AIR CHINA LIMITED
中國國際航空股份有限公司

INTERIM REPORT 2005

Contents

Corporate Information

Chinese Registered Name	:	中國國際航空股份有限公司
English Name	:	Air China Limited
Registered Office	:	9/F, Blue Sky Mansion 28 Tianzhu Road Zone A, Tianzhu Airport Industrial Zone Shunyi District Beijing, China
Principal Place of Business in Hong Kong	:	5th Floor, CNAC House 12 Tung Fai Road Hong Kong International Airport Hong Kong
Website Address	:	www.airchina.com.cn
Directors	:	Li Jiaxiang Kong Dong Wang Shixiang Yao Weiting David Muir Turnbull Ma Xulun Cai Jianjiang Fan Cheng Hu Hung Lick, Henry Wu Zhipan Zhang Ke
Supervisors	:	Zhang Xianlin Liao Wei Zhang Huilan Liu Feng Liu Guo Qing
Legal Representative of the Company	:	Li Jiaxiang
Joint Company Secretaries	:	Fan Cheng Li Man Kit *(ACIS, ACS)*
Qualified Accountant	:	Chan Wei Kwong, Joel *(FCCA, CPA)*
Authorised Representatives	:	Cai Jianjiang Li Man Kit

Corporate Information

Legal Adviser to the Company	:	Haiwen & Partners (as to PRC Law) Freshfields Bruckhaus Deringer (as to Hong Kong and English Law)
Independent Auditors	:	Ernst & Young
H Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited Rooms 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Listing Venues	:	Hong Kong and London

Highlight of Financial Information and Operating Data

1. MAJOR ACCOUNTING FIGURES AND FINANCIAL INDICATORS

	For the six months ended 30 June 2005 RMB'000	For the six months ended 30 June 2004 RMB'000	Change (%)
Operating revenues	**16,938,532**	14,773,359	14.7
Profit from operations	**1,397,345**	1,790,742	-22.0
Profit before tax	**912,721**	1,193,237	-23.5
Net profit after tax (including minority interests)	**642,392**	834,435	-23.0
Minority interests	**51,139**	46,083	11.0
Net profit attributable to equity holders of the parent	**591,253**	788,352	-25.0
Earnings per share – Basic (RMB)	**6.3 cents**	12.1 cents	-47.9
Return on owners' equity (%)	**3.23%**	10.30%	-68.6

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000	Change (%)
Total assets	**66,795,197**	66,689,269	0.2
Total liabilities	**47,009,428**	48,660,727	-3.4
Minority interests	**1,476,165**	1,480,287	-0.3
Owners' equity (excluding minority interests)	**18,309,604**	16,548,255	10.6
Owners' equity per share (RMB)	**1.95**	2.50	-22.0

Highlight of Financial Information and Operating Data

2. SUMMARY OF MAJOR OPERATING DATA

(Including entire Air China Cargo Co., Ltd. ("Air China Cargo") and excluding Air Macau Company Limited ("Air Macau"))

	For the six months ended 30 June 2005	For the six months ended 30 June 2004	Change (%)
Traffic			
RPK (in millions)	**23,906.6**	21,141.2	13.1
International	**9,914.7**	8,652.6	14.6
Domestic	**13,177.4**	11,835.4	11.3
Hong Kong and Macau	**814.5**	653.2	24.7
RFTK (in millions)	**1,280.1**	1,225.2	4.5
International	**956.7**	943.7	1.4
Domestic	**295.6**	253.7	16.5
Hong Kong and Macau	**27.8**	27.9	-0.4
Passengers carried (in thousands)	**12,588.5**	11,135.8	13.0
International	**2,141.0**	1,814.2	18.0
Domestic	**10,041.5**	8,999.0	11.6
Hong Kong and Macau	**406.0**	322.6	25.9
Cargo and mail (in tonnes)	**340,889.0**	312,605.0	9.0
Kilometers flown (in millions)	**181.0**	159.6	13.4
Block hours (in thousands)	**278.4**	239.2	16.4
Number of flights	**100,489**	87,844	14.4
International	**14,611**	13,076	11.7
Domestic	**82,083**	71,654	14.6
Hong Kong and Macau	**3,795**	3,114	21.9
RTK (in millions)	**3,416.6**	3,116.9	9.6
Capacity			
ASK (in millions)	**33,245.0**	30,815.8	7.9
International	**13,800.0**	12,955.0	6.5
Domestic	**18,191.2**	16,761.3	8.5
Hong Kong and Macau	**1,253.8**	1,099.5	14.0
AFTK (in millions)	**2,390.6**	2,315.9	3.2
International	**1,696.2**	1,644.0	3.2
Domestic	**636.6**	621.7	2.4
Hong Kong and Macau	**57.8**	50.2	15.1
ATK (in millions)	**5,382.6**	5,089.3	5.8

Highlight of Financial Information and Operating Data

2. SUMMARY OF MAJOR OPERATING DATA *(Continued)*

(Including entire Air China Cargo and excluding Air Macau)

	For the six months ended 30 June 2005	For the six months ended 30 June 2004	Change (%)
Load factor			
Passenger load factor (RPK/ASK)	**71.9%**	68.6%	3.3 ppt
International	**71.8%**	66.8%	5.0 ppt
Domestic	**72.4%**	70.6%	1.8 ppt
Hong Kong and Macau	**65.0%**	59.4%	5.6 ppt
Cargo and mail load factor (RFTK/AFTK)	**53.5%**	52.9%	0.6 ppt
International	**56.4%**	57.4%	-1.0 ppt
Domestic	**46.4%**	40.8%	5.6 ppt
Hong Kong and Macau	**48.1%**	55.6%	-7.5 ppt
Yield			
Yield per RPK (RMB)	**0.55**	0.54	1.9
International	**0.50**	0.48	4.2
Domestic	**0.58**	0.58	0
Hong Kong and Macau	**0.67**	0.68	-1.5
Yield per RFTK (RMB)	**1.03**	0.98	5.1
International	**1.09**	1.03	5.8
Domestic	**0.70**	0.66	6.1
Hong Kong and Macau	**2.16**	1.87	15.5
Fleet			
Total number of aircraft in service at period end	**160**	136	17.6
Daily utilization (block hours per day per aircraft)	**10.2**	10.1	1.0

Chairman's Statement

Dear shareholders,

2005 is the first year following the restructuring and listing of the Company. Shares offered under the international offering and the Hong Kong public offering at the end of last year were 40 times and 21 times oversubscribed respectively. On 7 January 2005, the international underwriters exercised in full the over-allotment options referred to in the Company's prospectus dated 3 December 2004, marking the successful conclusion of our H share offering. On behalf of the board of directors, I would like to express our sincere gratitude to you, as our shareholders, for your support and trust.

During the first half of 2005, the Company maintained its leading position in the aviation market in China while sustaining a strong and steady growth and at the same time, ensuring flight safety. For the six months ended 30 June 2005, the Group (including the Company, its subsidiaries and joint ventures) recorded operating revenues of RMB16.939 billion, representing a growth of 14.7% compared to the corresponding period last year. Passenger services and cargo and mail operations performed well, with passenger traffic reaching 12.5885 million persons and cargo traffic of 340,889 tonnes, representing an increase of 13.0% and 9.0% respectively, compared to the corresponding period last year. However, rising jet fuel prices and increasing competition have significantly affected the operations and profitability of the Group. During the first six months of 2005, the profit from operations of the Group was RMB1,397 million, representing a decrease of 22.0% compared to the corresponding period last year. Although jet fuel prices remain high, the Company managed to maintain the highest profitability among other domestic airlines in the aviation market in China. This was achieved through adopting various effective measures to improve cost controls, budget management and marketing initiatives.

