330,541	44,936,606	38,290,966
OPERATING EXPENSES			
Jet fuel	(17,201,143)	(15,716,174)	(11,777,129)
Take-off, landing and depot charges	(5,537,907)	(5,136,388)	(4,442,585)
Depreciation	(5,554,443)	(5,274,033)	(4,512,680)
Aircraft maintenance, repair and overhaul	(2,076,119)	(1,812,647)	(1,341,773)
Employee compensation costs	(5,209,766)	(4,313,883)	(3,406,825)
Air catering charges	(1,473,543)	(1,320,123)	(1,242,933)
Aircraft and engine operating lease expenses	(2,239,359)	(2,069,639)	(1,530,754)
Other operating lease expenses	(311,262)	(323,752)	(211,177)
Other flight operation expenses	(4,232,726)	(3,658,986)	(3,744,977)
Selling and marketing expenses	(2,708,770)	(2,026,728)	(1,775,026)
General and administrative expenses	(951,376)	(766,549)	(631,291)
Total operating expenses	(47,496,414)	(42,418,902)	(34,617,150)
PROFIT FROM OPERATIONS	3,834,127	2,517,704	3,673,816
Finance revenue	2,376,572	1,177,871	1,248,607
Finance costs	(1,969,326)	(1,876,487)	(1,773,099)
Gain on disposal of an associate	–	1,592,633	–
Share of profits and losses of associates	1,364,740	517,500	224,930
PROFIT BEFORE TAX	5,606,113	3,929,221	3,374,254
Tax	(1,484,613)	(624,124)	(903,874)
PROFIT FOR THE YEAR	4,121,500	3,305,097	2,470,380

	2007	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Attributable to:			
Equity holders of the parent	4,228,997	2,687,841	2,406,256
Minority interests	(107,497)	617,256	64,124
	4,121,500	3,305,097	2,470,380
Dividends:			
Interim	–	–	–
Proposed final	837,987	602,767	224,793
	837,987	602,767	224,793

CONSOLIDATED BALANCE SHEET

	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	61,691,673	54,767,664	47,190,728
Lease prepayments	1,046,042	1,013,529	1,072,066
Intangible asset	75,194	–	–
Interests in associates	9,542,677	9,255,474	3,793,957
Advance payments for aircraft and related equipment	7,652,365	6,976,054	7,329,322
Deposits for aircraft under operating leases	257,505	259,681	222,945
Long term receivable from ultimate holding company	331,813	431,813	531,813
Available-for-sale investments	1,997	6,704	22,266
Deferred tax assets	626,645	1,064,157	1,017,557
	81,225,911	73,775,076	61,180,654
CURRENT ASSETS			
Aircraft held for sale	184,728	–	–
Inventories	1,142,050	1,015,266	851,315
Accounts receivable	2,794,280	2,835,227	2,764,475
Bills receivable	1,599	–	–
Prepayments, deposits and other receivables	1,318,062	1,077,036	762,435
Derivative financial instruments	6,493	99,935	127,659
Pledged deposits	118,624	211,504	176,575
Cash and cash equivalents	3,906,520	5,159,181	2,345,761
Due from ultimate holding company	335,129	289,933	474,216
Due from related companies	22,881	14,378	38,039
	9,830,366	10,702,460	7,540,475
TOTAL ASSETS	91,056,277	84,477,536	68,721,129

	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*
CURRENT LIABILITIES			
Air traffic liabilities	(2,156,104)	(1,530,484)	(1,476,619)
Accounts payable	(5,930,800)	(5,221,061)	(4,601,364)
Bills payable	–	(651,345)	(327,937)
Other payables and accruals	(4,350,281)	(4,192,887)	(4,168,435)
Derivative financial instruments	(14,826)	(242,108)	(1,791)
Tax payable	(1,111,404)	(534,273)	(421,077)
Obligations under finance leases	(2,216,680)	(2,354,905)	(1,954,873)
Bank and other loans	(10,978,835)	(11,139,021)	(10,401,170)
Provision for major overhauls	(83,907)	(47,318)	(18,721)
Due to related companies	(45,142)	(39,989)	(174,151)
	(26,887,979)	(25,953,391)	(23,546,138)
NET CURRENT LIABILITIES	(17,057,613)	(15,250,931)	(16,005,663)
TOTAL ASSETS LESS CURRENT LIABILITIES	64,168,298	58,524,145	45,174,991
NON-CURRENT LIABILITIES			
Obligations under finance leases	(13,328,193)	(11,247,855)	(8,078,671)
Bank loans, other loans and corporate bonds	(16,615,291)	(12,701,977)	(12,822,879)
Provision for major overhauls	(1,190,415)	(921,929)	(635,718)
Provision for early retirement benefits obligations	(164,837)	(201,199)	(189,141)
Long term payables	(190,005)	(252,591)	(352,880)
Deferred income	(872,023)	(948,966)	(1,025,910)
Deferred tax liabilities	(300,181)	(513,935)	(519,186)
	(32,660,945)	(26,788,452)	(23,624,385)
NET ASSETS	31,507,353	31,735,693	21,550,606

	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued share capital	12,251,362	12,251,362	9,433,211
Treasury shares	(1,283,492)	(1,246,955)	–
Reserves	19,551,280	18,117,084	10,659,030
Proposed final dividend	837,987	602,767	–
	31,357,137	29,724,258	20,092,241
MINORITY INTERESTS	150,216	2,011,435	1,458,365
TOTAL EQUITY	31,507,353	31,735,693	21,550,606

II. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following audited financial statements of the Group are extracted from the Company's annual report for the year ended 31 December 2007.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TURNOVER			
Air traffic revenue	4	47,717,546	41,606,130
Other operating revenue	5	3,612,995	3,330,476
		51,330,541	44,936,606
OPERATING EXPENSES			
Jet fuel costs		(17,201,143)	(15,716,174)
Take-off, landing and depot charges		(5,537,907)	(5,136,388)
Depreciation		(5,554,443)	(5,274,033)
Aircraft maintenance, repair and overhaul costs		(2,076,119)	(1,812,647)
Employee compensation costs	6	(5,209,766)	(4,313,883)
Air catering charges		(1,473,543)	(1,320,123)
Aircraft and engine operating lease expenses		(2,239,359)	(2,069,639)
Other operating lease expenses		(311,262)	(323,752)
Other flight operation expenses		(4,232,726)	(3,658,986)
Selling and marketing expenses		(2,708,770)	(2,026,728)
General and administrative expenses		(951,376)	(766,549)
		(47,496,414)	(42,418,902)
PROFIT FROM OPERATIONS	7	3,834,127	2,517,704
Finance revenue	8	2,376,572	1,177,871
Finance costs	8	(1,969,326)	(1,876,487)
Gain on disposal of an associate	9	–	1,592,633
Share of profits and losses of associates		1,364,740	517,500
PROFIT BEFORE TAX		5,606,113	3,929,221
Tax	12	(1,484,613)	(624,124)
PROFIT FOR THE YEAR		4,121,500	3,305,097

	Notes	2007 RMB'000	2006 RMB'000
Attributable to:			
Equity holders of the Company		4,228,997	2,687,841
Minority interests		(107,497)	617,256
		4,121,500	3,305,097
Dividends:	*14*		
Interim		–	–
Proposed final		837,987	602,767
		837,987	602,767
Earnings per share attributable to equity holders of the Company:	*15*		
Basic		35.6 cents	26.2 cents
Diluted		NA	NA

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	**2007** *RMB'000*	**2006** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	61,691,673	54,767,664
Lease prepayments	*17*	1,046,042	1,013,529
Intangible asset	*18*	75,194	–
Interests in associates	*21*	9,542,677	9,255,474
Advance payments for aircraft and related equipment		7,652,365	6,976,054
Deposits for aircraft under operating leases		257,505	259,681
Long term receivable from ultimate holding company	*22*	331,813	431,813
Available-for-sale investments	*23*	1,997	6,704
Deferred tax assets	*24*	626,645	1,064,157
		81,225,911	73,775,076
CURRENT ASSETS			
Aircraft held for sale	*25*	184,728	–
Inventories	*26*	1,142,050	1,015,266
Accounts receivable	*27*	2,794,280	2,835,227
Bills receivable		1,599	–
Prepayments, deposits and other receivables	*28*	1,318,062	1,077,036
Derivative financial instruments	*49(c)*	6,493	99,935
Pledged deposits	*29*	118,624	211,504
Cash and cash equivalents	*29*	3,906,520	5,159,181
Due from ultimate holding company	*30*	335,129	289,933
Due from related companies	*31*	22,881	14,378
		9,830,366	10,702,460
TOTAL ASSETS		91,056,277	84,477,536

	Notes	2007 RMB'000	2006 RMB'000
CURRENT LIABILITIES			
Air traffic liabilities		(2,156,104)	(1,530,484)
Accounts payable	32	(5,930,800)	(5,221,061)
Bills payable	33	–	(651,345)
Other payables and accruals	34	(4,350,281)	(4,192,887)
Derivative financial instruments	49(c)	(14,826)	(242,108)
Tax payable		(1,111,404)	(534,273)
Obligations under finance leases	35	(2,216,680)	(2,354,905)
Bank and other loans	36	(10,978,835)	(11,139,021)
Provision for major overhauls	37	(83,907)	(47,318)
Due to related companies	31	(45,142)	(39,989)
		(26,887,979)	(25,953,391)
NET CURRENT LIABILITIES		(17,057,613)	(15,250,931)
TOTAL ASSETS LESS CURRENT LIABILITIES		64,168,298	58,524,145
NON-CURRENT LIABILITIES			
Obligations under finance leases	35	(13,328,193)	(11,247,855)
Bank loans, other loans and corporate bonds	36	(16,615,291)	(12,701,977)
Provision for major overhauls	37	(1,190,415)	(921,929)
Provision for early retirement benefits obligations		(164,837)	(201,199)
Long term payables	38	(190,005)	(252,591)
Deferred income	39	(872,023)	(948,966)
Deferred tax liabilities	24	(300,181)	(513,935)
		(32,660,945)	(26,788,452)
NET ASSETS		31,507,353	31,735,693
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued share capital	40	12,251,362	12,251,362
Treasury shares	41	(1,283,492)	(1,246,955)
Reserves	42	19,551,280	18,117,084
Proposed final dividend	14	837,987	602,767
		31,357,137	29,724,258
MINORITY INTERESTS		150,216	2,011,435
TOTAL EQUITY		31,507,353	31,735,693

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the Company									
	Issued share capital	Treasury shares	Capital reserve	Reserve funds	Retained profits	Foreign exchange translation reserve	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2006	9,433,211	–	7,731,926	362,884	2,373,794	(34,367)	224,793	20,092,241	1,458,365	21,550,606
Profit for the year	–	–	–	–	2,687,841	–	–	2,687,841	617,256	3,305,097
Final 2005 dividend declared	–	–	–	–	–	–	(224,793)	(224,793)	–	(224,793)
Proposed final 2006 dividend *(note 14(a))*	–	–	–	–	(602,767)	–	602,767	–	–	–
Transfer to reserve funds *(note 14(b))*	–	–	–	405,514	(405,514)	–	–	–	–	–
Issue of new shares	2,818,151	–	5,897,294	–	–	–	–	8,715,445	–	8,715,445
Shares issue expenses	–	–	(145,097)	–	–	–	–	(145,097)	–	(145,097)
New capital contribution by a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	451	451
Dividends paid to minority shareholders by subsidiaries	–	–	–	–	–	–	–	–	(10,571)	(10,571)
Elimination for reciprocal shareholding *(note 41)*	–	(1,246,955)	–	–	–	–	–	(1,246,955)	–	(1,246,955)
Exchange realignment	–	–	–	–	–	(154,424)	–	(154,424)	(54,066)	(208,490)
As at 31 December 2006 and 1 January 2007	12,251,362	(1,246,955)	13,484,123*	768,398*	4,053,354*	(188,791)*	602,767	29,724,258	2,011,435	31,735,693
Profit for the year	–	–	–	–	4,228,997	–	–	4,228,997	(107,497)	4,121,500
Final 2006 dividend declared	–	–	–	–	–	–	(602,767)	(602,767)	–	(602,767)
Proposed final 2007 dividend *(note 14(a))*	–	–	–	–	(837,987)	–	837,987	–	–	–
Transfer to reserve funds *(note 14(b))*	–	–	–	582,602	(582,602)	–	–	–	–	–
Acquisition of minority interest of a subsidiary	–	–	(1,294,115)	–	–	–	–	(1,294,115)	(1,738,839)	(3,032,954)
Share of reserves of associates	–	–	138,272	–	–	–	–	138,272	–	138,272
Dividends paid to minority shareholders by subsidiaries	–	–	–	–	–	–	–	–	(1,077)	(1,077)
Elimination for reciprocal shareholding *(note 41)*	–	(36,537)	–	–	–	–	–	(36,537)	–	(36,537)
Exchange realignment	–	–	–	–	–	(800,971)	–	(800,971)	(13,806)	(814,777)
As at 31 December 2007	12,251,362	(1,283,492)	12,328,280*	1,351,000*	6,861,762*	(989,762)*	837,987	31,357,137	150,216	31,507,353

* The aggregate of these reserve accounts represents the consolidated reserves of RMB19,551,280,000 (2006: RMB18,117,084,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007** *RMB'000*	**2006** *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,606,113	3,929,221
Adjustments for:			
Exchange gains, net		(1,979,293)	(980,849)
Gains on fuel derivatives, net	8	(235,944)	(113,225)
Dividend income from available-for-sale investments	8	(224)	(265)
Share of profits and losses of associates		(1,364,740)	(517,500)
Depreciation	16	5,554,443	5,274,033
Gains on disposal of property, plant and equipment, net	5	(165,311)	(17,353)
Loss on derecognition of property, plant and equipment	7	37,138	70,206
Amortisation of lease prepayments	17	22,478	21,495
Reversal of impairment of accounts receivable	7	(1,411)	(1,902)
Interest income	8	(110,013)	(80,689)
Interest expenses, net of interest capitalised	8	1,969,326	1,876,487
Gain on disposal of an associate		–	(1,592,633)
Impairment loss on available-for-sale investments	7	4,481	15,562
Impairment loss on aircraft held for sale	7	142,800	–
		9,479,843	7,882,588