The Company has continued to value safe services and accident prevention and is committed to establishing a mechanism for maintaining long-term operational safety. In the first half of 2005, the Company recorded 278,000 accident-free flight hours, representing an increase of 16.4%, compared to the same period last year. Incident rate per 10,000 flight hours and material error rate per 10,000 flight hours decreased by 89% and 63% respectively, compared to the corresponding period last year. To improve the Company's safety management standards and to ensure that its record of providing safe services is maintained, the Company will continue to establish a long-term operational safety mechanism, further develop its safety standards and its safety management system, as well as further invest in promoting flight safety.

Chairman's Statement

Since the listing of its shares, the Company has been steadily expanding its hubs and network with a particular focus on strengthening its key bases in Beijing, Shanghai and Chengdu and shifting its capacity to its major markets. The Company also firmly believes in the growth potential of the aviation market between PRC and Hong Kong and Macau and has been actively enhancing its presence in these markets through improving connection between the two aviation markets. The Company and Cathy Pacific entered into a Marketing Cooperation Memorandum on 19 May 2005, pursuant to which the two parties made code share arrangements for their Beijing-Hong Kong flights. These developments have reinforced the competitiveness and network connections of the Company, thereby further consolidating the synergy between international, domestic and regional flight routes. With Beijing as its central hub, the Company will further optimise its flight routes with a balanced focus on both international and domestic as well as passenger and cargo operations.

The Company is committed to establishing a sales network that effectively complements its flight routes. While maintaining the development efforts in its dominant regions, the Company focused on reinforcing sales in the eastern, south-western and north-eastern parts of the PRC. On the international level, the Company concentrated on increasing sales in Japan, Korea and Europe through implementing a system that coordinates seat control, pricing and revenue. The Company enhanced the overall profitability of its network through strengthening sales of connecting flights tickets, enhancing direct sales, promoting electronic tickets and expanding its regular customers base.

The Company continued to reinforce its cooperation with peer companies. At present, the Company has entered into code-sharing arrangements with 18 airlines and is making steady progress in the formation of an alliance.

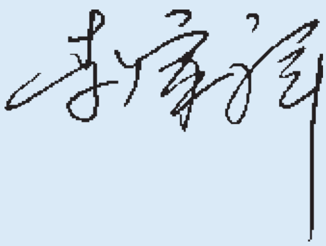
In the first half of 2005, the Company commenced the upgrade project for the first class and business class cabins of 15 wide body aircraft. Besides, it continued to improve its service quality by providing safe, convenient, comfortable and customised services to passengers. The Company's ability to leverage on brand name recognition has been further enhanced with increasing awareness of its brand. The brand value and influence of the Company were further boosted after it became the sole airline partner of the 2008 Beijing Olympics.

The Company continued its restructuring to optimise its internal management and organisation structure. For the first half of 2005, the Company successfully completed the consolidation of its business segments by streamlining its management structure and by improving its human resources management system. Building on this, the Company will continue to restructure and reform, so as to reinforce operational control and enhance the overall management standard and operational efficiency of the Company.

Chairman's Statement

The Company has set its mission whereby it will strive to become one of the most recognised mainstream airlines in the PRC, as well as being the leading airlines company in terms of value, profitability and international competitiveness. Despite the surge of jet fuel prices, the aviation industry in China maintains its rapid growth and the Company expects to remain profitable. The Company will continue to invest in its operations in order to leverage on economies of scale to enhance its profits, focus on its strategy of differentiating from its competitors and to maximise return for its shareholders and the value of the Company.

Lastly, on behalf of the board of directors, I would like to express my gratitude to our management and staff for their professionalism and dedication while creating value for the shareholders.



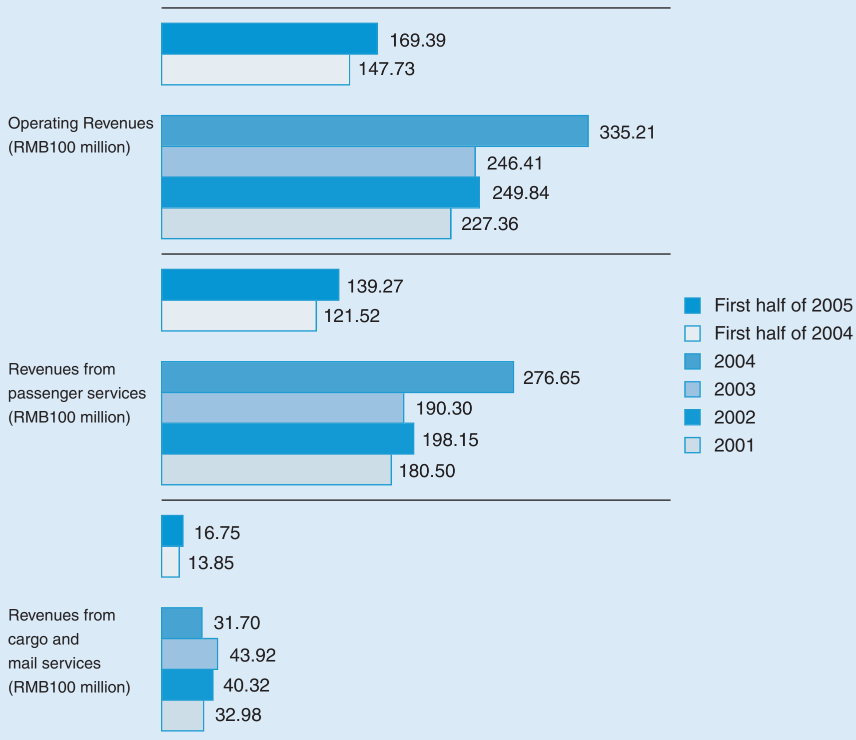
Li Jiaxiang
Chairman

Beijing, 5 September 2005

Review for the First Half of 2005

REVIEW OF OPERATIONS

During the first half of 2005, the Chinese economy and the aviation market continued to grow, thereby maintaining the growth in the demand for airline services. However, the sharp increase in jet fuel costs and seasonal fluctuations of air travel exerted relatively substantial pressure on operations in the aviation industry. The rising jet fuel price increased the operating costs of the Group. Without compromising flight safety, the Group has adopted various measures to improve cost controls and efficiency.



For the six months ended 30 June 2005, the Group's operating revenue was RMB16.939 billion, representing an increase of 14.7% compared to the corresponding period last year. Most of our operating revenues were generated from air traffic businesses. In the first half of 2005, air traffic revenues accounted for 92.1% of operating revenues. Among this, revenues from passenger services and from cargo and mail services accounted for 82.2% and 9.9% of operating revenues respectively.

During the first six months of 2005, revenues from passenger services were RMB13.927 billion, representing an increase of 14.6% compared to the corresponding period last year. The capacity of passenger traffic in available seat kilometres ("ASKs") was 33.245 billion kilometres, representing an increase of 7.9% compared to the corresponding period last year. Passenger load factor was 71.9%, representing an increase of 3.3 percentage points compared to the corresponding period last year. During the first six months of 2005, revenues from cargo and mail services were RMB1.675 billion, representing an increase of 21.0% compared to the corresponding period last year. Cargo transport capacity in available freight tonne-kilometres ("AFTKs") was 2.391 billion tonnes kilometres (including entire cargo transport capacity in AFTKs of Air China Cargo, a 51%-owned joint venture of the Company), representing an increase of 3.2% compared to the corresponding period last year. The cargo and mail load factor was 53.5%, representing an increase of 0.6 percentage point compared to the corresponding period last year. During the first six months of 2005, the daily utilization of aircraft was 10.2 hours, representing an increase of 0.1 hour compared to the corresponding period last year. The load factor was 63.5%, representing an increase of 2.3 percentage points from the corresponding period last year.

For the six months ended 30 June 2005, operating expenses of the Group was RMB15.541 billion, representing an increase of RMB2.559 billion compared to the corresponding period last year. Among the operating expenses, jet fuel costs were RMB5.062 billion, representing an increase of RMB1.449 billion compared to the corresponding period last year. Jet fuel costs as a percentage of operating expenses increased from 27.8% in the corresponding period last year to 32.6% for the six months ended 30 June 2005. The Group endeavoured to take measures to conserve fuel and enhance efficiency. Through reducing fuel consumption and jet fuel hedging, the Group has successfully achieved a cost savings of RMB93.53 million. In addition, the collection of fuel surcharge also helped to relieve the pressure of rising jet fuel costs.

BUSINESS REVIEW

Network Construction: For the six months ended 30 June 2005, the Company operated a total of 100,489 flights (including all flights operated by Air China Cargo), serving 72 domestic and 36 international and regional destinations. We offered an average of 3,811 scheduled passenger flights and 34 scheduled cargo flights weekly. We mainly allocated our capacity to major markets. For international routes, the Company has increased flight frequency for the more profitable routes and has introduced a new route between Weihai and Seoul. As for regional operations, a new flight route serving Hangzhou and Hong Kong was opened, and the Lhasa – Chengdu – Hong Kong route was re-established. For domestic routes, the Company has strengthened the transport capacity for routes between the central hub of Beijing and other bases, routes originating from Beijing, as well as routes that complement our network and routes that are relatively profitable.

Hubs Building: The Company further strengthened its influence in the Beijing aviation hub through adjusting its transport capacity, improving flights connection and allocating appropriate aircraft models. For the six months ended 30 June 2005, the Company increased the number of aircraft serving the Beijing hub to 97 aircraft and has secured 350 more time slots per week in the Beijing Capital International Airport compared to the corresponding period last year. The Company had a market share of 44.1% in Beijing during the first six months of 2005, representing an increase of 0.4 percentage point compared to the corresponding period last year. Meanwhile, the Company continued to optimize its network connection around Chengdu. Three CRJ aircraft were wet-leased from Shandong Airlines to expand the western PRC market with a base in Chengdu. We also reinforced our operations in our Shanghai base in line with the continuing trend of Shanghai's development into an important hub in the international air traffic network. The Company has further expanded its transport capacity of routes originating from Shanghai. In addition, the Company secured the rights to operate 5 new domestic routes, including one between Shanghai and Kunming. New flight routes in operation include the Shanghai – Guangzhou and Shanghai – Kunming routes, which further reinforce Shanghai's role as an important hub and cargo base for the Company.

Review for the First Half of 2005

Fleet Maintenance: The fleet of the Company continued to expand. In the first half of the year, a total of 9 aircraft were introduced into the fleet. As at 30 June 2005, we (including the entire Air China Cargo) operated a fleet of 160 aircraft with an average age of 8.3 years.

	Self-owned	Finance Lease	Operating Lease	Wet Lease	Custody	Total
Boeing	64	38	25	–	–	127
Airbus	14	8	5	1	–	28
CRJ-200	–	–	–	3	–	3
Business jets	–	–	1	–	1	2
Total	78	46	31	4	1	160

Note: The Boeing aircraft include five cargo freighters of Air China Cargo.

On 26 January 2005, the Company and Air China Group Import and Export Trading Co. entered into a A330-200 aircraft purchase agreement with Airbus S.A.S., pursuant to which the Company agreed to purchase 20 A330-200 aircraft from Airbus S.A.S., mainly for serving routes to international destinations in Europe, Australia and North America as well as certain major domestic routes to destinations, such as Lhasa. On 28 January 2005, the Company, other PRC airlines, China Aviation Supplies Import and Export Group Corporation, and Boeing Company entered into a framework agreement regarding the acquisition of Boeing 787 aircraft. On 8 August 2005, the Company and Boeing Company entered into a formal agreement for the purchase of 15 Boeing 787 aircraft. On the same date, the board of directors resolved to place orders for 4 A319 aircraft from Airbus S.A.S. On 8 August 2005, the Company and Hong Kong Dragon Airlines Limited ("Dragonair") entered into an agreement whereby the Company wet leased 1 A330 and 1 A320 aircraft from Dragonair. In the first half of 2005, the Company also signed a letter of intent with each of GECAS, Sunrock and ILFC, pursuant to which the Company will lease a total of 12 Boeing 737-800 aircraft from these companies. The above proposed purchase and lease of aircraft will further enhance the passenger traffic capacity of the Company's fleet, and thereby providing more comfortable services to passengers.

Market Expansion: The Company has been actively enhancing its marketing efforts. The Company has actively promoted the sales of connecting flight tickets, increased transit flights and established a pricing scheme for connecting flights. For the years ended 2003 and 2004 and the six months ended 30 June 2005, income from connecting flights was RMB2.7 billion, RMB7.6 billion and RMB3.8 billion respectively. It is expected that such income will continue to grow rapidly. The Company has been actively acquiring major customers and has secured 458 new direct sales customers. The electronic tickets business also enjoyed steady growth. Electronic tickets were offered in 60 airports within the PRC and in Hong Kong, while preparation for electronic tickets sales points in the US was completed. In addition, our frequent flyers membership continued to expand to 2.47 million members.

Review for the First Half of 2005

In a travellers' satisfaction survey held in early 2004, the Company was granted the Excellence Award for Travellers' Satisfaction and Excellence Award for Service Brand in the category of airlines carrying over 15 million passengers. In a public aviation service evaluation survey in 2005, the Company was honoured with the highest award of "Benchmark Brand Name for the Year". In a survey on freighter's service quality, Air China Cargo was awarded the Best Integrated Services Award for Air Freighters.

EMPLOYEES

As at 30 June 2005, the Company had 18,289 employees and its subsidiaries and joint ventures had 10,026 employees.

For the six months ended 30 June 2005, the Company has implemented a comprehensive training programme. Under the programme, expert technicians received special operational training, while management of various departments at the deputy general manager level or above also received training in rotation. In addition, relevant training programmes were also arranged for other staff.