	2007	**2006**
	RMB'000	*RMB'000*
Increase in inventories	(126,784)	(163,951)
Decrease/(increase) in accounts and bills receivable	40,759	(68,873)
Increase in prepayments, deposits and other receivables	(215,065)	(329,898)
Increase in deposits for aircraft under operating leases	(37,645)	(21,416)
Decrease in the amount due from ultimate holding company	54,804	284,283
Decrease/(increase) in amounts due from related companies	(8,503)	23,661
Increase in air traffic liabilities	625,617	53,865
Increase in accounts payable	709,739	619,697
Increase/(decrease) in bills payable	(651,345)	323,408
Increase in other payables and accruals	184,826	13,596
Increase/(decrease) in amounts due to related companies	5,153	(134,162)
Increase in provision for major overhauls	305,075	314,808
Increase/(decrease) in provision for early retirement benefits obligations	(36,362)	12,058
Recognition of deferred income	(76,943)	(76,943)
Cash generated from operations	10,253,169	8,732,721
Interest paid	(2,267,801)	(1,957,805)
Enterprise income tax paid in Mainland China	(683,724)	(562,779)
NET CASH INFLOW FROM OPERATING ACTIVITIES	7,301,644	6,212,137

	2007	**2006**
	RMB'000	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(7,657,281)	(7,127,790)
Acquisition of intangible asset	(38,671)	–
Proceeds from disposal of property, plant and equipment	282,755	337,751
Decrease/(increase) in lease prepayments	(61,969)	37,042
Decrease/(increase) of advance payments for aircraft and related equipment	(676,311)	353,268
Net cash settlements of fuel derivatives	88,035	381,266
Increase in amounts due from associates	(38,310)	(81,966)
Increase/(decrease) in amounts due to associates	33,729	(6,479)
Decrease/(increase) in non-pledged deposits with maturity of more than three months when acquired	141,598	(1,473,402)
Decrease/(increase) in pledged deposits	92,880	(34,929)
Interest received	110,013	80,689
Acquisition of minority interest of a subsidiary	(3,032,954)	–
Capital contributions to associates	(2,938)	(5,460,124)
Dividends received on long term investments	224	–
Dividends received from available-for-sale investments	–	265
Dividends received from associates	546,832	406,867
Receipts from the disposal of an associate	–	439,561
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(10,212,368)	(12,147,981)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(2,910,724)	(5,935,844)

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, other loans and corporate bonds		17,271,722	14,476,780
Repayment of bank and other loans		(12,404,754)	(13,394,291)
Repayment of principals under finance lease obligations		(2,361,068)	(1,995,039)
Settlement of long term payables		(62,586)	(113,562)
Dividends paid to minority shareholders		(1,077)	(10,571)
Net proceeds from issuance of new shares		–	8,570,348
New capital contribution by a minority shareholder of a subsidiary		–	451
Dividends paid		(602,767)	(224,793)
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,839,470	7,309,323
Effect of exchange rate changes on cash and cash equivalents		(39,809)	(33,461)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,111,063)	1,340,018
Cash and cash equivalents at beginning of year		3,588,404	2,248,386
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	2,477,341	3,588,404

BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	59,258,919	52,021,875
Lease prepayments	17	969,725	991,884
Intangible asset	18	75,194	–
Interests in subsidiaries	19	8,819,247	5,736,360
Interests in joint ventures	20	1,403,788	1,403,788
Interests in associates	21	933,246	796,966
Advance payments for aircraft and related equipment		7,652,365	6,976,054
Deposits for aircraft under operating leases		192,848	186,407
Long term receivable from ultimate holding company	22	331,813	431,813
Available-for-sale investments	23	3,516	816
Deferred tax assets	24	546,690	997,633
		80,187,351	69,543,596
CURRENT ASSETS			
Inventories	26	689,871	640,888
Accounts receivable	27	2,326,307	2,371,867
Bills receivable		1,599	–
Prepayments, deposits and other receivables	28	1,121,608	842,699
Derivative financial instruments	49(c)	6,493	98,026
Pledged deposits	29	2,486	80,672
Cash and cash equivalents	29	1,348,887	2,921,900
Due from ultimate holding company	30	350,377	304,933
Due from related companies	31	–	21
		5,847,628	7,261,006
TOTAL ASSETS		86,034,979	76,804,602

	Notes	2007 RMB'000	2006 RMB'000
CURRENT LIABILITIES			
Air traffic liabilities		(2,013,038)	(1,418,304)
Accounts payable	32	(4,850,304)	(4,156,278)
Bills payable	33	–	(610,545)
Other payables and accruals	34	(3,663,181)	(3,545,797)
Derivative financial instruments	49(c)	(6,819)	(242,108)
Tax payable		(1,105,443)	(530,720)
Obligations under finance leases	35	(2,216,680)	(2,354,905)
Bank and other loans	36	(10,605,465)	(10,737,064)
Provision for major overhauls	37	(83,907)	(47,318)
Due to related companies	31	(27,730)	(18,913)
		(24,572,567)	(23,661,952)
NET CURRENT LIABILITIES		(18,724,939)	(16,400,946)
TOTAL ASSETS LESS CURRENT LIABILITIES		61,462,412	53,142,650
NON-CURRENT LIABILITIES			
Obligations under finance leases	35	(13,328,193)	(11,247,855)
Bank loans, other loans and corporate bonds	36	(15,938,092)	(12,130,330)
Provision for major overhauls	37	(940,806)	(696,828)
Provision for early retirement benefits obligations		(97,015)	(141,416)
Long term payables	38	(158,050)	(218,305)
Deferred income	39	(872,023)	(948,966)
Deferred tax liabilities	24	(286,690)	(502,633)
		(31,620,869)	(25,886,333)
NET ASSETS		29,841,543	27,256,317
EQUITY			
Issued share capital	40	12,251,362	12,251,362
Reserves	42	16,752,194	14,402,188
Proposed final dividend	14	837,987	602,767
TOTAL EQUITY		29,841,543	27,256,317

NOTES TO FINANCIAL STATEMENTS

31 December 2007

1. GROUP REORGANISATION, PRINCIPAL ACTIVITIES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Air China Limited (the "Company") was established 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 Stock Exchange of Hong Kong Limited (the "HKSE") and the London 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 18 August 2006, 1,639,000,000 A shares of the Company were issued at an offer price of RMB2.80 per share and listed on the Shanghai Stock Exchange. The net proceeds from the initial public offering of A shares, after deducting share issue expenses of RMB76,004,278, amounted to RMB4,513,195,722, of which RMB1,639,000,000 and RMB2,874,195,722 were credited to the Company's paid-up capital and capital reserve, respectively.

On 8 June 2006, the Company together with China National Aviation Company Limited ("CNAC", a 69%-owned subsidiary of the Company previously listed on the HKSE and was then privatised by the Company with effect from 24 January 2007), Cathay Pacific Airways Limited ("Cathay"), CITIC Pacific Limited ("CITIC") and Swire Pacific Limited ("SPAC") enter into a conditional agreement for the following transactions:

(i) sale of the Group's entire interest in Hong Kong Dragon Airlines Limited ("Dragonair") held by CNAC to Cathay for 288,596,335 shares issued by Cathay at a price of HK$13.5 per share and cash consideration of approximately HK$433 million;

(ii) acquisition of 359,170,636 shares and 40,128,292 shares in Cathay by the Company from CITIC and SPAC, respectively, at a price of HK$13.5 per share;

(iii) payment of a special interim dividend by Cathay of HK$0.32 per share after completion of the above transactions; and

(iv) issue of 1,179,151,364 H shares of the Company to Cathay at a price of HK$3.45 per H share.

The above transactions became unconditional and were completed on 28 September 2006 except for the issue of 1,179,151,364 H shares of the Company to Cathay which was completed on 27 September 2006. After completion of the above transactions, the Company has acquired, through its subsidiaries, an aggregate of 687,895,263 shares or 17.5% equity interest in Cathay which has been accounted for as an associate in the Group's consolidated financial statements since 28 September 2006.

On 24 January 2007, the Company privatised CNAC by way of a scheme of arrangement (the "Scheme") under Section 166 of the Hong Kong Companies Ordinance that comprised the following arrangements:

(i) purchase from the minority shareholders of CNAC of an aggregate of 1,048,052,000 shares in CNAC for cancellation at a price of HK$2.8 per share or at an aggregate consideration of approximately HK$2,935 million; and

(ii) purchase of an aggregate of 66,252,000 outstanding share options granted under the share option scheme of CNAC for cancellation at a price of HK$1.66 for each option or at an aggregate consideration of approximately HK$110 million with the remaining 38,126,000 share options granted under the share option scheme of CNAC forfeited by the respective option holders.

The Scheme became effective on 24 January 2007 and the listing of CNAC on the HKSE was then officially withdrawn.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These 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, 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value and aircraft 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 and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Capital Disclosures
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment

(a) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and procedures for managing capital. These new disclosures are shown in note 49 to the financial statements.

(c) IFRIC-Int 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Company's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued any equity instruments to its employees and only incurred liabilities to its employees for identified services provided in accordance with its share appreciation right arrangement, the interpretation has had no effect on these financial statements.

(d) IFRIC-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or results of operations of the Group.

(e) IFRIC-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted IFRIC Interpretation 10 as at 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

Impact of issued but not yet effective IFRSs

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 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 1 Amendment	Puttable Financial Instruments
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 Amendment	Puttable Financial Instruments
IFRIC-Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

(a) Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment will become effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

(b) IFRS 3 (Revised) Business Combinations

The revised standard will become effective for annual periods beginning on or after 1 July 2009. The revised standard 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. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

(c) IFRS 8 Operating Segments

This standard will become effective for annual periods beginning on or after 1 January 2009. The standard 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 purpose 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. The Group expects to adopt IFRS 8 from 1 January 2009.

(d) IAS 1 (Revised) Presentation of Financial Statements

The revised standard will become effective for annual periods beginning on or after 1 January 2009. The revised standard separates owners 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, the revised standard introduces the statement of comprehensive income which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement or in two linked statements.

(e) Amendment to IAS 1 Puttable Financial Instruments

The amendment was issued in February 2008 and will become effective for annual periods beginning on or after 1 January 2009. The amendment requires disclosure of certain information relating to puttable instruments classified as equity.

(f) IAS 23 (Revised) Borrowing Costs

The revised standard will become effective for annual periods beginning on or after 1 January 2009 and requires capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset.

(g) IAS 27 (Revised) Consolidated and Separate Financial Statements

The revised standard will become effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

(h) Amendment to IAS 32 Puttable Financial Instruments

The amendment will become effective for annual periods beginning on or after 1 January 2009. The amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

(i) IFRIC-Int 11 IFRS 2 – Group and Treasury Share Transactions

This interpretation will become effective for annual periods beginning on or after 1 March 2007. This interpretation 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 acquires the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

(j) IFRIC-Int 12 Service Concession Arrangements

This interpretation will become effective for annual periods beginning on or after 1 January 2008. The interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivables in exchange for the construction services as a financial asset and/ or an intangible asset, based on the terms of the contractual arrangements. The interpretation also address how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public service.

(k) IFRIC-Int 13 Customer Loyalty Programmes

This interpretation will become effective for annual periods beginning on or after 1 July 2008. This interpretation requires that the loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. 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.

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

This interpretation will become effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance 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, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the impact of these new and revised IFRSs cannot be reasonably estimated except for the adoption of IFRS 8 may result in new or amended disclosure and the adoption of IFRIC-Int 13 may result in a change in accounting policy.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and joint ventures for the year ended 31 December 2007. The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the Company. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Joint ventures are proportionally consolidated from the date on which joint control is transferred to the Group and cease to be proportionally consolidated from the date on which joint control is transferred out of the Group. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are presented in the consolidated balance sheet separately from the shareholders' equity within equity. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Foreign currency translation

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into RMB at the rates of exchange ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The exchange differences arising on the translation are included in the foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the income statement.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. In the Company's balance sheet, the Company's interests in subsidiaries are stated at cost less any impairment losses.

Interests in joint ventures

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

The Group recognises its interests in joint ventures through proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint ventures with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared for the same reporting year as the Company. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Interests in associates

The Group's interests in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

Under the equity method, the interests in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment losses. Goodwill relating to the associates is included in the carrying amounts of the investments and is not amortised. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. In the case of associates and joint ventures, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

When each major overhaul is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical pacts) is derecognised.

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

	Estimated useful life	**Residual value**
Aircraft and flight equipment	2 to 20 years	Nil to 5%
Buildings	15 to 35 years	5%
Machinery, transportation equipment and office equipment	4 to 20 years	5%

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

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each year end.

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Lease prepayments

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

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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

Leases

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

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Advance payments for aircraft and related equipment

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

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Indefinite life intangible assets are tested for impairment annually and at other times when such indictor exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. This amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts receivable and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Reversals of impairment loss in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including air traffic liabilities, accounts payable, other payables and accruals, bills payable, amounts due to related companies and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue.*

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to jet fuel prices. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement for the year.

The fair value of such derivatives financial instruments is determined by reference to market values for similar instruments.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress, comprises direct material costs, labour costs and overhead costs capitalised for the provision of aircraft engineering services. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the balance sheets comprise cash at banks and on hand and short term deposits with an original maturity of three months or less, which are not restricted as to use.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Manufacturers' credits

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the income statement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

(a) Pension obligations

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Termination and early retirement benefits

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

(c) Housing benefits

In prior years, the Group sold staff quarters to its employees, subject to a number of eligibility requirements, at below market prices. When staff quarters are identified as being subject to sale under these arrangements, the carrying value of the staff quarters is written down to the net recoverable amount. Upon sale, any difference between sales proceeds and the carrying amount of the staff quarters is charged to the income statement. The above staff quarters' allocation scheme was phased out before the incorporation of the Company in accordance with the policies of the PRC government.

In 1998, the State Council of the PRC issued a circular, which stipulated that the sale of quarters to employees at preferential prices should be withdrawn. In 2000, the State Council further issued a circular stating that cash subsidies should be made to the employees following the withdrawal of allocation of the staff quarters. However, the specific timetable and procedures to implement these policies are to be determined by the individual provincial or municipal government based on the particular situation of the province or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans, whereby, for those eligible employees who have not been allocated with any quarters or who have not been allocated with quarters up to the prescribed standards before the staff quarters' allocation scheme was terminated, the Group will pay them one-off cash housing subsidies based on their years of service, position and other criteria. These cash housing subsidies are charged to the income statement in the year in which it was determined that the payment of such subsidies is probable and the amounts can be reasonably estimated.

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

(d) Share-based payment transactions

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

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

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

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

Frequent flyer programme

For Air China Companion Club member accounts that have sufficient mileage credits to claim the lowest level of free travel, the Group records a liability for the estimated incremental costs associated with providing travel awards that are expected to be redeemed. Incremental costs include the costs of incremental fuel, meals and insurance but do not include any costs for aircraft ownership, maintenance, labour or overhead allocation. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the Air China Companion Club programme, and is included in the balance sheet as a current liability.