MATERIAL EVENTS

On 7 January 2005, the international underwriters exercised in full the over-allotment options referred to in the Company's prospectus dated 3 December 2004, in respect of the over-allotment shares (equivalent to approximately 15% of the H shares of the Company (the "H Shares") initially offered under the global offering of the H Shares) solely to cover the over-allocations in the international offering. The Company issued and allotted, and China National Aviation Holding Company ("CNAHC") and China National Aviation Corporation (Group) Limited ("CNACG") offered, 382,592,727, 29,749,686 and 8,509,587 over-allotment shares respectively, in each case at HK$2.98 per H Share (being the offer price per H Share under the international offering, exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee). The net proceeds of approximately HK$1.1 billion (net of various costs, which mainly comprise underwriting commission, Stock Exchange trading fee, SFC transaction levy and investor compensation levy) from the issue of 382,592,727 over-allotment shares will be used by the Company for the acquisition of various aircraft and repayment of liabilities due within one year.

On 26 January 2005, the Company and Air China Group Import and Export Trading Company Co. entered into a A330-200 aircraft purchase agreement with Airbus S.A.S., pursuant to which the Company agreed to purchase 20 A330-200 aircraft from Airbus S.A.S., mainly for serving routes to international destinations in Europe, Australia and North America as well as certain major domestic routes to destinations, such as Lhasa.

On 25 May 2005, the Company obtained confirmation from the People's Bank of China regarding a proposed issue of short-term commercial papers. The Company issued short-term commercial papers totalling RMB2 billion, which were listed and traded on the inter-bank debenture markets. The proceeds from the issue of short-term commercial papers will be applied as working capital.

On 30 May 2005, at the Annual General Meeting for the year ended 31 December 2004, Mr. David Muir Turnbull was elected a director of the Company.

Review for the First Half of 2005

POST BALANCE SHEET EVENTS

Subsequent to 30 June 2005, domestic airlines within China, including the Company, were permitted to levy fuel surcharges for domestic routes (excluding routes between Mainland China and Hong Kong and Macau) to partially offset the rise in jet fuel costs. For the period between 1 August 2005 to 31 December 2005, domestic airlines are permitted to levy fuel surcharges of RMB20 and RMB40 per person for passengers travelling a flight distance of below and over 800 km respectively.

Since 5 July 2005, Mr. Zheng Baoan has been appointed in place of Mr. Fan Cheng as a new joint company secretary of the Company. This change of joint company secretary has been approved by the Board of the Company and was disclosed in an announcement dated 11 July 2005.

On 21 July 2005, the People's Bank of China announced the introduction of a regulated, managed floating exchange rate system in the PRC based on market supply and demand and with reference to a basket of currencies. Removal of the peg to the US dollar allowed more flexibility for the exchange rate system of the Renminbi. On 21 July 2005, the exchange rate between the US dollar and Renminbi was adjusted to US$1 to RMB8.11. The Board of the Company believes that such appreciation of RMB will not have any adverse effect on the operating results and financial position of the Group.

On 8 August 2005, the Company and the Boeing Company entered into an agreement in respect of the purchase of 15 Boeing 787 aircraft, which has been disclosed in a public announcement. The transaction has been approved by the Board and CNAHC, the controlling shareholder of the Company. A circular in this regard has been despatched to the shareholders on 30 August 2005.

At the employees' representatives meeting held on 27 August 2005, Mr. Liu Guo Qing has been appointed a supervisor of the Company. Upon his appointment, Mr. Liu has become a representative of employees on the supervisory committee of the Company. Such appointment of supervisor has been disclosed in an announcement published on 31 August 2005.

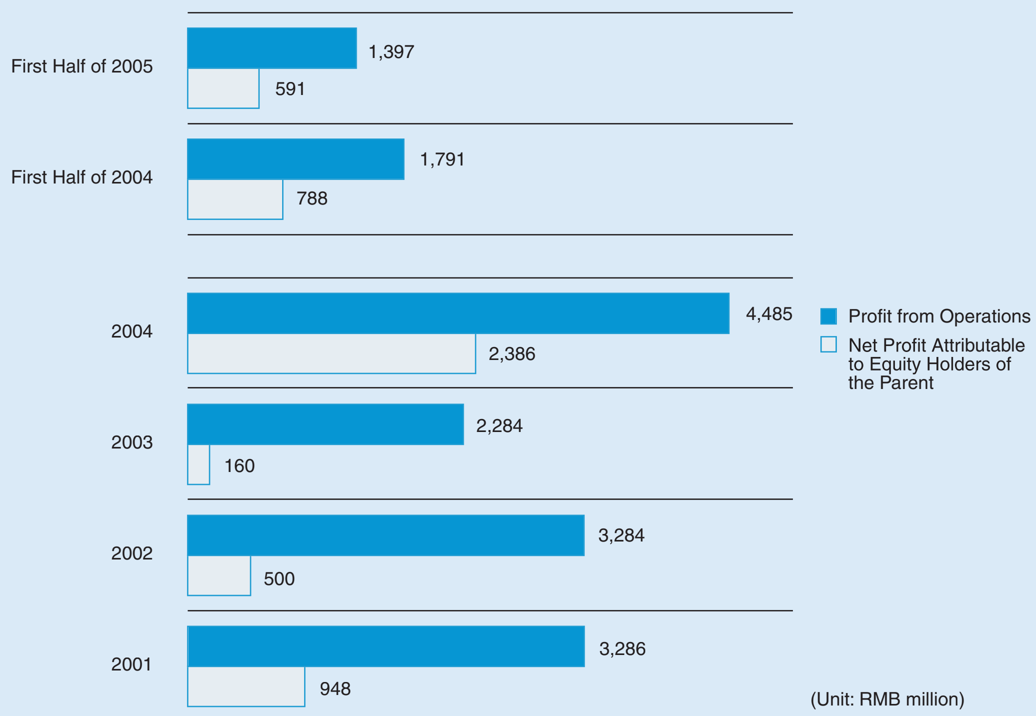
Management Discussion and Analysis

The unaudited condensed consolidated interim financial statements of the Group set out from pages 21 to 45 of this Interim Report, comprising the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the condensed consolidated interim financial statements, were prepared in accordance with International Financial Reporting Standards ("IFRS"). The following discussion and analysis are designed to assist the reader in understanding the information provided in this Interim Report so as to fully comprehend the financial results and financial position of the Group as a whole.

PROFIT FROM OPERATIONS AND NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

For the six months ended 30 June 2005, the Group's profit from operations was RMB1,397 million, representing a decrease of 22.0% compared to the corresponding period in 2004. Net profit attributable to equity holders of the parent amounted to RMB591 million, representing a decrease of 25.0% compared to the corresponding period in 2004. The decreases in profit from operations and net profit attributable to equity holders of the parent were mainly due to the rising jet fuel price.

The consolidated income statement includes the operating results of all associates of the Group. For the six months ended 30 June 2005, share of profits less losses from associates was RMB151 million, representing a decrease of 20.8% from the corresponding period last year, primarily due to the decrease in profits from two associates, namely Dragonair and Shenzhen Airlines.



Management Discussion and Analysis

PROFIT CONTRIBUTION BY BUSINESS SEGMENTS

	For the six months ended 30 June		
	2005	2004	Change
	RMB'000	RMB'000	(%)
Airline operations	**1,213,647**	1,670,086	-27.3
Engineering services	**96,697**	41,585	132.5
Airport terminal services	**61,945**	53,444	15.9
Others	**25,056**	25,627	-2.2
Profit from operations	**1,397,345**	1,790,742	-22.0

EARNINGS PER SHARE

For the six months ended 30 June 2005, the Group's interim earnings per share was RMB0.06, a decrease of 47.9% compared to RMB0.12 for the corresponding period in 2004. This was mainly due to a 25.0% decrease in the net profit attributable to equity holders of the parent compared to the same period in 2004 and the initial public offering of 2,550,618,182 shares upon the Company's listing in late 2004 and the issue of 382,592,727 additional shares in the beginning of 2005, which increased the weighted average number of shares compared to the corresponding period last year. Details of earnings per share are set out in note 7 to the unaudited condensed consolidated interim financial statements.

OPERATING REVENUES

For the six months ended 30 June 2005, the Group's operating revenue was RMB16.939 billion, representing an increase of 14.7% compared to the corresponding period last year. Revenues from passenger services of the Group were subject to the seasonality of the aviation industry in the PRC. The peak season of the aviation industry falls between July and October each year with the highest demand for passenger services during that period. As such, the Group's revenue from passenger services in the first half of the year is generally lower than that in the second half.

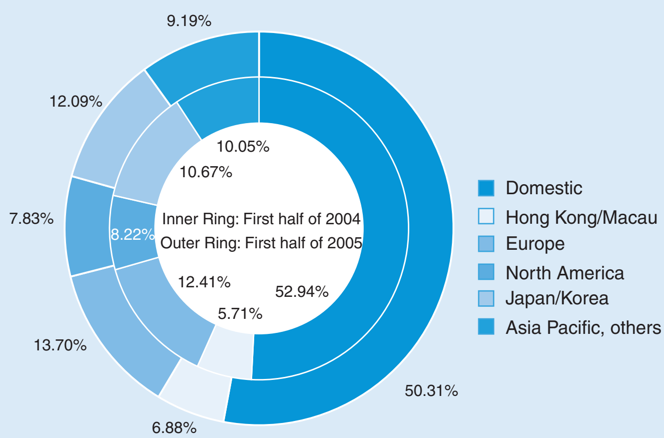
REVENUE CONTRIBUTION BY BUSINESS SEGMENTS

	For the six months ended 30 June		
	2005	2004	Change
	RMB'000	RMB'000	(%)
Airline operations	**16,569,472**	14,410,881	15.0
Of which:			
Passenger	**13,927,279**	12,151,881	14.6
Cargo and mail	**1,675,433**	1,384,951	21.0
Engineering services	**131,518**	128,798	2.1
Airport terminal services	**131,484**	109,381	20.2
Others	**106,058**	124,299	-14.7
Operating revenue	**16,938,532**	14,773,359	14.7

Management Discussion and Analysis

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	For the six months ended 30 June		
	2005	2004	Change
	RMB'000	RMB'000	(%)
Domestic	**8,521,194**	7,820,767	9.0
Hong Kong/Macau	**1,165,547**	843,209	38.2
Europe	**2,321,126**	1,834,105	26.6
North America	**1,326,233**	1,214,476	9.2
Japan/Korea	**2,047,609**	1,576,652	29.9
Asia Pacific, others	**1,556,823**	1,484,150	4.9
Operating revenue	**16,938,532**	14,773,359	14.7



OPERATING EXPENSES

The operating expenses of the Group primarily comprise jet fuel costs, take-off, landing and depot charges, depreciation, aircraft maintenance, repair and overhaul expenses, employee compensation costs and air catering charges. For the six months ended 30 June 2005, the Group recorded an increase of RMB2.559 billion compared to the same period in 2004, primarily as a result of the rising jet fuel costs and depreciation charge. The rise in jet fuel costs was attributable to the increased fuel consumption and the substantial increase in jet fuel prices.

Depreciation charges increased due to the adoption of the revised treatment of IAS 16 *Property, Plant and Equipment* and fleet expansion. The decrease in aircraft maintenance, repair and overhaul expenses primarily arose from the adoption of the revised treatment of IAS 16. Details on the accounting policies and revised treatment of IAS 16 are set out in note 1 to the unaudited condensed consolidated interim financial statements.

Management Discussion and Analysis

PRINCIPAL OPERATING EXPENSES

	For the six months ended 30 June		
	2005	2004	Change
	RMB'000	RMB'000	(%)
Jet fuel	**5,061,760**	3,612,602	40.1
Take-off, landing and depot charges	**2,172,296**	2,042,489	6.4
Depreciation	**2,456,709**	1,676,308	46.6
Aircraft maintenance, repair and overhaul	**548,508**	1,239,339	-55.7
Employee compensation costs	**1,413,632**	1,263,777	11.9
Air catering expenses	**610,343**	532,535	14.6

HEDGING INSTRUMENTS

Pursuant to approval by the board of directors, the Company engaged in jet fuel forward contracts to hedge its fuel exposure. The hedging position in oil and oil-derivative products held by the Company in 2005 was restricted to a maximum of 30% of its jet fuel consumption. As of 30 June 2005, the total jet fuel hedging position of the Company was equivalent to 4.5% of its jet fuel consumption in the first half of the year.

MANAGEMENT OF EXCHANGE RISK

The foreign exchange income and expenses of the Company are generally the same. The Company achieved a matching structure of income and expenses by adjusting the proportion of its liabilities in foreign currencies, such that no hedging is required. The Company will continue to avoid exposure to exchange risks by adopting a strategy that corresponds the income and payment of certain principal currencies.

Since foreign liabilities constitute a larger proportion of the Group's liabilities, appreciation of the Renminbi will benefit the Company with exchange gains.

ANALYSIS OF ASSETS

As at 30 June 2005, the Group had total assets of RMB66.795 billion, representing an increase of 0.2% from 31 December 2004. Of the total assets, current assets accounted for 22.9%, or RMB15.311 billion, while non-current assets accounted for 77.1%, or RMB51.484 billion. Among the current assets, cash and cash equivalents decreased by 25.8% to RMB7.220 billion from 31 December 2004 to 30 June 2005, while trade receivables increased by 11.3% to RMB2.631 billion from 31 December 2004 to 30 June 2005. Among the non-current assets, property, plant and equipment accounted for RMB43.249 billion, representing a decrease of 0.4% from 31 December 2004.

Management Discussion and Analysis

ASSETS MORTGAGE

As at 30 June 2005, the Group mortgaged certain aircraft with an aggregate carrying amount of approximately RMB27.081 billion (compared to RMB28.585 billion as at 31 December 2004) pursuant to certain loan and lease agreements. Details of the mortgage are set out in note 10 to the unaudited condensed consolidated interim financial statements.

As at 30 June 2005, certain of the Group's bank deposits of approximately RMB165 million (compared to RMB117 million as at 31 December 2004) were pledged against the Group's bank and other loans, and obligations in respect of certain operating leases and financial derivatives.

Details of external guarantees of the Group are set out in note 17 to the unaudited condensed consolidated interim financial statements.

DEBT STRUCTURE OF THE GROUP

	Bank and other loans		Obligations under finance leases	
	As at 30 June 2005 RMB billion	As at 31 December 2004 RMB billion	**As at 30 June 2005 RMB billion**	As at 31 December 2004 RMB billion
Short-term	**9.220**	8.806	**2.048**	1.705
Long-term	**11.441**	12.897	**9.180**	10.576

The Company has sufficient liquidity and expects to meet its liabilities by internal resources, bank loans and other resources as they fall due.

GEARING RATIO

As at 30 June 2005, the Group's gearing ratio, which represents total liabilities divided by total assets, was 70.4%, dropped by 2.6 percentage points from 73.0% as at 31 December 2004.