Revenue recognition

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

(a) Provision of airline and airline-related services

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

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

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

Revenue is stated net of business tax.

(b) Sale of goods

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

(c) Interest income

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

(d) Dividend income

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

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

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

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

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

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

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

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

Current tax and deferred tax shall be charged or credited to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the costs of those assets. The capitalisation of aircraft borrowing costs ceases when the aircraft is placed into revenue earning services and the capitalisation of other assets' borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.5% and 5.9% (2006: ranging between 4.5% and 6.0%) has been applied to the expenditure on the individual assets.

All other borrowing costs are recognised as expenses when incurred.

Dividends

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

Interim dividends are recognised immediately as a liability when they are proposed and declared.

Significant accounting judgements and estimates

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

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

(a) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2007 was RMB13 million (2006: RMB16 million). The amount of unrecognised tax losses as at 31 December 2007 was RMB9 million (2006: RMB8 million). Further details are contained in note 24 and note 12 to the financial statements.

(b) Overhaul costs

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

3 SEGMENT INFORMATION

Segment information of the Group is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the airline operations segment comprises the provision of air passenger and air cargo services;

(b) the engineering services segment comprises the provision of aircraft engineering services, including aircraft maintenance, repair and overhaul services;

(c) the airport terminal services segment comprises the provision of ground services, including check-in service, boarding service, premium class lounge service, ramp service, luggage handling service, loading and unloading services, cabin cleaning and transit services; and

(d) the "others" segment comprises the provision of air catering services and other airline-related services. The profit before tax of a segment represents revenue less expenses directly attributable to a segment and the relevant portion of enterprise revenue less expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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 of the Group, are mainly located in Mainland China. An analysis of assets and capital expenditure 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.

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006:

For the Year ended 31 December 2007

	Airline operations	Engineering services	Airport terminal services	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
Sales to external customers	50,028,849	487,710	509,450	304,532	–	51,330,541
Intersegment sales	–	674,123	–	190,758	(864,881)	–
Total revenue	50,028,849	1,161,833	509,450	495,290	(864,881)	51,330,541
PROFIT FROM OPERATIONS						
Segment results	3,695,437	686,601	111,793	205,177	(864,881)	3,834,127
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	5,283,186	700,181	229,601	258,026	(864,881)	5,606,113
Tax						(1,484,613)
Minority interests						107,497
Profit attributable to equity holders of the Company						4,228,997
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						626,645
Total assets						91,056,277
LIABILITIES						
Segment liabilities	(57,141,527)	(827,806)	(608,978)	(890,013)	1,330,985	(58,137,339)
Unallocated liabilities						(1,411,585)
Total liabilities						(59,548,924)

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
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
Decrease in fair value of derivative financial instruments	133,840	–	–	–	–	133,840
Reversal of impairment of accounts receivable	(435)	(884)	–	(92)	–	(1,411)
Recognition of deferred income	76,943	–	–	–	–	76,943

For the Year ended 31 December 2006

	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	43,708,683	481,021	496,741	250,161	–	44,936,606
Intersegment sales	–	620,302	–	186,000	(806,302)	–
Total revenue	43,708,683	1,101,323	496,741	436,161	(806,302)	44,936,606
PROFIT FROM OPERATIONS						
Segment results	2,281,754	655,137	175,445	211,670	(806,302)	2,517,704
Finance revenue	1,161,287	9,456	–	7,128	–	1,177,871
Finance costs	(1,863,002)	(11,606)	–	(1,879)	–	(1,876,487)
Gain on disposal of an associate	1,592,633	–	–	–	–	1,592,633
Share of profits and losses of associates	365,639	4,797	135,169	11,895	–	517,500
Profit before tax	3,538,311	657,784	310,614	228,814	(806,302)	3,929,221
Tax						(624,124)
Minority interests						(617,256)
Profit attributable to equity holders of the Company						2,687,841
ASSETS						
Segment assets	72,975,757	1,239,259	306,758	1,182,531	(1,546,400)	74,157,905
Interests in associates	8,663,367	112,336	170,115	309,656	–	9,255,474
Unallocated assets						1,064,157
Total assets						84,477,536
LIABILITIES						
Segment liabilities	(51,130,149)	(639,936)	(475,015)	(994,935)	1,546,400	(51,693,635)
Unallocated liabilities						(1,048,208)
Total liabilities						(52,741,843)

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft and related equipment)	16,440,786	89,754	27,521	28,191	–	16,586,252
Depreciation of property, plant and equipment	5,168,367	41,834	56,088	7,744	–	5,274,033
Amortisation of lease prepayments	21,495	–	–	–	–	21,495
Impairment loss on available-for-sale investments	–	–	–	15,562	–	15,562
Decrease in fair value of derivative financial instruments	268,041	–	–	–	–	268,041
Impairment/(reversal of impairment) of accounts receivable	3,536	(3,579)	–	(1,859)	–	(1,902)
Recognition of deferred income	76,943	–	–	–	–	76,943

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the years ended 31 December 2007 and 2006:

Year ended 31 December 2007

	Mainland China	Hong Kong and Macau	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers and total revenue	27,702,479	2,848,675	7,616,370	4,678,276	4,475,578	4,009,163	51,330,541

Year ended 31 December 2006

	Mainland China	Hong Kong and Macau	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers and total revenue	23,868,328	2,770,579	6,203,536	3,806,678	4,256,753	4,030,732	44,936,606

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 during the year is as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Passenger	43,632,090	37,564,903
Cargo and mail	4,085,456	4,041,227
	47,717,546	41,606,130

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 years ended 31 December 2007 amounted to approximately RMB1,224 million (2006: RMB1,039 million).

5 OTHER OPERATING REVENUE

	Group 2007 *RMB'000*	2006 *RMB'000*
Bellyhold income from a joint venture *(note 50)*	1,579,185	1,518,925
Aircraft engineering income	487,710	481,021
Ground service income	509,450	496,741
Air catering income	162,886	136,581
Government grants:		
Recognition of deferred income *(note 39)*	76,943	76,943
Others	131,136	124,420
Service charges on return of unused flight tickets	152,107	110,825
Cargo handling service income	62,466	63,938
Sale of materials	12,648	15,055
Import and export service income	7,850	10,676
Training service income	20,837	17,839
Aircraft and related equipment lease income	12,688	1,323
Gain on disposal of property, plant and equipment, net	165,311	17,353
Others	231,778	258,836
	3,612,995	3,330,476

6 EMPLOYEE COMPENSATION COSTS

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

	Group 2007 *RMB'000*	2006 *RMB'000*
Wages, salaries and social security costs	4,817,539	4,037,553
Retirement benefit costs *(note 11)*	368,241	276,330
Share-based benefits *(note 43)*	23,986	–
	5,209,766	4,313,883

7 PROFIT FROM OPERATIONS

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

	Group 2007 *RMB'000*	2006 *RMB'000*
Auditors' remuneration	14,261	10,658
Depreciation *(note 16)*	5,554,443	5,274,033
Gains on disposal of property, plant and equipment, net	(165,311)	(17,353)
Loss on derecognition of property, plant and equipment	37,138	70,206
Amortisation of lease prepayments *(note 17)*	22,478	21,495
Minimum lease payments under operating leases:		
Aircraft and engines	2,239,359	2,069,639
Land, buildings and others	311,262	323,752
Impairment loss on available-for-sale investments	4,481	15,562
Impairment loss on aircraft held for sale *(note 25)*	142,800	–
Reversal of impairment of accounts receivable	(1,411)	(1,902)

8 FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Exchange gains, net	2,030,391	983,692
Interest income	110,013	80,689
Gains on fuel derivatives, net	235,944	113,225
Dividend income from available-for-sale investments	224	265
	2,376,572	1,177,871

Finance costs

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Interest on bank loans, other loans and corporate bonds	1,572,793	1,380,781
Interest on finance leases	650,613	601,153
Total interest	2,223,406	1,981,934
Less: Interest capitalised	(254,080)	(105,447)
	1,969,326	1,876,487

The interest capitalisation rates ranging from 4.5% to 5.9% (2006: 4.5% to 6.0%) per annum represent the cost of related borrowings during the year.

9 GAIN ON DISPOSAL OF AN ASSOCIATE

The gain on disposal of an associate in 2006 relates to the sale of the Group's equity interest in Dragonair to Cathay.

10 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Fees	200	179
Basic salaries, housing benefits, other allowances and benefits in kind	1,289	4,561
Discretionary bonuses	1,795	1,674
Retirement benefits	105	94
	3,389	6,508

	Fees *RMB'000*	Basic salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement benefits *RMB'000*	Total *RMB'000*
Year ended 31 December 2007					
Directors					
Li Jiaxiang	–	–	–	–	–
Kong Dong	–	196	–	–	196
Wang Shixiang	–	–	–	–	–
Yao Weiting	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Chen Nan Lok Philip	–	–	–	–	–
Ma Xulun	–	250	552	21	823
Cai Jianjiang	–	250	552	21	823
Fan Cheng	–	228	497	21	746
Hu Hung Lick, Henry	50	15	–	–	65
Wu Zhipan	50	–	–	–	50
Zhang Ke	50	–	–	–	50
Jia Kang	50	–	–	–	50
	200	939	1,601	63	2,803
Supervisors					
Zhang Xianlin	–	163	–	–	163
Sun Yude	–	–	–	–	–
Liao Wei	–	–	–	–	–
Zhang Huilan	–	–	–	–	–
Zhou Guoyou	–	–	–	–	–
Liu Feng	–	115	137	21	273
Liu Guoqing	–	72	57	21	150
	–	350	194	42	586
	200	1,289	1,795	105	3,389

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006					
Directors					
Li Jiaxiang	–	–	–	–	–
Kong Dong	–	2,095	–	–	2,095
Wang Shixiang	–	–	–	–	–
Yao Weiting	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Ma Xulun	–	121	543	19	683
Cai Jianjiang	–	121	504	19	644
Fan Cheng	–	113	441	19	573
Hu Hung Lick, Henry	50	138	–	–	188
Wu Zhipan	50	–	–	–	50
Zhang Ke	50	–	–	–	50
Jia Kang	29	–	–	–	29
	179	2,588	1,488	57	4,312
Supervisors					
Zhang Xianlin	–	1,739	–	–	1,739
Liao Wei	–	–	–	–	–
Zhang Huilan	–	–	–	–	–
Liu Feng	–	157	141	19	317
Liu Guoqing	–	77	45	18	140
	–	1,973	186	37	2,196
	179	4,561	1,674	94	6,508

Fees of RMB200,000 (2006: RMB179,000) were paid or payable to the Company's Independent Non- Executive Directors during the year. Except for allowances of RMB15,000 (2006: RMB138,000) paid to Dr. Hu Hung Lick, Henry, there were no other emolument payable to other Independent Non-Executive Directors during the year.

In addition to the above, certain Directors have been granted SARs in respect of their services to the Group, further details of which are set out in note 43 to the financial statements. The fair value of these SARs recognised in the income statement for the year ended 31 December 2007 was RMB3,339,000.

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

	Group 2007 *Number of individuals*	Group 2006 *Number of individuals*
Directors	1	1
Supervisor	–	1
Employees	4	3

The emoluments paid to the four (2006: three) non-director, non-supervisor highest paid employees are as follows:

	Group 2007 *RMB'000*	Group 2006 *RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	4,688	4,274
Retirement benefits *(note 6)*	54	428
	4,742	4,702

The number of these four (2006: three) non-director, non-supervisor highest paid employees whose remuneration for the year fell within the following bands:

	Group 2007 *Number of individuals*	Group 2006 *Number of individuals*
HK$1,000,001 to HK$1,500,000 (equivalent to 2007: RMB970,551 to RMB1,455,825; 2006: RMB1,022,501 to RMB1,533,750)	1	2
HK$1,500,001 to HK$2,000,000 (equivalent to 2007: RMB1,455,826 to RMB1,941,100; 2006: RMB1,533,751 to RMB2,045,000)	3	1
	4	3

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year (2006: Nil).

11 RETIREMENT BENEFIT COSTS

All of the Group's full-time employees in Mainland China are covered by a government-regulated defined contribution retirement scheme, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated defined contribution retirement scheme at rates ranging from 15% to 20% (2006: 15% to 20%) of the employees' basic salaries during the year and has no further obligation for post-retirement benefits in respect of the above. The related pension costs are expensed as incurred. Contributions to other defined contribution retirement schemes operated by the Group are charged to the income statement in the year which the contributions relate to.

The Group also implements an early retirement plan for certain employees in addition to the benefits under the government-regulated defined contribution retirement scheme described above. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of services from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employees. The costs of early retirement benefits are recognised in the period when employees opt for early retirement. Where the effect of discounting is material, the amount recognised for early retirement benefits is the present value at the balance sheet date of the future cash flows expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Contributions to defined contribution retirement scheme	332,411	264,274
Early retirement benefit	35,830	12,056
Total retirement benefit costs *(note 6)*	368,241	276,330

No forfeited contributions were utilised during the year (2006: RMB1,407,000). As at 31 December 2007, no forfeited contributions were available to reduce its contributions to the defined contribution retirement schemes operated by the Group in future years (2006: RMB164,000).

12 TAX

According to the Enterprise Income Tax Law in Mainland China (the "Old CIT Law"), the Company, its subsidiaries, joint ventures and associates established in Mainland China are subject to enterprise income tax at rates ranging from 12% to 33% (2006: 12% to 33%) on their taxable income.

Hong Kong profits tax has been provided at a rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

In accordance with the Old CIT Law and 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 enterprise income tax rate of 24% and was fully exempted from state enterprise income tax for the year ended 31 December 2005, followed by a 3-year 50% reduction in state enterprise 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 4-year local enterprise income tax exemption during the period between 1 January 2005 and 31 December 2008, followed by a 5-year 50% reduction in local enterprise 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 People's Republic of China 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 corporate income tax rate for both domestic enterprises and foreign-invested enterprises at 25%. The New CIT Law also lays down principles for transitional arrangements relating to tax incentives (reduced tax and tax holidays) enjoyed by enterprises under the Old CIT Law. Therefore, deferred tax assets and liabilities of the Group are measured at the 25% tax rate or other applicable tax rates that are expected to apply to annual periods beginning on or after 1 January 2008 when the deferred tax asset is realised or the deferred tax liability is settled.