INTEREST EXPENSE

For the six months ended 30 June 2005, interest expense of the Group decreased from RMB917 million in the corresponding period last year to RMB903 million, primarily due to the repayment of bank loans and decrease in obligations under finance leases.

INTEREST COVER

For the six months ended 30 June 2005, interest cover, representing net profit attributable to equity holders of the parent excluding interest expenses, taxes, depreciation and amortization ("EBITDA") divided by interest expense, was 4.7 times, compared to 4.1 times for the corresponding period in 2004. The increase in interest cover was attributable to the decrease in interest expense and rise in EBITDA.

Management Discussion and Analysis

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2005, the Group had capital commitments of approximately RMB23.149 billion, primarily for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years, and for the construction of certain properties.

As at 30 June 2005, the Group committed to make a capital contribution of approximately RMB372 million (US$45 million) to a joint venture.

Details of capital commitments of the Group as at 30 June 2005 are set out in note 18 to the unaudited condensed consolidated interim financial statements.

In respect of the civil litigation in the High Court of Hong Kong (Action No. 515 of 2001) as disclosed in paragraph (c) of Note 41 to the consolidated financial statements for the year ended 31 December 2004 in the Company's 2004 annual report, Air China International Corporation, AIE and other parties entered into a settlement agreement with New Link Consultants Limited ("NLC") on 20 July 2005, pursuant to which AIE agreed to pay a settlement amount of US$195,250 to NLC. The settlement amount was fully paid by AIE to NLC on 10 August 2005.

Save as disclosed above and in note 17 to the unaudited condensed consolidated interim financial statements, there have been no material adverse changes in the contingent liabilities of the Group since 31 December 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Group finances its working capital needs through cash inflows from operating activities and bank loans. Like many other airlines in the PRC, the Group has been operating with a net current liabilities position. As at 31 December 2004 and 30 June 2005, net current liabilities of the Group were RMB6.860 billion and RMB8.844 billion respectively. The increase in net current liabilities was primarily due to a decrease in current assets, in particular, a RMB2.514 billion decrease in cash and cash equivalents.

CAPITAL EXPENDITURE

During the six months ended 30 June 2005, the capital expenditure of the Company amounted to RMB3.792 billion. The Company's total investment in aircraft was RMB3.362 billion, including a prepayment of RMB2.682 billion for purchasing aircraft from 2006 onwards.

Other investments in capital expenditure items were RMB430 million, which mainly involved the improvement of first class and business class cabins of certain aircraft, ancillary projects in No. 3 Terminal of Beijing International Airport, as well as certain long-term investment projects.

DISCLOSURE REQUIRED BY THE HONG KONG STOCK EXCHANGE LISTING RULES

In compliance with paragraph 40(2) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company confirms that, save as disclosed herein, there has been no material change in the existing information regarding the Company in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules from the information in relation to the matters disclosed in the 2004 Annual Report of the Company.

Condensed Consolidated Interim Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

INTERIM RESULTS

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

	Notes	Six months ended 30 June 2005 RMB'000 (Unaudited)	 2004 RMB'000 (Audited) (Restated)
Air traffic revenues	*3*	**15,602,712**	13,536,832
Other operating revenues	*4*	**1,335,820**	1,236,527
Turnover		**16,938,532**	14,773,359
Operating expenses			
Jet fuel		**(5,061,760)**	(3,612,602)
Take-off, landing and depot charges		**(2,172,296)**	(2,042,489)
Depreciation	*10*	**(2,456,709)**	(1,676,308)
Aircraft maintenance, repair and overhaul		**(548,508)**	(1,239,339)
Employee compensation costs		**(1,413,632)**	(1,263,777)
Air catering charges		**(610,343)**	(532,535)
Aircraft and jet engines operating lease expenses		**(637,757)**	(490,511)
Other operating lease expenses		**(118,011)**	(87,248)
Other flight operation expenses		**(1,572,899)**	(1,130,826)
Selling and marketing expenses		**(692,452)**	(658,412)
General and administrative expenses		**(256,820)**	(248,570)
Total operating expenses		**(15,541,187)**	(12,982,617)
Profit from operations	*9*	**1,397,345**	1,790,742
Finance costs	*5*	**(635,925)**	(788,561)
Share of profits less losses from associates		**151,301**	191,056
Profit before tax		**912,721**	1,193,237
Tax	*6*	**(270,329)**	(358,802)
Profit for the period		**642,392**	834,435
Attributable to:			
Equity holders of the parent		**591,253**	788,352
Minority interests		**51,139**	46,083
		642,392	834,435
Earnings per share – Basic	*7*	**6.3 cents**	12.1 cents
– Diluted	*7*	**–**	–

Condensed Consolidated Interim Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Notes	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**43,249,405**	43,441,637
Lease prepayments	*11*	**918,719**	933,898
Interests in associates		**3,883,988**	4,001,521
Advance payments for aircraft and related equipment		**2,113,727**	632,154
Due from CNAHC		**581,813**	631,813
Deposits for aircraft under operating leases		**154,387**	137,583
Other investments		**21,666**	21,666
Deferred tax assets		**560,563**	776,084
		51,484,268	50,576,356
CURRENT ASSETS			
Financial assets		**71,055**	–
Trade receivables	*12*	**2,631,351**	2,364,816
Inventories		**820,881**	743,288
Prepayments, deposits and other receivables	*13*	**4,374,174**	3,108,588
Due from other CNAHC group companies		**28,839**	44,916
Pledged deposits		**164,323**	117,231
Cash and cash equivalents		**7,220,306**	9,734,074
		15,310,929	16,112,913
TOTAL ASSETS		**66,795,197**	66,689,269
CURRENT LIABILITIES			
Trade payables	*14*	**5,059,258**	4,443,608
Bills payable		**818,344**	362,033
Other payables and accruals	*15*	**4,551,359**	3,920,287
Provision for major overhauls		**23,767**	28,130
Air traffic liabilities		**1,372,271**	1,215,770
Tax payable		**65,581**	186,055
Obligations under finance leases		**2,047,703**	1,705,146
Bank and other loans		**9,219,576**	8,806,051
Due to shareholders		**967,835**	2,256,117
Due to other CNAHC group companies		**29,561**	49,617
		24,155,255	22,972,814
NET CURRENT LIABILITIES		**8,844,326**	6,859,901
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,639,942**	43,716,455

Condensed Consolidated Interim Financial Statements

	Notes	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Obligations under finance leases		**9,179,897**	10,576,241
Bank and other loans		**11,441,276**	12,896,622
Long-term payables		**376,078**	446,311
Deferred income		**1,064,381**	1,102,853
Provision for major overhauls		**600,244**	470,698
Provision for early retirement benefits obligations		**192,297**	195,188
		22,854,173	25,687,913
NET ASSETS		**19,785,769**	18,028,542
Represented by:			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued share capital	*16*	**9,433,211**	9,050,618
Reserves		**8,876,393**	7,497,637
		18,309,604	16,548,255
MINORITY INTERESTS		**1,476,165**	1,480,287
TOTAL EQUITY		**19,785,769**	18,028,542

Condensed Consolidated Interim Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Attributable to equity holders of the parent							
(Unaudited)	Owners' equity RMB'000	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2005	–	9,050,618	6,942,422	93,020	462,195	16,548,255	1,480,287	18,028,542
Profit for the period	–	–	–	–	591,253	591,253	51,139	642,392
Issue of new shares *(note 16 (b))*	–	382,593	787,503	–	–	1,170,096	–	1,170,096
Dividend paid	–	–	–	–	–	–	(55,261)	(55,261)
As at 30 June 2005	–	9,433,211	7,729,925	93,020	1,053,448	18,309,604	1,476,165	19,785,769

	Attributable to equity holders of the parent							
(Audited)	Owners' equity RMB'000 *(note a)*	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2004	6,892,869	–	–	–	–	6,892,869	1,422,380	8,315,249
Capital contributions	17,084	–	–	–	–	17,084	–	17,084
Profit for the period	788,352	–	–	–	–	788,352	46,083	834,435
Distribution *(note 8)*	(40,969)	–	–	–	–	(40,969)	(6,125)	(47,094)
As at 30 June 2004	7,657,336	–	–	–	–	7,657,336	1,462,338	9,119,674

Note:

(a) Pursuant to the Restructuring as set out in note 1 and note 16 to the unaudited condensed consolidated interim financial statements, the owners' equity at 30 June 2004 was converted into part of the Company's share capital of RMB6,500 million of RMB1.00 each and capital reserve upon the incorporation of the Company on 30 September 2004.

Condensed Consolidated Interim Financial Statements

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**4,693,402**	2,069,019
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(5,086,756)**	(695,128)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(2,119,154)**	(1,781,076)
Effect of exchange rate changes on cash and cash equivalents	**3,775**	27,726
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,508,733)**	(379,459)
Cash and cash equivalents at beginning of period	**9,413,224**	2,589,395
Cash and cash equivalents at end of period	**6,904,491**	2,209,936
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents for balance sheet	**7,220,306**	3,255,763
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**(315,815)**	(1,045,827)
Cash and cash equivalents for condensed consolidated cash flow statement	**6,904,491**	2,209,936

Condensed Consolidated Interim Financial Statements

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Air China Limited (the "Company") was incorporated on 30 September 2004 in Beijing, the People's Republic of China (the "PRC"), as a joint stock limited company as part of the restructuring (the "Restructuring") of China National Aviation Holding Company ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council, in preparation for the listing of the Company's H shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the London Stock Exchange as described below.

As disclosed in the Company's prospectus dated 3 December 2004, pursuant to the Restructuring, CNAHC and through its wholly-owned subsidiaries, effected the transfer of the following to the Company upon its incorporation:

(i) the assets, liabilities and undertakings which principally relate to the business of the provision of airline operations (the "Relevant Businesses"); and

(ii) the shareholding interests in certain subsidiaries, joint ventures and associates which principally carry on the business of the provision of airline operations, aircraft engineering services, air catering services, airport ground handling services and other airline-related businesses (the "Relevant Companies").

As CNAHC controlled the Relevant Businesses and Relevant Companies before the Restructuring and continues to control the Company after the Restructuring, the consolidated financial statements of the Group prior to the incorporation of the Company on 30 September 2004 had been prepared as a reorganisation of companies under common control in a manner similar to a pooling-of-interests.

The consolidated results and consolidated cash flows for the six months ended 30 June 2004 include the Group's results of operations and cash flows as if the Relevant Businesses and interests in the Relevant Companies had been transferred to the Group at 1 January 2001, which is the earliest date for the preparation of the financial information in relation to the listing of the Company's H shares. The Company's directors are of the opinion that the consolidated income statement and consolidated cash flow statement prepared on this basis present fairly the consolidated results and consolidated cash flows of the Group as a whole.

The unaudited condensed consolidated interim financial statements of the Group 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 ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. In particular, the unaudited condensed consolidated interim financial statements of the Group comply with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The unaudited condensed consolidated interim financial statements of the Group have been prepared on a historical cost basis, except for the measurement at fair value of financial instruments in accordance with IAS 39 (amended 2004) *Financial Instruments: Recognition and Measurement*.

Condensed Consolidated Interim Financial Statements

1. **BASIS OF PRESENTATION AND ACCOUNTING POLICIES** *(Continued)*

The principal accounting policies used in the preparation of the unaudited condensed consolidated interim financial statements of the Group are consistent with those used in the annual audited financial statements of the Group for the year ended 31 December 2004, except for the following standards which have taken effect as at 1 January 2005:

(a) IFRS 2 *Share-based Payment* requires the Group to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the Group. For equity-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in the income statement for the period. For share-based payment transactions in which the terms of the arrangement provide either the Group or the supplier of goods or services with a choice of whether the Group settles the transaction in cash or by issuing equity instruments, the Group is required to account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets), or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. The provisions of IFRS 2 apply to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested on or after 1 January 2005. The adoption of IFRS 2 did not give rise to any adjustment to the opening balances of retained profits of the current and prior periods or to any change in comparatives.

(b) IAS 16 (amended 2004) *Property, Plant and Equipment* replaces IAS 16 (revised 1998) *Property, Plant and Equipment*. There are a number of differences between the amended standard and the previous version. Firstly, the amended standard requires an entity to evaluate under the general recognition principle all property, plant and equipment costs at the time they are incurred. Those costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service an item. The previous version of IAS 16 contained specific recognition principles for accounting for subsequent costs. Secondly, the amended standard requires that the cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, and the obligation for which an entity incurs as a consequence of installing the item. Its cost also includes the costs of its dismantlement, removal or restoration, and the obligation for which an entity incurs as a consequence of using the item during a particular period for purposes other than to produce inventories during that period. The previous version of the standard included within its scope only the costs incurred as a consequence of installing the item. Thirdly, under the amended standard an entity is required to determine the depreciation charge separately for each significant part of an item of property, plant and equipment, a requirement which was not clearly set out in the previous version. In addition, under the amended standard, an entity is required to measure the residual value of an item of property, plant and equipment as the amount that it estimates it would currently receive for the asset if the asset was already of the age and in the condition expected at the end of its useful life. The previous version of IAS 16 did not specify whether the residual value was to be this amount or the amount, inclusive of the effects of inflation, that an entity expected to receive at the asset's actual retirement date. Furthermore, the amended standard requires major inspection and overhaul costs to be recognised in the carrying amount of an item of property, plant and equipment when performed.

Condensed Consolidated Interim Financial Statements

1. **BASIS OF PRESENTATION AND ACCOUNTING POLICIES** *(Continued)*

The adoption of the revised treatment of IAS 16 (amended 2004) has been accounted for prospectively, which resulted in the following:

(i) In prior years, the aircraft were depreciated over their estimated useful lives of 20 years. With effect from 1 January 2005, the estimated useful lives of certain components within the aircraft which are subject to replacement during major overhauls have been reduced to the life of the overhaul cycle. The change in accounting estimate has increased the Group's depreciation charge for the six months ended 30 June 2005 by approximately RMB595 million. As a result, the profit after tax of the Group for the six months ended 30 June 2005 has decreased by approximately RMB399 million.

(ii) Major overhaul costs incurred for the six months ended 30 June 2005 of approximately RMB1,243 million have been capitalised and depreciated over the life of the overhaul cycle. Prior to 1 January 2005, such costs have been charged to the income statement on an incurred basis. In this respect, the costs of aircraft maintenance, repair and overhaul of the Group charged to the income statement for the six months ended 30 June 2005 decreased by RMB1,243 million. In addition, the Group has derecognised and charged to the income statement for the six months ended 30 June 2005 the carrying amount of certain components of approximately RMB222 million which have been replaced during the major overhaul. As a result, the profit after tax of the Group for the six months ended 30 June 2005 has increased by approximately RMB684 million.