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

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Current income tax – Mainland China	1,260,855	675,975
Deferred income tax – origination and reversal of temporary differences *(note 24)*	223,758	(51,851)
Income tax charge for the year	1,484,613	624,124

The share of tax attributable to associates amounting to RMB193,915,329 (2006: RMB113,577,000) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate in Mainland China to income tax expense at the Group's effective income tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

	Group			
	2007		**2006**	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	5,606,113		3,929,221	
At statutory income tax rate of 33%	1,850,017	33.0	1,296,643	33.0
Tax effect of share of profits and losses of associates, net	(450,364)	(8.0)	(170,775)	(4.3)
Lower income tax rates of other territories	54,074	0.9	(20,718)	(0.5)
Income not subject to tax	(27,716)	(0.5)	(614,323)	(15.6)
Expenses not deductible for tax purposes	(27,247)	(0.5)	125,004	3.2
Tax losses not recognised	8,844	0.2	8,293	0.2
Effect on opening deferred income tax due to a decrease in income tax rates	77,005	1.4	–	–
At the Group's effective income tax rate	1,484,613	26.5	624,124	16.0

As at 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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.

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2007 includes a profit of approximately RMB3,097 million (2006: RMB1,226 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB91 million (2006: RMB39 million) from the Company's profit of approximately RMB3,188 million (2006: RMB1,265 million) that has been dealt with in the financial statements of the Company (note 42).

14 APPROPRIATIONS

	Company 2007	2006
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.684 (2006: RMB0.492) per 10 shares	837,987	602,767

(a) The proposed final dividend of RMB0.684 (2006: RMB0.492) per 10 shares for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

(b) Under the Company Law and the Company's articles of association in Mainland China, 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 China Accounting Standards ("CAS"). 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) in the prior year, allocations of 5% to 10% of after-tax profit, as determined under Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises, to the Company's statutory public welfare fund. Pursuant to the relevant PRC regulations, the appropriation of public welfare fund was discontinued with effect from 1 January 2006. The balance brought forward from prior years was then transferred to the statutory common reserve; and

(iv) 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 dividend payment is based on the lesser of (i) the profit determined in accordance with CAS; and (ii) the profit determined in accordance with IFRSs.

15 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB4,229 million, 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 Cathay through reciprocal shareholding.

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2006 of approximately RMB2,688 million, and the weighted average number of 10,256,259,793 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay through reciprocal shareholding.

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not been disclosed because no diluting events existed during both years.

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Transportatio n equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
As at 1 January 2006, net of accumulated depreciation	41,767,629	2,572,551	982,540	318,936	122,985	1,426,087	47,190,728
Additions	10,507,612	20,333	96,578	117,456	54,354	2,453,470	13,249,803
Disposals	(335,251)	(30,208)	(12,416)	(10,393)	(2,336)	–	(390,604)
Transfer from construction in progress	1,241,246	222,893	65,434	131,257	296	(1,661,126)	–
Depreciation charge for the year	(4,837,545)	(125,234)	(176,362)	(92,940)	(41,952)	–	(5,274,033)
Exchange adjustment	(5,846)	(1,608)	–	(776)	–	–	(8,230)
As at 31 December 2006 and 1 January 2007, net of accumulated depreciation	48,337,845	2,658,727	955,774	463,540	133,347	2,218,431	54,767,664
Additions	9,231,312	6,036	112,445	172,058	60,635	3,711,578	13,294,064
Disposals	(383,744)	(74,636)	(2,941)	(6,038)	(811)	–	(468,170)
Transfer from construction in progress	1,964,974	239,364	86,429	91,694	1,070	(2,383,531)	–
Reclassified to current assets held for sale *(note 25)*	(327,528)	–	–	–	–	–	(327,528)
Depreciation charge for the year	(5,058,427)	(125,237)	(193,679)	(132,714)	(44,386)	–	(5,554,443)
Exchange adjustment	(13,269)	(4,574)	–	(2,071)	–	–	(19,914)
As at 31 December 2007, net of accumulated depreciation	53,751,163	2,699,680	958,028	586,469	149,855	3,546,478	61,691,673
As at 31 December 2006 and 1 January 2007							
Cost	81,308,583	3,873,170	2,310,773	1,265,628	318,382	2,218,431	91,294,967
Accumulated depreciation	(32,970,738)	(1,214,443)	(1,354,999)	(802,088)	(185,035)	–	(36,527,303)
Net book value	48,337,845	2,658,727	955,774	463,540	133,347	2,218,431	54,767,664
As at 31 December 2007							
Cost	89,419,255	4,007,940	2,493,040	1,489,509	374,775	3,546,478	101,330,997
Accumulated depreciation	(35,668,092)	(1,308,260)	(1,535,012)	(903,040)	(224,920)	–	(39,639,324)
Net book value	53,751,163	2,699,680	958,028	586,469	149,855	3,546,478	61,691,673

Company

	Aircraft and flight equipment *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Transportation equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
As at 1 January 2006, net of accumulated depreciation	40,608,439	1,951,581	779,068	203,944	96,215	1,386,216	45,025,463
Additions	9,792,550	12,631	60,439	82,326	43,139	2,358,575	12,349,660
Disposals	(328,114)	(27,310)	(3,134)	(3,303)	(2,133)	–	(363,994)
Transfer from construction in progress	1,231,652	168,976	57,168	122,504	296	(1,580,596)	–
Depreciation charge for the year	(4,664,092)	(90,451)	(137,759)	(62,901)	(34,051)	–	(4,989,254)
As at 31 December 2006 and 1 January 2007, net of accumulated depreciation	46,640,435	2,015,427	755,782	342,570	103,466	2,164,195	52,021,875
Additions	9,176,250	–	67,933	135,469	46,700	3,401,865	12,828,217
Disposals	(337,853)	(9,735)	(736)	(2,459)	(292)	–	(351,075)
Transfer from construction in progress	1,964,974	234,732	81,927	91,694	1,070	(2,374,397)	–
Depreciation charge for the year	(4,843,730)	(93,745)	(160,706)	(107,665)	(34,252)	–	(5,240,098)
As at 31 December 2007, net of accumulated depreciation	52,600,076	2,146,679	744,200	459,609	116,692	3,191,663	59,258,919
As at 31 December 2006 and 1 January 2007							
Cost	77,931,225	2,961,806	1,749,995	993,787	205,304	2,164,195	86,006,312
Accumulated depreciation	(31,290,790)	(946,379)	(994,213)	(651,217)	(101,838)	–	(33,984,437)
Net book value	46,640,435	2,015,427	755,782	342,570	103,466	2,164,195	52,021,875
As at 31 December 2007							
Cost	88,146,626	3,183,536	1,891,739	1,193,658	250,943	3,191,663	97,858,165
Accumulated depreciation	(35,546,550)	(1,036,857)	(1,147,539)	(734,049)	(134,251)	–	(38,599,246)
Net book value	52,600,076	2,146,679	744,200	459,609	116,692	3,191,663	59,258,919

As at 31 December 2007, certain of the Group's aircraft and buildings with an aggregate net book value of approximately RMB12,255 million (2006: RMB17,625 million) were pledged to secure certain bank loans of the Group (note 36(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to RMB21,948 million (2006: RMB16,589 million) (note 35(a)).

As at 31 December 2007, 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 RMB114 million (2006: RMB131 million) transferred from Air China International Corporation, the predecessor of the Company, upon incorporation. The Group was also in the process of applying for title certificates of certain buildings acquired by the Group after incorporation with an aggregate net book value of approximately RMB384 million (2006: RMB178 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. The Directors of the Company are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2007.

17 LEASE PREPAYMENTS

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
As at 1 January	1,056,558	1,096,715	1,034,219	1,076,850
Additions	61,969	57,334	5,162	54,860
Disposal	(7,302)	(97,491)	(7,302)	(97,491)
As at 31 December	1,111,225	1,056,558	1,032,079	1,034,219
Accumulated amortisation				
As at 1 January	(43,029)	(24,649)	(42,335)	(24,357)
Amortisation for the year	(22,478)	(21,495)	(20,343)	(21,093)
Disposal	324	3,115	324	3,115
As at 31 December	(65,183)	(43,029)	(62,354)	(42,335)
Net book value				
As at 31 December	1,046,042	1,013,529	969,725	991,884

As at 31 December 2007, certain of the Group's land use rights, which are accounted for as lease prepayments in the Group's consolidated financial statements, with an aggregate net book value of approximately RMB37 million (2006: RMB37 million) were pledged to secure certain of the Group's bank loans (note 36(a)).

As at 31 December 2007, 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 RMB5 million (2006: RMB51 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. The Directors of the Company are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2007.

18 INTANGIBLE ASSET

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Addition during the year and balance as at 31 December	75,194	–	75,194	–

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

19 INTERESTS IN SUBSIDIARIES

	Company	
	2007	**2006**
	RMB'000	*RMB'000*
Listed shares in Hong Kong, at cost	–	579,472
Unlisted investments, at cost	9,205,299	5,600,895
Due from subsidiaries	65,367	55,080
Due to subsidiaries	(451,419)	(499,087)
	8,819,247	5,736,360
Market value of listed shares	–	6,325,255

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

Particulars of the principal subsidiaries at 31 December 2007 are as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
			(in thousands)	*(%)*	*(%)*	
CNAC (中航興業有限公司)	Hong Kong	Limited liability company	HK$331,268	69	31	Investment holding
Air Macau Company Limited ("Air Macau") (澳門航空股份有限公司)	Macau	Limited liability company	MOP400,000	–	51	Airline operator
Air China Group Import and Export Trading Co. ("AIE") (國航集團進出口貿易公司)	PRC/Mainland China	Limited liability company	RMB95,081	100	–	Import and export trading
Zhejiang Air Services Co., Ltd.# (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000	100	–	Provision of airline catering and shuttle bus services
Air China Shantou Industrial Development Company (中國國際航空汕頭實業發展公司)	PRC/Mainland China	Limited liability company	RMB18,000	51	–	Manufacture and retail of aircraft supplies
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379	95	–	Provision of air ticketing services
Shanghai Air China Aviation Service Co., Ltd.# (formerly "Shanghai Air China Base Development Center") (上海國航航空服務有限公司,前稱「上海國航基地開發中心」)	PRC/Mainland China	Limited liability company	RMB2,000	100	–	Provision of ground handling service, air passenger, cargo and consultancy services
Total Transform Group Limited (國航海外控股有限公司)	British Virgin Islands/Hong Kong	Limited liability company	HK$8,427,047	99.9	0.1	Investment holding
Angel Paradise Limited	British Virgin Islands/Hong Kong	Limited liability company	US$10	–	100	Investment holding

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2007 or formed a substantial portion of the net assets of the Group at 31 December 2007. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

20 INTERESTS IN JOINT VENTURES

	Company 2007 RMB'000	Company 2006 RMB'000
Unlisted investments, at cost	1,403,788	1,403,788

Particulars of the joint ventures of the Group at 31 December 2007 are as follows:

Company name	Nominal value of paid-up capital *(in thousands)*	Place of incorporation/ registration and operations	Percentage of (%) Ownership interest	Voting power	Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司)	US$162,533	PRC/Mainland China	60	57.1	60	Provision of aircraft overhaul and maintenance services
Air China Cargo (中國國際貨運航空有限公司)	RMB2,200,000	PRC/Mainland China	51	55.6	51	Provision of cargo carriage services
Beijing Air Catering Co., Ltd.* (北京航空食品有限公司)	US$26,000	PRC/Mainland China	60	60	60	Provision of airline catering services
Southwest Air Catering Co., Ltd.* (西南航空食品有限公司)	RMB70,000	PRC/Mainland China	60	60	60	Provision of airline catering services
Macau Asia Express Ltd.*	MOP100,000	Macau	68	68	68	Airline Operator
SkyWork Capital Asia Ltd.*	HK0.03	Hong Kong	33	33	33	Provision of financial services

* The equity interest of these joint ventures are held indirectly through certain subsidiaries of the Company.

As at the balance sheet date and for the two years ended 31 December 2007, the Group's proportionate share of the assets, liabilities, and the Group's proportionate share of the revenue and expenses of the joint ventures are as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Current assets	1,489,241	1,647,132
Non-current assets	2,618,253	2,835,754
Total assets	4,107,494	4,482,886
Current liabilities	(1,393,529)	(1,546,322)
Non-current liabilities	(762,336)	(571,646)
Net assets attributable to the Group	1,951,629	2,364,918
Revenue	4,977,977	5,001,632
Operating expenses	(5,169,310)	(4,798,109)
Finance revenue	58,037	25,876
Finance costs	(48,898)	(44,121)
Profit/(loss) before tax	(182,194)	185,278
Tax	(30,245)	(80,541)
Profit/(loss) attributable to the Group	(212,439)	104,737

21 INTERESTS IN ASSOCIATES

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed shares in Mainland China, at cost	–	–	163,477	163,477
Unlisted investments, at cost	–	–	847,982	717,523
Share of net assets	7,854,720	7,569,781	–	–
Goodwill	1,627,888	1,630,205	–	–
Due from associates	183,224	144,914	40,555	21,784
Due to associates	(123,155)	(89,426)	(118,768)	(105,818)
	9,542,677	9,255,474	933,246	796,966
Market value of listed shares			640,224	185,136

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

As at 31 December 2007, certain number of listed shares in an associate of the Group with an aggregate market value of approximately RMB7,609 million (2006: RMB7,695 million) were pledged to secure certain bank loans of the Group (note 36(b)).

As at 31 December 2007, the Group was in the process of completing the registration of its equity interests in certain associates with an aggregate investment cost of approximately RMB200 million (2006: RMB96 million) and carrying amount of approximately RMB564 million (2006: RMB395 million) transferred from Air China International Corporation upon incorporation. The Directors of the Company are of the view that the aforesaid matter did not have any significant impact on the Group's ownership in those equity interests and hence the Group's financial position as at 31 December 2007.

Particulars of the principal associates as at 31 December 2007 are as follows:

Company name	**Place of incorporation/ registration and operations**	**Nominal value of registered/ issued share capital**	**Percentage of equity interests attributable to the Group** *(%)*	**Principal activities**
Cathay*# (國泰航空有限公司)	Hong Kong	HK$787,139,514	17.5	Airline operator
Shenzhen Airlines Co., Ltd.# (深圳航空有限責任公司)	PRC/Mainland China	RMB300,000,000	25	Airline operator
Shandong Aviation Group Corporation ("Shandong Aviation") (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd. ("Shandong Airlines") (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
Sichuan SNECMA Aeroengine Maintenance Co., Ltd. ("SNECMA") (四川斯拉克瑪航空發動機維修有限公司)	PRC/Mainland China	US$31,900,000	43.6	Provision of maintenance and repair service for aircraft engines
Chengdu Falcon Aircraft Engineering Service Co., Ltd. (成都富凱飛機工程服務有限公司)	PRC/Mainland China	RMB16,474,293	35.6	Provision of maintenance and repair service for aircraft engines
Yunnan Airport Aircraft Maintenance Services Co., Ltd. (雲南空港飛機維修服務公司)	PRC/Mainland China	RMB10,000,000	40	Provision of maintenance and repair service
Jardine Airport Services Limited* (怡中航空服務有限公司)	Hong Kong	HK$10,000	50	Provision of airport ground handling service
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	33.7	Provision of airport ground handling service

Company name	Place of incorporation/ registration and operations	Nominal value of registered/ issued share capital	Percentage of equity interests attributable to the Group (%)	Principal activities
Guangzhou Baiyun International Airport Ground Handling Service Company Limited (廣州白雲國際機場地勤服務有限公司)	PRC/Mainland China	RMB100,000,000	21	Provision of airport ground handling service
Sanya World Trade Development Company Limited***## (三亞世貿發展有限公司)	PRC/Mainland China	RMB5,000,000	40	Provision of airport ground handling service
CAAC Cares Chongqing Co., Ltd. (重慶民航凱亞信息技術有限責任公司)	PRC/Mainland China	RMB9,800,000	24.5	Provision of airline-related information system service
Chengdu CAAC Southwest Cares Co., Ltd.## (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB2,000,000	35	Provision of airline-related information system service
Tradeport Hong Kong Limited* (香港商貿港有限公司)	Hong Kong	HK$400	25	Development and operation of a logistics centre
LSG Lufthansa Service Hong Kong Limited ("LSGHK")* (德國漢莎航空膳食服務（香港）有限公司)	Hong Kong	HK$501	20.2	Provision of airline catering services
China National Aviation Finance Co., Ltd. ("CNAF")** (中國航空集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services
Shanghai Guocheng Aviation Travel Services Co., Ltd.## (上海國程航空旅行社有限公司)	PRC/Mainland China	RMB1,000,000	49	Provision of airline tickets services

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

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

*** This associate became dormant during the current year and was in the process of deregistration as at 31 December 2007.

\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the result for the year ended 31 December 2007 or formed a substantial portion at the net assets of the Group at 31 December 2007. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Summarised financial information of the Group's associates is as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Aggregate of associates' financial position:		
Total assets	138,516,852	129,330,489
Total liabilities	(86,527,778)	(79,777,602)
Aggregate of associates' results:		
Revenue	89,211,451	35,150,157
Net profit	7,791,767	2,102,744

Movements of goodwill are as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
As at 1 January	1,630,205	1,444,367
Additions	1,283	1,393,370
Disposal	–	(1,205,390)
Exchange realignment	(3,600)	(2,142)
As at 31 December	1,627,888	1,630,205

22 LONG TERM RECEIVABLE FROM ULTIMATE HOLDING COMPANY

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

23 AVAILABLE-FOR-SALE INVESTMENTS

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

24 DEFERRED TAX ASSETS/LIABILITIES

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of year	550,222	498,371	495,000	391,000
Charge for the year *(note 12)*	(223,758)	51,851	(235,000)	104,000
Balance at end of year	326,464	550,222	260,000	495,000

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax liabilities: Accelerated depreciation for tax purposes	(299,181)	(455,935)	(285,690)	(444,633)
Other deferred tax liabilities	(1,000)	(58,000)	(1,000)	(58,000)
Gross deferred tax liabilities	(300,181)	(513,935)	(286,690)	(502,633)
Deferred tax assets:				
Additional tax deduction on revaluation surplus arising from the Restructuring	148,790	351,946	105,329	312,946
Provisions and accruals	362,620	507,309	339,361	495,687
Losses available for offset against future taxable income	13,235	15,902	–	–
Other deferred tax assets	102,000	189,000	102,000	189,000
Gross deferred tax assets	626,645	1,064,157	546,690	997,633
Net deferred tax assets	326,464	550,222	260,000	495,000

There was no material unprovided deferred tax during the year (2006: Nil).

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

25 AIRCRAFT HELD FOR SALE

	Group 2007 RMB'000	Group 2006 RMB'000
Reclassified from property, plant and equipment during the year end at 31 December 2007 *(note 16)*	327,528	–
Impairment *(note 7)*	(142,800)	–
	184,728	–

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

26 INVENTORIES

An analysis of the inventories as at the balance sheet date is as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Flight equipment spare parts	932,517	894,678	658,955	612,457
Work in progress	179,302	88,419	6,034	1,499
Catering supplies	30,231	32,169	24,882	26,932
	1,142,050	1,015,266	689,871	640,888

27 ACCOUNTS RECEIVABLE

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	2,839,785	2,882,143	2,362,573	2,408,237
Impairment	(45,505)	(46,916)	(36,266)	(36,370)
	2,794,280	2,835,227	2,326,307	2,371,867

The Group normally allows a credit period ranging from 30 to 90 days to its sales agents and other customers. An aged analysis of the accounts receivable as at the balance sheet date, net of provision for impairment, is as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	2,246,288	2,169,345	1,873,381	1,718,214
31 to 60 days	279,497	361,524	244,015	377,219
61 to 90 days	136,078	129,790	157,763	194,719
Over 90 days	132,417	174,568	51,148	81,715
	2,794,280	2,835,227	2,326,307	2,371,867

Included in the accounts receivable as at the balance sheet date is the following amount due from a joint venture:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Joint venture	306,831	332,811	585,703	679,206

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	46,916	48,795	36,370	32,485
Impairment losses recognised	–	4,654	–	3,885
Amount written off as uncollectible	(1,411)	(6,533)	(104)	–
As at 31 December	45,505	46,916	36,266	36,370

As at 31 December 2007, accounts receivable with an aggregate nominal value of RMB15,170,307 (2006: RMB14,430,850) were impaired and fully provided for. The remaining individually impaired accounts receivable relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	1,595,986	1,576,058	1,805,696	1,805,087
Less than 1 month past due	10,417	20,506	10,417	20,506
	1,606,403	1,596,564	1,816,113	1,825,593

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

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

28 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of the prepayments, deposits and other receivables as at the balance sheet date is as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments				
Advances and others	743,946	620,323	604,508	457,736
Manufacturers' credits on aircraft acquisition receivables	55,741	109,296	30,516	48,235
Prepaid aircraft operating lease rentals	195,970	163,059	195,970	163,059
	995,657	892,678	830,994	669,030
Deposits and other receivables				
Receivables from the sale of staff quarters	–	2,269	–	–
Miscellaneous deposits	322,405	182,089	290,614	173,669
	322,405	184,358	290,614	173,669
Total	1,318,062	1,077,036	1,121,608	842,699

29 DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	1,586,380	1,280,406	530,374	394,880
Cash placed with CNAF	387,962	200,242	357,016	129,516
	1,974,342	1,480,648	887,390	524,396
Time deposits placed with banks	2,050,802	3,890,037	463,983	2,478,176
Less: Pledged deposits against:				
Bank loans *(note 36(c))*	–	(78,195)	–	(78,195)
Aircraft operating leases and financial derivatives	(118,624)	(133,309)	(2,486)	(2,477)
	(118,624)	(211,504)	(2,486)	(80,672)
Cash and cash equivalents	3,906,520	5,159,181	1,348,887	2,921,900
Less: Non-pledged deposits with maturity of more than three months when acquired	(1,429,179)	(1,570,777)	(22,974)	(421,498)
	2,477,341	3,588,404	1,325,913	2,500,402

As at the balance sheet date, the cash and cash equivalents of the Group denominated in RMB amounted to RMB1,290,571,594 (2006: RMB3,043,395,230). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

30 DUE FROM ULTIMATE HOLDING COMPANY

The amount due from the Company's ultimate holding company for the year mainly arose from transactions as set out in notes 22 and 50 to the financial statements. The amount is unsecured, interest-free and is repayable within one year.

31 BALANCES WITH RELATED COMPANIES

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

32 ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date is as follows:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	4,249,353	3,660,639	3,623,987	3,069,452
31 to 60 days	788,374	869,108	584,583	579,156
61 to 90 days	412,435	304,730	334,575	235,421
Over 90 days	480,638	386,584	307,159	272,249
	5,930,800	5,221,061	4,850,304	4,156,278

Included in the accounts payable as at the balance sheet date is the following amount due to joint ventures:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Joint ventures	141,419	136,455	334,047	316,482

33 BILLS PAYABLE

An aged analysis of the bills payable as at the balance sheet date is as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	–	191,330	–	191,330
Over 90 days	–	460,015	–	419,215
	–	651,345	–	610,545

Included in the bills payable as at the balance sheet date is the following amount due to an associate:

	Group and Company	
	2007	**2006**
	RMB'000	*RMB'000*
CNAF *(note 50(e))*	–	95,733

34 OTHER PAYABLES AND ACCRUALS

An analysis of the other payables and accruals as at the balance sheet date is as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for staff housing benefits	23,038	24,791	17,921	19,401
Accrued salaries, wages and benefits	1,213,017	870,743	1,050,627	706,847
Interest payable	287,886	332,281	286,765	321,630
Custom duties and levies payable	1,066,387	1,309,984	984,649	1,232,679
Current portion of long term payables *(note 38)*	55,155	86,945	55,155	86,945
Current portion of deferred income *(note 39)*	76,944	76,944	76,944	76,944
Deposits received from sales agents	404,796	306,893	291,641	212,353
Accrued operating expenses	725,303	749,202	604,464	674,267
Others	497,755	435,104	295,015	214,731
	4,350,281	4,192,887	3,663,181	3,545,797

35 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2008 to 2017 (2006: 2007 to 2016) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the balance sheet date, together with the present value of the net minimum lease payments which are principally denominated in foreign currencies, are as follows:

	Group and Company			
	Minimum lease payments 2007 *RMB'000*	Present value of minimum lease payments 2007 *RMB'000*	Minimum lease payments 2006 *RMB'000*	Present value of minimum lease payments 2006 *RMB'000*
Amounts repayable:				
Within one year	2,839,608	2,216,680	2,964,933	2,354,905
In the second year	3,372,767	2,821,518	2,492,368	1,996,954
In the third to fifth years, inclusive	6,429,660	5,484,352	7,046,163	6,061,709
Over five years	5,521,634	5,022,323	3,619,853	3,189,192
Total minimum finance lease payments	18,163,669	15,544,873	16,123,317	13,602,760
Less: Amounts representing finance charges	(2,618,796)		(2,520,557)	
Present value of minimum lease payments	15,544,873		13,602,760	
Less: Portion classified as current liabilities	(2,216,680)		(2,354,905)	
Non-current portion	13,328,193		11,247,855	

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

As at 31 December 2007, there were 43 (2006: 32) aircraft under finance lease agreements. Under the terms of the leases, the Company has the option to purchase, at the end of or during the lease terms, certain aircraft at market value and others at either market value or the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from 2.36% to 9.84% (2006: 1.64% to 9.84%).

The Group's and the Company's finance leases were secured by:

(a) mortgages over certain of the Group's and the Company's aircraft, which had an aggregate net book value of approximately RMB21,948 million as at 31 December 2007 (2006: RMB16,589 million) (note 16); and

(b) guarantees by certain commercial banks in an aggregate amount of approximately RMB6,925 million (2006: RMB9,386 million).

As at 31 December 2007, certain PRC state-owned banks have provided counter-guarantees in an aggregate amount of RMB1,274 million (2006: RMB1,910 million) in respect of the above-mentioned commercial bank guarantee arrangements.

36 BANK LOANS, OTHER LOANS AND CORPORATE BONDS

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
Secured	10,086,265	10,419,442	9,551,478	9,791,644
Unsecured	14,283,542	10,328,590	13,869,976	10,040,806
	24,369,807	20,748,032	23,421,454	19,832,450
Other loans:				
Secured	19,613	34,944	19,613	34,944
Unsecured	204,706	58,022	102,490	–
	224,319	92,966	122,103	34,944
Corporate bonds – unsecured	3,000,000	3,000,000	3,000,000	3,000,000
	27,594,126	23,840,998	26,543,557	22,867,394
Bank loans repayable:				
Within one year	10,904,944	11,067,021	10,592,390	10,723,086
In the second year	4,032,991	2,635,719	3,980,463	2,579,565
In the third to fifth years, inclusive	8,038,098	5,574,198	7,726,976	5,405,741
Over five years	1,393,774	1,471,094	1,121,625	1,124,058
	24,369,807	20,748,032	23,421,454	19,832,450
Other loans repayable:				
Within one year	73,891	72,000	13,075	13,978
In the second year	6,538	13,978	6,538	13,978
In the third to fifth years, inclusive	143,890	6,988	102,490	6,988
	224,319	92,966	122,103	34,944
Corporate bonds – over five years	3,000,000	3,000,000	3,000,000	3,000,000
Total bank loans, other loans and corporate bonds	27,594,126	23,840,998	26,543,557	22,867,394
Less: Portion classified as current liabilities	(10,978,835)	(11,139,021)	(10,605,465)	(10,737,064)
Non-current portion	16,615,291	12,701,977	15,938,092	12,130,330

Further details of the bank loans, other loans and corporate bonds at the balance sheet date are as follows:

Nature	Interest rate and final maturity	Group		Company	
		2007	**2006**	**2007**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB denominated loans and corporate bonds:					
Loans for purchases of aircraft and related equipment	Floating interest rates ranging from 6.08% to 6.64% and 5.18% to 5.75% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2016	2,007,520	2,844,000	2,007,520	2,844,000
Loans for construction in process	Fixed interest rate of 5.51% per annum as at 31 December 2007 with maturities up to 2010	40,000	–	40,000	–
Loans for construction in process	Floating interest rate ranging from 5.67% to 6.80% per annum as at 31 December 2007, with maturities up to 2012	617,030	–	344,690	–
Loans for working capital	Fixed interest rates ranging from 4.23% to 5.43% and 3.70% to 5.81% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2010	1,743,000	2,817,934	1,730,000	2,730,000
Loans for working capital	Floating interest rates ranging from 5.43% to 5.83% and 5.42% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2009	232,480	335,230	223,480	335,230
Corporate bonds for purchases of aircraft and related equipment	Fixed interest rate of 4.50% per annum as at 31 December 2007 and 2006, with maturity in September 2015	3,000,000	3,000,000	3,000,000	3,000,000
		7,640,030	8,997,164	7,345,690	8,909,230
United States dollars denominated loans:					
Loans for purchases of aircraft and related equipment	Fixed interest rates ranging from 5.34% to 8.28% and 5.40% to 8.33% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2012	3,321,072	4,519,846	3,321,072	4,519,846
Loans for purchases of aircraft and related equipment	Floating interest rate of six months LIBOR+0.40% to 0.70% per annum as at 31 December 2007 and 2006 with maturities up to 2018	5,101,110	2,629,310	4,566,324	2,001,510

Nature	Interest rate and final maturity	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Loans for working capital	Floating interest rate of six months LIBOR+0.27% to 0.50% and LIBOR+0.40% to 0.70% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2010	8,220,550	6,372,630	8,013,146	6,129,830
		16,642,732	13,521,786	15,900,542	12,651,186
Hong Kong dollars denominated loans:					
Loans for working capital	Floating interest rate of three months HIBOR+1.15% per annum as at 31 December 2007 and 2006 with maturities up to 2008	14,039	15,070	–	–
Loans for capital investment	Floating interest rate of three months HIBOR+0.45% per annum as at 31 December 2007 and 2006 with maturities up to 2013	3,015,208	1,208,654	3,015,208	1,208,654
		3,029,247	1,223,724	3,015,208	1,208,654
Euros denominated loans:					
Loans for purchase of related equipment	Fixed interest rates of 3.88% and 4.38% per annum as at 31 December 2007 and 2006, respectively, with maturities up to 2013	282,117	98,324	282,117	98,324
		282,117	98,324	282,117	98,324
		27,594,126	23,840,998	26,543,557	22,867,394
Less: Loans falling due within one year and classified as current liabilities		(10,978,835)	(11,139,021)	(10,605,465)	(10,737,064)
Non-current portion		16,615,291	12,701,977	15,938,092	12,130,330

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

The Group's and the Company's bank and other loans of approximately RMB13,106 million as at 31 December 2007 (2006: RMB13,454 million) were secured or guaranteed by:

(a) mortgages over certain of the Group's aircraft and buildings with an aggregate net book value of approximately RMB12,255 million as at 31 December 2007 (2006: RMB17,625 million) (note 16); and land use rights with an aggregate carrying amount of approximately RMB37 million as at 31 December 2007 (2006: RMB37 million) (note 17);

(b) pledge of certain number of listed shares in an associate of the Group with an aggregate market value of approximately RMB7,609 million as at 31 December 2007 (2006: RMB7,695 million) (note 21);

(c) pledge of certain of the Group's bank deposits amounting to approximately RMB78 million as at 31 December 2006 (note 29); and

(d) guarantees by certain commercial banks amounting to approximately RMB3,896 million as at 31 December 2007 (2006: RMB8,281 million).

As at 31 December 2007, certain PRC state-owned banks provided counter-guarantees in an aggregate amount of approximately RMB2,872 million (2006: RMB3,811 million) to one of the above-mentioned commercial banks.

37 PROVISION FOR MAJOR OVERHAULS

Details of the movements of provision for major overhauls in respect of aircraft and engines under operating leases for each of the two years ended 31 December 2007 and 2006 are as follows:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	969,247	654,439	744,146	493,292
Provision for the year	800,463	654,572	588,858	521,032
Utilised during the year	(495,388)	(339,764)	(308,291)	(270,178)
At end of year	1,274,322	969,247	1,024,713	744,146
Less: Portion classified as current liabilities	(83,907)	(47,318)	(83,907)	(47,318)
Non-current portion	1,190,415	921,929	940,806	696,828

38 LONG TERM PAYABLES

Long term payables mainly represent customs duties and value-added tax payable due after one year in respect of the acquisition of aircraft and related equipment under finance leases. The customs duties and value-added tax are payable upon repayment of the corresponding finance lease instalments. Set out below are details of the customs duties and value-added tax payable further analysed into non-current and current portions:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Customs duties and value-added tax payable	213,205	305,250	213,205	305,250
Others	31,955	34,286	–	–
	245,160	339,536	213,205	305,250
Less: Portion classified as current liabilities *(note 34)*	(55,155)	(86,945)	(55,155)	(86,945)
Non-current portion	190,005	252,591	158,050	218,305

39 DEFERRED INCOME

In 2000, the Group acquired an aircraft which was funded by the PRC government, and a further aircraft was injected into the Group by the PRC government during 2004. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the Group recorded these aircraft purchased in 2000 and received in 2004 as property, plant and equipment with the corresponding amounts of government grants recorded as deferred income at the respective dates of the delivery of the aircraft. As such, the government subsidies in relation to the aforesaid aircraft purchased in 2000 and the aircraft received in 2004 are recorded in deferred income of the Group in 2000 and 2004, respectively. The deferred income is recognised as income over the expected useful lives of the relevant aircraft on the straight-line basis.

The movements of deferred income as stated under current and non-current liabilities are as follows:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income:				
At beginning of year and end of year	1,462,667	1,462,667	1,462,667	1,462,667
Accumulated income recognised as other operating revenue:				
At beginning of year	(436,757)	(359,814)	(436,757)	(359,814)
Credit during the year *(note 5)*	(76,943)	(76,943)	(76,943)	(76,943)
At end of year	(513,700)	(436,757)	(513,700)	(436,757)
Net carrying amounts	948,967	1,025,910	948,967	1,025,910
Less: Portion classified as current liabilities *(note 34)*	(76,944)	(76,944)	(76,944)	(76,944)
Non-current portion	872,023	948,966	872,023	948,966

40 SHARE CAPITAL

	Number of shares 2007	Nominal value 2007 *RMB'000*	Number of shares 2006	Nominal value 2006 *RMB'000*
Registered, issued and fully paid:				
State legal person shares of RMB1.00 each	4,826,195,989	4,826,196	4,826,195,989	4,826,196
Non-H foreign shares of RMB1.00 each	1,380,482,920	1,380,483	1,380,482,920	1,380,483
H shares of RMB1.00 each	4,405,683,364	4,405,683	4,405,683,364	4,405,683
A shares of RMB1.00 each	1,639,000,000	1,639,000	1,639,000,000	1,639,000
	12,251,362,273	12,251,362	12,251,362,273	12,251,362

A summary of the movements in the Company's issued share capital for the years ended 31 December 2007 and 31 December 2006 is as follows:

	Number of shares	Nominal value *RMB'000*
As at 1 January 2006	9,433,210,909	9,433,211
Public offer of A shares	1,639,000,000	1,639,000
Placement of H shares to Cathay	1,179,151,364	1,179,151
As at 31 December 2006, 1 January 2007 and 31 December 2007	12,251,362,273	12,251,362

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

41 TREASURY SHARES

As at 31 December 2007, the Group owned a 17.5% equity interest in Cathay, which in turn owned a 17.64% equity interest in the Company. Accordingly, the 17.5% of Cathay's shareholding in the Company should be recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

42 RESERVES

Group

The amounts of the Group's reserves and the movements therein for each of the two years ended 31 December 2007 are presented in the consolidated statement of changes in equity.

Company

	Capital reserve *RMB'000*	Reserve funds *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at I January 2006	5,212,261	304,816	2,470,607	7,987,684
Profit for the year	–	–	1,265,074	1,265,074
Proposed final 2006 dividend *(note 14(a))*	–	–	(602,767)	(602,767)
Transfer to reserve funds *(note 14(b))*	–	402,206	(402,206)	–
Issue of new shares	5,897,294	–	–	5,897,294
Share issue expenses	(145,097)	–	–	(145,097)
As at 31 December 2006 and 1 January 2007	10,964,458	707,022	2,730,708	14,402,188
Profit for the year	–	–	3,187,993	3,187,993
Proposed final 2007 dividend *(note 14(a))*	–	–	(837,987)	(837,987)
Transfer to reserve funds *(note 14(b))*	–	582,602	(582,602)	–
As at 31 December 2007	10,964,458	1,289,624	4,498,112	16,752,194

43 SHARE APPRECIATION RIGHTS

The Company has adopted a share appreciation rights arrangement (the "Plan") which was approved by the shareholders on 18 October 2004 for the purpose of motivating its employees. The Plan provides for the grant of SARs to eligible participants, including the Company's Directors (excluding independent non-executive Directors), supervisors (excluding independent supervisors), 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 31 December 2007, all SARs granted remained unexercised.

As at 31 December 2007, the fair value of the SARs granted during the year was RMB23,986,200, of which the Group recognised as employee compensation expense (note 6) during the year then ended.

The fair value of the SARs was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the SARs were granted. The following table lists the inputs to the model used:

Dividend yield *(%)*	0.64%
Expected volatility *(%)*	45.96%
Risk-free interest rate *(%)*	3.75%
Expected life of options *(year)*	1.5-4.5
Weighted average share price *(RMB)*	10.88

The expected life of the SARs is based on the estimation of the management and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

44 DISTRIBUTABLE RESERVES

As at 31 December 2007, in accordance with the Company Law in Mainland China, an amount of approximately RMB14,281 million (2006: RMB14,279 million as restated under CAS) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB1,290 million (2006: RMB707 million) standing to the credit of the Company's reserve funds, as determined in accordance with CAS, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained earnings of approximately RMB3,686 million (2006: RMB2,224 million as restated under CAS), as determined in accordance with CAS and being the lesser amount of the retained profits determined in accordance with CAS and IFRSs, available for distribution as dividend.

45 MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB5,112 million (2006: RMB6,017 million).

46 CONTINGENT LIABILITIES

As at 31 December 2007, the Group had the following contingent liabilities:

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

(b) On 15 April 2002, Flight CA129 crashed on approach to Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed aircraft. An investigation was conducted by the Chinese and the Korean civil aviation authorities, but the investigation has yet to be finished at the date of approval of these financial statements. Certain injured passengers and families of the deceased passengers and crew members have commenced proceedings in Korean courts seeking damages against Air China International Corporation, the predecessor of the Company. The Group cannot predict the timing of the courts' judgements or the possible outcome of the lawsuits nor any possible appeal actions. Up to 31 December 2007, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB220 million (2006: RMB218 million) in respect of passenger liability and other auxiliary costs. Included in the RMB220 million (2006: RMB218 million) is an amount of approximately RMB213 million (2006: RMB199 million) borne by the Company's insurer. As part of the above-mentioned restructuring, CNAHC has agreed to indemnify the Group against any liabilities relating to the crash of Flight CA129, excluding the compensation already paid up to 30 September 2004 (being the date of incorporation of the Company). The Directors of the Company believe that there will not be any material adverse impact on the Group's financial position.

(c) On 26 February 2007, the Eastern District Court of New York of 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 by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to increase, maintain and stabilise air cargo prices. 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 and therefore no provision for this claim has been made at this stage.

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

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Joint venture	–	32,250	–	–
Associates	132,857	143,199	114,129	123,105
	132,857	175,449	114,129	123,105

47 COMMITMENTS

(a) Capital commitments

The Group and the Company had the following amounts of contractual commitments for the acquisition and construction of plant, property and equipment as at the balance sheet date:

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Aircraft and flight equipment	53,897,381	39,663,862	53,897,381	39,594,216
Buildings	1,026,747	950,817	573,112	563,112
Others	248,388	44,886	241,500	44,886
	55,172,516	40,659,565	54,711,993	40,202,214
Authorised, but not contracted for:				
Aircraft and flight equipment	226,874	–	–	–
Buildings	3,006,501	2,183,678	2,971,164	2,180,090
Others	471,907	100,673	460,337	–
	3,705,282	2,284,351	3,431,501	2,180,090
Total capital commitments	58,877,798	42,943,916	58,143,494	42,382,304

(b) Investment commitments

The Group and the Company had the following amounts of investment commitments as at the balance sheet date:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Joint venture	–	–	109,569	239,114
Associate	54,165	59,277	54,165	59,277
Minority shareholders of CNAC	–	3,122,420	–	3,122,420
Total investment commitments	54,165	3,181,697	163,734	3,420,811

Details of the acquisition of minority interests of CNAC are set out in note 1 to the financial statements.

(c) Operating lease commitments

The Group and the Company lease certain of their 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 balance sheet date, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	2,349,599	2,301,491	1,819,561	1,716,993
In the second to fifth years, inclusive	6,599,485	6,276,717	5,372,798	4,813,863
Over five years	3,860,049	3,126,336	3,379,761	2,575,453
	12,809,133	11,704,544	10,572,120	9,106,309

48 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's and the Company's financial instruments approximated their fair value as at the balance sheet date. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Market price has been used to determine the fair value of assets held for sale. The fair value of bank loans and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of long term deposits and other financial assets has been discounted to present value after calculation based on market interest rates.

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

2007

Financial assets

	Financial assets at fair value through profit or loss designated as such upon initial recognition	**Loans and receivables**	**Available for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interests in associates *(note 21)*	–	183,224	–	183,224
Deposits for aircraft under operating leases	–	257,505	–	257,505
Long term receivable from ultimate holding company	–	331,813	–	331,813
Available-for-sale investments	–	–	1,997	1,997
Accounts and bills receivable	–	2,795,879	–	2,795,879
Deposits and other receivables *(note 28)*	–	322,405	–	322,405
Derivative financial instruments	6,493	–	–	6,493
Pledged deposits	–	118,624	–	118,624
Non-pledged deposits *(note 29)*	–	1,429,179	–	1,429,179
Cash and cash equivalents *(note 29)*	–	2,477,341	–	2,477,341
Due from ultimate holding company	–	335,129	–	335,129
Due from related companies	–	22,881	–	22,881
	6,493	8,273,980	1,997	8,282,470

Financial liabilities

	Financial liabilities at fair value through profit or loss designated as such upon initial recognition	**Financial liabilities at amortised cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Interests in associates *(note 21)*	–	(123,155)	(123,155)
Air traffic liabilities	–	(2,156,104)	(2,156,104)
Accounts and bills payable	–	(5,930,800)	(5,930,800)
Other payables and accruals	–	(4,350,281)	(4,350,281)
Derivative financial instruments	(14,826)	–	(14,826)
Obligations under finance leases *(note 35)*	–	(15,544,873)	(15,544,873)
Bank loans, other loans and corporate bonds *(note 36)*	–	(27,594,126)	(27,594,126)
Due to related companies	–	(45,142)	(45,142)
Provision for early retirement benefits obligations	–	(164,837)	(164,837)
Long term payables	–	(190,005)	(190,005)
	(14,826)	(56,099,323)	(56,114,149)

Group

2006

Financial assets

	Financial assets at fair value through profit or loss designated as such upon initial recognition	Loans and receivables	Available for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interests in associates *(note 21)*	–	144,914	–	144,914
Deposits for aircraft under operating leases	–	259,681	–	259,681
Long term receivable from ultimate holding company	–	431,813	–	431,813
Available-for-sale investments	–	–	6,704	6,704
Accounts and bills receivable	–	2,835,227	–	2,835,227
Deposits and other receivables *(note 28)*	–	184,358	–	184,358
Derivative financial instruments	99,935	–	–	99,935
Pledged deposits	–	211,504	–	211,504
Non-pledged deposits *(note 29)*	–	1,570,777	–	1,570,777
Cash and cash equivalents *(note 29)*	–	3,588,404	–	3,588,404
Due from ultimate holding company	–	289,933	–	289,933
Due from related companies	–	14,378	–	14,378
	99,935	9,530,989	6,704	9,637,628

Financial liabilities

	Financial liabilities at fair value through profit or loss designated as such upon initial recognition	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Interests in associates *(note 21)*	–	(89,426)	(89,426)
Air traffic liabilities	–	(1,530,484)	(1,530,484)
Accounts and bills payable	–	(5,872,406)	(5,872,406)
Other payables and accruals	–	(4,192,887)	(4,192,887)
Derivative financial instruments	(242,108)	–	(242,108)
Obligations under finance leases *(note 35)*	–	(13,602,760)	(13,602,760)
Bank loans, other loans and corporate bonds *(note 36)*	–	(23,840,998)	(23,840,998)
Due to related companies	–	(39,989)	(39,989)
Provision for early retirement benefits obligations	–	(201,199)	(201,199)
Long term payables	–	(252,591)	(252,591)
	(242,108)	(49,622,740)	(49,864,848)

Company

Financial assets

2007

	Financial assets at fair value through profit or loss designated as such upon initial recognition	Loans and receivables	Available for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interests in subsidiaries *(note 19)*	–	65,367	–	65,367
Interests in associates *(note 21)*	–	40,555	–	40,555
Deposits for aircraft under operating leases	–	192,848	–	192,848
Long term receivable from ultimate holding company	–	331,813	–	331,813
Available-for-sale investments	–	–	3,516	3,516
Accounts and bills receivable	–	2,327,906	–	2,327,906
Deposits and other receivables *(note 28)*	–	290,614	–	290,614
Derivative financial instruments	6,493	–	–	6,493
Pledged deposits	–	2,486	–	2,486
Non-pledged deposits *(note 29)*	–	22,974	–	22,974
Cash and cash equivalents *(note 29)*	–	1,325,913	–	1,325,913
Due from ultimate holding company	–	350,377	–	350,377
	6,493	4,950,853	3,516	4,960,862

2006

	Financial assets at fair value through profit or loss designated as such upon initial recognition	Loans and receivables	Available for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interests in subsidiaries *(note 19)*	–	55,080	–	55,080
Interests in associates *(note 21)*	–	21,784	–	21,784
Deposits for aircraft under operating leases	–	186,407	–	186,407
Long term receivable from ultimate holding company	–	431,813	–	431,813
Available-for-sale investments	–	–	816	816
Accounts and bills receivable	–	2,371,867	–	2,371,867
Deposits and other receivables *(note 28)*	–	173,669	–	173,669
Derivative financial instruments	98,026	–	–	98,026
Pledged deposits	–	80,672	–	80,672
Non-pledged deposits *(note 29)*	–	421,498	–	421,498
Cash and cash equivalents *(note 29)*	–	2,500,402	–	2,500,402
Due from ultimate holding company	–	304,933	–	304,933
Due from related companies	–	21	–	21
	98,026	6,548,146	816	6,646,988

Company

Financial liabilities

2007

	Financial assets at fair value through profit or loss designated as such upon initial recognition *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Interests in subsidiaries *(note 19)*	–	(451,419)	(451,419)
Interests in associates *(note 21)*	–	(118,768)	(118,768)
Air traffic liabilities	–	(2,013,038)	(2,013,038)
Accounts and bills payable	–	(4,850,304)	(4,850,304)
Other payables and accruals *(note 34)*	–	(3,663,181)	(3,663,181)
Derivative financial instruments	(6,819)	–	(6,819)
Obligations under finance leases *(note 35)*	–	(15,544,873)	(15,544,873)
Bank loans, other loans and corporate bonds *(note 36)*	–	(26,543,557)	(26,543,557)
Due to related companies	–	(27,730)	(27,730)
Provision for early retirement benefits obligations	–	(97,015)	(97,015)
Long term payables	–	(158,050)	(158,050)
	(6,819)	(53,467,935)	(53,474,754)

2006

	Financial assets at fair value through profit or loss designated as such upon initial recognition *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Interests in subsidiaries *(note 19)*	–	(499,087)	(499,087)
Interests in associates *(note 21)*	–	(105,818)	(105,818)
Air traffic liabilities	–	(1,418,304)	(1,418,304)
Accounts and bills payable	–	(4,766,823)	(4,766,823)
Other payables and accruals *(note 34)*	–	(3,545,797)	(3,545,797)
Derivative financial instruments	(242,108)	–	(242,108)
Obligations under finance leases *(note 35)*	–	(13,602,760)	(13,602,760)
Bank loans, other loans and corporate bonds *(note 36)*	–	(22,867,394)	(22,867,394)
Due to related companies	–	(18,913)	(18,913)
Provision for early retirement benefits obligations	–	(141,416)	(141,416)
Long term payables	–	(218,305)	(218,305)
	(242,108)	(47,184,617)	(47,426,725)

49 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

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

(a) Business risk

The operations of the air transportation industry are substantially influenced by global political and economic development. Factors such as accidents and wars may have a material impact on the Group's operations or the industry as a whole. In addition, the Group primarily conducts its principal operations in Mainland China and accordingly is subject to special consideration and significant risks not typically associated with overseas companies. These include risks associated with, among other things, the political, economic and legal environments, competition and influence of the General Administration of Civil Aviation of China in the Chinese civil aviation industry.

(b) Liquidity risk

The Group's net current liabilities amounted to approximately RMB17,058 million as at 31 December 2007 (2006: RMB15,251 million). The Group recorded a net cash inflow from operating activities of approximately RMB7,302 million for the year ended 31 December 2007 (2006: RMB6,212 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB10,212 million (2006: RMB12,148 million). The Group also recorded a net cash inflow from financing activities of approximately RMB1,839 million for the year ended 31 December 2007 (2006: RMB7,309 million). The Group has recorded a decrease in cash and cash equivalents of approximately RMB1,111 million and an increase in cash and cash equivalents of approximately RMB1,340 million for the years ended 31 December 2007 and 2006, respectively.

Starting from 2007, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained several banking facilities with several PRC banks of up to an amount of RMB80,172 million as at 31 December 2007, of which an amount of approximately RMB32,639 million was utilised.

The Directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the year ending 31 December 2008. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during 2008. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan financing which may impact the operations of the Group prior to the end of 2008. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

2007

	On demand *RMB'000*	**Within one year** *RMB'000*	**1 to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Interests in associates *(note 21)*	34,434	88,721	–	–	123,155
Air traffic liabilities	2,156,104	–	–	–	2,156,104
Accounts and bills payable	480,639	5,450,161	–	–	5,930,800
Other payables and accruals	1,885,387	2,426,846	38,048	–	4,350,281
Derivative financial instruments	–	14,271	555	–	14,826
Obligations under finance leases *(note 35)*	–	2,216,680	8,305,870	5,022,323	15,544,873
Bank loans, other loans and corporate bonds *(note 36)*	–	10,978,835	12,221,517	4,393,774	27,594,126
Due to related companies	–	45,142	–	–	45,142
Provision for early retirement benefits obligations	–	–	123,751	41,086	164,837
Long term payables	–	–	190,005	–	190,005
	4,556,564	21,220,656	20,879,746	9,457,183	56,114,149

2006

	On demand *RMB'000*	**Within one year** *RMB'000*	**1 to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Interests in associates *(note 21)*	–	89,426	–	–	89,426
Air traffic liabilities	1,530,484	–	–	–	1,530,484
Accounts and bills payable	386,584	5,485,822	–	–	5,872,406
Other payables and accruals	2,076,210	2,116,677	–	–	4,192,887
Derivative financial instruments	–	9,301	232,807	–	242,108
Obligations under finance leases *(note 35)*	–	2,354,905	8,058,663	3,189,192	13,602,760
Bank loans, other loans and corporate bonds *(note 36)*	–	11,139,021	8,230,883	4,471,094	23,840,998
Due to related companies	–	39,989	–	–	39,989
Provision for early retirement benefits obligations	–	35,221	134,522	31,456	201,199
Long term payables	–	–	252,591	–	252,591
	3,993,278	21,270,362	16,909,466	7,691,742	49,864,848

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Company

2007

	On demand *RMB'000*	**Within one year** *RMB'000*	**1 to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Interests in subsidiaries *(note 19)*	–	451,419	–	–	451,419
Interests in associates *(note 21)*	34,434	84,334	–	–	118,768
Air traffic liabilities	2,013,038	–	–	–	2,013,038
Accounts and bills payable	307,159	4,543,145	–	–	4,850,304
Other payables and accruals	1,658,673	1,966,460	38,048	–	3,663,181
Derivative financial instruments	–	6,264	555	–	6,819
Obligations under finance leases *(note 35)*	–	2,216,680	8,305,870	5,022,323	15,544,873
Bank loans, other loans and corporate bonds *(note 36)*	–	10,605,465	11,816,467	4,121,625	26,543,557
Due to related companies	–	27,730	–	–	27,730
Provision for early retirement benefits obligations	–	–	76,139	20,876	97,015
Long term payables	–	–	158,050	–	158,050
	4,013,304	19,901,497	20,395,129	9,164,824	53,474,754

2006

	On demand *RMB'000*	**Within one year** *RMB'000*	**1 to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Interests in subsidiaries *(note 19)*	–	499,087	–	–	499,087
Interests in associates *(note 21)*	–	105,818	–	–	105,818
Air traffic liabilities	1,418,304	–	–	–	1,418,304
Accounts and bills payables	272,249	4,494,574	–	–	4,766,823
Other payables and accruals	1,863,433	1,682,364	–	–	3,545,797
Derivative financial instruments	–	9,301	232,807	–	242,108
Obligations under finance leases *(note 35)*	–	2,354,905	8,058,663	3,189,192	13,602,760
Bank loans, other loans and corporate bonds *(note 36)*	–	10,737,064	8,006,272	4,124,058	22,867,394
Due to related companies	–	18,913	–	–	18,913
Provision for early retirement benefits obligations	–	23,739	87,633	30,044	141,416
Long term payables	–	–	218,305	–	218,305
	3,553,986	19,925,765	16,603,680	7,343,294	47,426,725

(c) Jet fuel price risk

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

Moreover, counterparty credit risk is generally restricted to any gains on changes in fair value at any time, but not the principal amount of the instrument. Therefore, the possibility of a material loss arising in the event of non-performance by a counterparty is considered to be unlikely.

The fair values of derivative instruments of the Group and the Company at the balance sheet date are as follows:

	Group		**Group**	
	2007	**2007**	**2006**	**2006**
	Assets	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Swaps, collars and forward contracts	6,493	(14,826)	99,935	(242,108)

	Company		**Company**	
	2007	**2007**	**2006**	**2006**
	Assets	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Swaps, collars and forward contracts	6,493	(6,819)	98,026	(242,108)

Fair values of derivative instruments, denominated in United States dollars, are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which consider current market and contractual prices for the underlying instruments, as well as the time value of money, yield curve and volatility of the underlying instruments.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in fuel price, with all other variables held constant, of the Group's profit before tax and equity for the year:

	Change in profit before tax	**Change in equity**
	RMB'000	*RMB'000*
2007		
If fuel price increased/decreased by RMB1,000 per tonne	2,928,703	2,020,127
2006		
If fuel price increased/decreased by RMB1,000 per tonne	2,741,117	1,893,141

(d) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses, to meet its foreign currency liabilities repayable within one year. However, RMB against the United States dollar, Hong Kong dollar and Japanese yen has experienced a significant level of fluctuation during the year which is the major reason for the significant exchange difference recognised by the Group for the year.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar ("US$") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity (due to changes in the fair value of monetary assets and liabilities as well as foreign exchange realignment arising from translating investments in foreign currency into RMB) for the year:

	Change in profit before tax	**Change in equity**
	RMB'000	*RMB'000*
2007		
If RMB strengthened/weakened against US$ by 1%	314,515	64,154
2006		
If RMB strengthened/weakened against US$ by 1%	303,579	145,135

The Group also enters into foreign exchange derivative transactions, including principally collars contracts. The purpose is to manage the foreign currency risk arising from the Group's operations.

(e) Interest rate risk

The Group's earnings are also affected by changes in interest rates due to the impact of such changes on interest income and expense from short term deposits and other interest-bearing financial assets and liabilities.

The Group plans to use approved derivative instruments such as swaps and collars with approved counter parties and within approved limits. Moreover, the Group aims to limit the exposure to interest rate risk by proper combination of the interest-bearing debts with fixed interest rate and floating interest rate.

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2007
Fixed rate

	Within one year	**In the second year**	**In the third to fifth years, inclusive**	**Over five years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Obligations under finance leases	891,011	1,521,260	2,139,876	–	4,552,147
Bank loans, other loans and corporate bonds	1,198,656	1,543,601	2,479,295	3,164,637	8,386,189
Time deposits *(note 29)*	2,050,802	–	–	–	2,050,802

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases	1,325,669	1,300,258	3,344,476	5,022,323	10,992,726
Bank loans and other loans	9,780,179	2,495,928	5,702,693	1,229,137	19,207,937
Cash at banks *(note 29)*	1,974,342	–	–	–	1,974,342

Year ended 31 December 2006
Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases	1,889,312	1,508,428	4,439,695	–	7,837,435
Bank loans, other loans and corporate bonds	3,272,260	1,000,997	2,948,271	3,214,576	10,436,104
Bills payable	651,345	–	–	–	651,345
Time deposits *(note 29)*	3,890,037	–	–	–	3,890,037

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases	465,593	488,526	1,622,014	3,189,192	5,765,325
Bank loans and other loans	7,866,761	1,648,699	2,632,916	1,256,518	13,404,894
Cash at banks *(note 29)*	1,480,648	–	–	–	1,480,648

Interest on financial instruments bearing floating rates is repriced at intervals of less than one year. Interest on financial instruments bearing fixed rates is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

The interest-bearing loans subject to floating interest rates are predominately US$ borrowings. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Company's equity for the year:

		Group		Company	
	Change in basis points	Change in profit before tax	Change in equity	Change in profit before tax	Change in equity
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
United States dollar	1%	10,007	6,705	9,536	6,389
2006					
United States dollar	1%	6,042	4,048	5,599	3,751

(f) Credit risk

The following table sets forth the maximum credit exposure of the Group. The maximum exposure of loans and receivables granted and deposits placed is the carrying amount of these instruments, net of any impairment losses, and the maximum exposure of derivatives is the current fair value. For financial guarantees and loan commitments, the maximum exposure represents the maximum amount the Group which could be required to pay without consideration of the probability of the actual outcome.

	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Interests in associates	9,542,677	9,255,474
Advance payments for aircraft and related equipment	7,652,365	6,976,054
Deposit for aircraft under operating leases	257,505	259,681
Long tern receivable from ultimate holding company	331,813	431,813
Available-for-sale investments	1,997	6,704
Accounts and bills receivable	2,795,879	2,835,227
Deposits and other receivables *(note 28)*	322,405	184,358
Derivative financial instruments	6,493	99,935
Pledged deposits	118,624	211,504
Non-pledged deposits with maturity of more than three months when acquired *(note 29)*	1,429,179	1,570,777
Cash and cash equivalents *(note 29)*	2,477,341	3,588,404
Due from ultimate holding company	335,129	289,933
Due from related companies	22,881	14,378
Guarantees *(note 46(d))*	132,857	175,449
Commitments *(note 47)*	71,741,096	57,830,157
	97,168,241	83,729,848

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 27 to the financial statements.

The Group's cash and cash equivalents are deposited with banks in Mainland China, overseas banks and an associate. The Group has policies in place to limit the exposure to any single financial institution.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB872 million as at 31 December 2007 (2006: RMB647 million).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

(g) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is calculated as total liabilities divided by total assets. The gearing ratios as at the balance sheet dates are as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Total liabilities	59,548,924	52,741,843
Total assets	91,056,277	84,477,536
Gearing ratio	65.40%	62.43%

50 RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under CNAHC and has extensive transactions and relationships with members of CNAHC. Related parties refer to entities of which CNAHC is a shareholder and is able to exercise control or joint control. The transactions were made at prices and terms mutually agreed between the parties. The Directors of the Company are of the opinion that the transactions with related parties (see below) during the year were conducted in the usual course of business.

The Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group) and joint ventures (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) associates:

		Group	
		2007	**2006**
		RMB'000	*RMB'000*
(a)	Included in air traffic revenue		
	Sale of air tickets:		
	CNAHC Group	4,095	3,192
	Associates	3,788	3,040
		7,883	6,232
	Sale of cargo space:		
	CNAHC Group	223,493	209,747
	Charter flights:		
	CNAHC	493,645	479,132

		Group 2007 RMB'000	Group 2006 RMB'000
(b)	Included in other operating revenue		
	Aircraft engine lease income:		
	Joint venture	–	–
	Associate	3,374	–
		3,374	–
	Aircraft engineering income:		
	Associates	24,584	25,853
	Ground handling services income:		
	CNAHC Group	321	1,700
	Joint ventures	2,743	2,463
	Associates	68,875	56,313
		71,939	60,476
	Bellyhold income:		
	Joint venture	1,579,185	1,518,925
	Others:		
	CNAHC Group	27,391	24,196
	Joint ventures	19,614	9,483
	Associates	48,416	36,653
		95,421	70,332
(c)	Included in finance revenue and finance costs		
	Interest income:		
	Associate	3,559	9,220
	Interest expense:		
	Associate	6,794	21,002

	Group 2007 RMB'000	Group 2006 RMB'000
(d) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	88,615	105,255
Associates	170,947	210,160
	259,562	315,415
Air catering charges:		
CNAHC Group	56,248	50,177
Joint ventures	136,700	126,024
Associates	25,620	29,472
	218,568	205,673
Repair and maintenance costs:		
Joint ventures	422,301	376,598
Associates	212,857	155,960
	635,158	532,558
Sale commission expenses:		
CNAHC Group	7,136	4,715
Joint venture	1,768	–
Associates	12,226	6,963
	21,130	11,678
Management fees:		
CNAHC Group	9,307	10,623
Aircraft leasing fees:		
Associate	519,176	529,893
Others:		
CNAHC Group	215,816	102,165
Associates	24,709	24,389
Joint ventures	–	469
	240,525	127,023

		Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
(e)	Deposits, loans and bills payable:				
	Deposits placed with an associate *(note 29)*	387,962	200,242	357,016	129,516
	Loans from an associate	238,098	76,461	151,321	34,944
	Bills payable to an associate *(note 33)*	–	95,733	–	95,733
(f)	Outstanding balances with related parties:				
	Long term receivable from ultimate holding company	331,813	431,813	331,813	431,813
	Due from related companies	22,881	14,378	–	21
	Due from associates *(note 21)*	183,224	144,914	40,555	21,784
	Due to associates *(note 21)*	(123,155)	(89,426)	(118,768)	(105,818)
	Due from a joint venture *(note 27)*	306,831	332,811	585,703	679,206
	Due to related companies	(45,142)	(39,989)	(27,730)	(18,913)
	Due to joint ventures *(note 32)*	(141,419)	(136,455)	(334,047)	(316,482)
	Due from ultimate holding company	335,129	289,933	350,377	304,933
	Due from subsidiaries *(note 19)*	–	–	65,367	55,080
	Due to subsidiaries *(note 19)*	–	–	(451,419)	(499,087)

The long term receivable from CNAHC is unsecured, interest-free and is not repayable within one year from the balance sheet date. Except for the long term receivable from CNAHC, the outstanding balances with other related parties are unsecured, interest-free and are repayable within one year or have no fixed terms of repayment.

		Group 2007 RMB'000	Group 2006 RMB'000
(g)	Compensation of key management personnel of the Group:		
	Short term employee benefits	8,363	8,577
	Share-based benefits	5,728	–
	Post-employment benefits	259	187
		14,350	8,764

Further details of the remuneration of the Directors and Supervisors are included in note 10 to the financial statements.

(h) On 25 August 2004, CNACG entered into two licence agreements with CNAC, pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect of the use of these trademarks during each of the two years ended 31 December 2007.

(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 CNAF; the provision of construction project management services by China National Aviation Construction and Development Company; the subcontracting of charter flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; 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 aircraft maintenance by China Aircraft Services Limited.

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively, "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of air passenger and air cargo services and purchases of services. The Directors consider that transactions with these State-owned Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

51 EVENT AFTER THE BALANCE SHEET DATE

On 3 January 2008, CNAC entered into a sale and purchase agreement (the "Agreement") with CITIC and Gold Leaf Enterprises Holdings Ltd. ("Gold Leaf", a wholly-owned subsidiary of CITIC). Pursuant to the Agreement, CNAC has agreed to purchase from Gold Leaf the entire issued share capital of Fine Star Enterprise Corporation (another indirectly wholly-owned subsidiary of CITIC), which in turn holds a 25% equity interest in the registered capital of Air China Cargo. The aggregate consideration payable by CNAC for the transaction amounted to approximately RMB857 million.

52 COMPARATIVE AMOUNTS

Deferred tax liabilities of approximately RMB514 million for the Group and approximately RMB503 million for the Company as at 31 December 2006 have been reclassified from deferred tax assets in the current year's financial statements. In the opinion of the director, such reclassification would provide a more appropriate financial statement presentation and better reflect the Group's and the Company's financial positions.

53 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 March 2008.

III. INDEBTEDNESS

Borrowing

The table below sets forth our total outstanding indebtedness as at 31 May 2008:

		As at 31 May 2008		
		Repayable within one year	**Repayable after one year**	**Total**
		RMB (in millions)	*RMB (in millions)*	*RMB (in millions)*
Bank loans and other loans	*(1)*	11,967	16,102	28,069
Corporate bonds	*(1)*	–	3,000	3,000
Finance lease obligations	*(2)*	2,406	14,208	16,614
Total		14,373	33,310	47,683

	As at 31 May 2008
	Total indebtedness
	RMB (in millions)
Indebtedness denominated in U.S. dollars (US$4,960 million)	34,468
Indebtedness denominated in Japanese yen (JPY 40,778 million)	2,680
Indebtedness denominated in HK dollars (HK$3,080 million)	2,742
Indebtedness denominated in Euros (EUR26 million)	285
Indebtedness denominated in Renminbi	7,508
Total	47,683

Notes:

(1) The Group's bank loans, other loans and corporate bonds with an aggregate amount of approximately RMB12,374 million were secured by mortgages over certain of the Group's assets and/or guarantees. The pledged assets included aircraft, buildings and land use rights with an aggregate net book value of approximately RMB12,326 million and listed shares in an associate with an aggregate market value of RMB5,830 million as at 31 May 2008. The guarantees were provided by certain commercial banks and as at 31 May 2008 counter-guarantees with an aggregate amount of approximately RMB2,731 million were provided by certain major PRC banks to the above-mentioned commercial banks.

(2) The Group's finance lease obligations with an aggregate amount of approximately RMB16,614 million were secured by mortgages over certain of the Group's aircraft and/or guarantees. The pledged aircraft had an aggregate net book value of approximately RMB24,389 million as at 31 May 2008. The guarantees were provided by a commercial bank and as at 31 May 2008 counter-guarantees with an aggregate amount of approximately RMB1,168 million were provided by a major PRC bank to the above-mentioned commercial bank.

In addition to the above, as at 31 May 2008 certain of the Group's bank deposits with an aggregate amount of approximately RMB109 million were pledged against the Group's aircraft operating leases and financial derivatives.

Contingent liabilities

As at 31 May 2008, the Group had the following contingent liabilities:

(i) Pursuant to the restructuring of CNAHC, for the listing of the Company's H shares on the HKSE and the London Stock Exchange, the Company entered into a restructuring agreement with CNAHC and CNACG on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no 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.

(ii) On 15 April 2002, Flight CA129 crashed on approach to Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed airplane. Investigations have been conducted by both the Chinese and the Korean civil aviation authorities and up to the date of this letter, no consensus has been reached yet. In addition, certain injured passengers and family members of the deceased passengers or crew members have commenced proceedings in Korean courts seeking damages against Air China International Corporation (the predecessor of the Company). Up to 31 May 2008, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB229 million in respect of passenger liability and other auxiliary costs, within which approximately RMB221 million was borne by the Company's insurer. As part of the above-mentioned restructuring, CNAHC 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 incident will not have any material adverse impact on the Group's financial position.

(iii) On 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo (a 76% owned subsidiary of the Company), claiming that both companies, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to increase, maintain and stabilise air cargo prices. 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 and therefore no provision for this claim has been made at this stage.

(iv) The Group issued guarantees to banks in respect of the bank loans granted to the following parties:

	As at 31 May 2008
	RMB (in millions)
Associates	123

Except as disclosed above, as at 31 May 2008, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

Save as disclosed above, the directors have confirmed that there has been no material change in the indebtedness of the Group since 31 May 2008.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors and Supervisors of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be taken 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 notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

None of the Directors or Supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2007 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, to any member of the Group.

None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Chen Nan Lok, Philip is a non-executive director of the Company and concurrently the Vice Chairman and non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company and wholly owns Hong Kong Dragon Airlines Limited ("**Dragonair**"). 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.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group are as follows:

(a) Substantial interests in the Company

Name of shareholder	Type of interests	Type and number of shares of the Company	Percentage of the total issued share capital of the Company	Percentage of the total issued domestic 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%	–	–
CNACG	Beneficial owner	1,380,482,920 A shares	11.26%	17.60%	–	–
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%	–

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:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC is deemed to be interested in the 1,380,482,920 domestic shares of the Company directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 36.50% equity interest and 55.74% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 39.99% interest in Cathay Pacific at 30 June 2008, 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.

Save as disclosed above, as at the Latest Practicable Date, 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 an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or otherwise was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. MATERIAL CONTRACTS

The Group has entered into the following material contracts within the two years immediately preceding the date of this circular:

(a) the Airbus Aircraft Purchase Agreement dated 10 July 2007 between the Company, AIE and the Airbus Company pursuant to which the Company agreed to purchase 23 Airbus 320-Series aircraft from Airbus Company, details of which are set out in the Company's circular dated 30 July 2007;

(b) the Sale and Purchase Agreement dated 3 January 2008 between Gold Leaf Enterprises Holdings Ltd., ("Gold Leaf") CITIC Pacific and CNAC, a wholly-owned subsidiary of the Company pursuant to which CNAC agreed to purchase from Gold Leaf the entire issued share capital of Fine Star Enterprises Corp., which in turns holds 25 % equity interest in the registered capital of Air China Cargo. This transaction, details of which are set out in the Company's circular dated 24 January 2008, was completed on 3 January 2008;

(c) the Agreement for the Sale and Purchase of the Sale Shares dated 10 June 2008 between CNAC and CNACG pursuant to which CNAC agreed to sell and CNACG agreed to purchase the entire issued share capital of each of Fly Top Limited ("Fly Top") and China National Aviation Logistics Company Limited ("CNAL") and 50% of the issued share capital of Jardine Airport Services Limited ("JASL") for the sum of RMB363,343,021, details of this transaction are set out in the Company's announcement dated 10 June 2008;

(d) the Agreement to Assign Indebtedness dated 10 June 2008 between CNAC and CNACG pursuant to which CNAC agreed to assign the indebtedness owed to it by Fly Top and CNAL to CNACG for the sum of RMB486,656,979, details of this transaction are set out in the Company's announcement dated 10 June 2008.

Except as disclosed above, no other material contract has been entered into by the Group within the two years immediately preceding the date of this circular.

5. LITIGATION

As at the Latest Practical Date, the litigation or claims of material importance pending or threatened against a member of the Group are as disclosed in the section titled "Contingent Liabilities" found under "III. Indebtedness" in Appendix I.

As at the Latest Practical Date, save as disclosed above, the audited Company was not involved in any significant litigation or arbitration. To the knowledge of the Company, there was no litigation or claim of material importance pending, to be initiated or initiated against the Company except as disclosed above, there was no litigation or claims of material importance pending or threatened against any member of the Group.

6. SERVICE CONTRACTS

Each of the Directors was appointed by the Company on 30 October 2007 for a term of three years. 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).

7. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group's financial or trading position since 31 December 2007, being the date to which the latest published audited accounts of the Group have been made up.

8. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 84 of the Articles of Association of the Company, at any general meeting of shareholders of the Company a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

The demand for a poll may be withdrawn by the person who makes such demand. Further details of the procedure for demanding a poll were set out in Appendix VIII "Summary of Articles of Association" to the Company's prospectus dated 3 December 2004.

9. MISCELLANEOUS

(a) The joint company secretaries of the Company are Huang Bin and Li Man Kit. Mr. Li is an associate member of the Institute of Chartered Secretaries and Administrators, UK and the Hong Kong Institute of Company Secretaries.

(b) The qualified accountant of the Company is David Tze-kin Ng. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered address of the Company is at 9/F., Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House 12 Tung Fai Road, Hong Kong International Airport, Hong Kong up to and including 12 August 2008:

(a) the articles of association of the Company;

(b) the audited financial information of the Group, the text of which is set out in Appendix I to this circular;

(c) the circular relating to connected transaction and discloseable transaction dated 24 January 2008 issued by the Company in respect of the Company's acquisition of equity interest in Air China Cargo from CITIC Pacific Limited; and

(d) the material contracts referred in the section headed "Material Contracts" of this circular.