(c) IAS 24 (revised 2003) *Related Party Disclosures* replaces IAS 24 *Related Party Disclosures* (reformatted in 1994). The main objective of such revision was to provide additional guidance and clarity in the scope of IAS 24 for the definition and the disclosures for related parties. The wording of IAS 24's objective was amended to clarify that the Group's financial statements should contain the disclosures necessary to draw attention to the possibility that the financial position and the income statement may have been affected by the existence of related parties and by transactions and outstanding balances with them. Since IAS 24 is a standard for disclosure requirements only, there is no material effect on the Group's results of operations and financial position upon adoption.

2. **SEGMENT INFORMATION**

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. 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.

Currently, the Group's business segment information is divided into four business segments – airline operations, engineering services, airport terminal services and other businesses ("others"). Segment net profit represents revenues less expenses directly attributable to a segment and the relevant portion of enterprise revenues 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.

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.

Condensed Consolidated Interim Financial Statements

2. **SEGMENT INFORMATION** *(Continued)*

Business segments

An analysis of the Group's revenue and operating results by business segments for the six months ended 30 June 2005 is as follows:

	Airline operations RMB'000 (Unaudited)	Engineering services RMB'000 (Unaudited)	Airport terminal services RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUES						
Sales to external customers	**16,569,472**	**131,518**	**131,484**	**106,058**	**–**	**16,938,532**
Intersegment sales	**–**	**407,386**	**–**	**86,140**	**(493,526)**	**–**
Total revenues	**16,569,472**	**538,904**	**131,484**	**192,198**	**(493,526)**	**16,938,532**
PROFIT FROM OPERATIONS						
Segment results	**1,213,647**	**96,697**	**61,945**	**25,056**	**–**	**1,397,345**

An analysis of the Group's revenue and operating results by business segments for the six months ended 30 June 2004 is as follows:

	Airline operations RMB'000 (Audited) (Restated)	Engineering services RMB'000 (Audited) (Restated)	Airport terminal services RMB'000 (Audited) (Restated)	Others RMB'000 (Audited) (Restated)	Eliminations RMB'000 (Audited) (Restated)	Total RMB'000 (Audited) (Restated)
REVENUES						
Sales to external customers	14,410,881	128,798	109,381	124,299	–	14,773,359
Intersegment sales	–	314,367	–	70,319	(384,686)	–
Total revenues	14,410,881	443,165	109,381	194,618	(384,686)	14,773,359
PROFIT FROM OPERATIONS						
Segment results	1,670,086	41,585	53,444	25,627	–	1,790,742

Condensed Consolidated Interim Financial Statements

2. **SEGMENT INFORMATION** *(Continued)*

Geographical segments

The following tables present consolidated revenue information by geographical segments for the periods ended 30 June 2005 and 30 June 2004:

For the period ended 30 June 2005	Domestic RMB'000 (Unaudited)	HK/Macau RMB'000 (Unaudited)	Europe RMB'000 (Unaudited)	North America RMB'000 (Unaudited)	Japan/Korea RMB'000 (Unaudited)	Asia Pacific, others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUES							
Sales to external customers and total revenues	**8,521,194**	**1,165,547**	**2,321,126**	**1,326,233**	**2,047,609**	**1,556,823**	**16,938,532**

For the period ended 30 June 2004	Domestic RMB'000 (Audited) (Restated)	HK/Macau RMB'000 (Audited) (Restated)	Europe RMB'000 (Audited) (Restated)	North America RMB'000 (Audited) (Restated)	Japan/Korea RMB'000 (Audited) (Restated)	Asia Pacific, others RMB'000 (Audited) (Restated)	Total RMB'000 (Audited) (Restated)
REVENUES							
Sales to external customers and total revenues	7,820,767	843,209	1,834,105	1,214,476	1,576,652	1,484,150	14,773,359

3. **AIR TRAFFIC REVENUES**

Air traffic revenues comprise revenues from the airline operations business and are stated net of business tax. An analysis of air traffic revenues is as follows:

	Six months ended 30 June	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Audited) (Restated)
Passenger	**13,927,279**	12,151,881
Cargo and mail	**1,675,433**	1,384,951
	15,602,712	13,536,832

Pursuant to various PRC business tax rules and regulations, the Group is required to pay business tax to the local tax bureau at the following rates:

Type of revenue	Applicable business tax rate
Air traffic revenues	3% of air traffic revenues. All inbound international and Hong Kong and Macau regional flights are exempted from business tax.
Other revenues	3% of ground services income, and 3% to 5% of other revenues.

PRC business tax incurred for the six months ended 30 June 2004 and 2005, netted against air traffic revenues, amounted to approximately RMB350 million (audited and restated) and RMB372 million (unaudited), respectively.

Condensed Consolidated Interim Financial Statements

4. OTHER OPERATING REVENUES

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
Bellyhold income	**711,910**	670,145
Aircraft engineering income	**131,518**	128,798
Ground services income	**131,484**	109,381
General aviation income	**94,522**	87,225
Air catering income	**65,539**	64,945
Government grants:		
(i) Recognition of deferred income	**38,472**	28,947
(ii) Fixed cash subsidy	**–**	25,000
(iii) Others	**9,676**	771
Service charges on return of unused flight tickets	**34,502**	29,835
Cargo handling service income	**33,005**	20,319
Sale of materials	**5,839**	2,300
Import and export service income	**5,974**	13,099
Training service income	**9,832**	9,937
Aircraft and related equipment lease income	**14,834**	4,670
Gain on disposal of property, plant and equipment	**170**	–
Others	**48,543**	41,155
	1,335,820	1,236,527

5. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
Interest expense	**903,392**	917,080
Less: Interest capitalised	**–**	(2,610)
	903,392	914,470
Less: Interest income	**(37,006)**	(6,032)
Exchange gains, net	**(175,459)**	(43,107)
Gain on fuel derivatives, net	**(55,002)**	(76,641)
Dividend income on long-term investment	**–**	(129)
	635,925	788,561

The interest capitalisation rate represented the cost of capital from raising the related borrowings and ranged from 5.58% to 5.76% per annum.

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6. TAX

According to the PRC Enterprise Income Tax Law, the Company, its subsidiaries, joint ventures and associates established in the PRC are subject to the enterprise income tax at rates ranging from 15% to 33% (2004: 15% to 33%) on their taxable income.

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
Current income tax:		
Mainland China	**50,204**	11,034
Hong Kong	**4,604**	1,118
Deferred income tax:		
Relating to origination and reversal of temporary differences	**215,521**	346,650
Total income tax charge for the period	**270,329**	358,802

Share of tax attributable to associates amounting to RMB20,746,000 (2004: RMB32,636,000) is included in "Share of profits less losses from associates" on the face of the unaudited condensed consolidated income statement.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the net profit attributable to equity holders of the parent for the six months ended 30 June 2005 of approximately RMB591,253,000, and the weighted average of approximately 9,412,073,189 shares in issue during the period as adjusted to reflect the new issue of 382,592,727 H shares on the exercise of the over-allotment options.

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the net profit attributable to equity holders of the parent for the six months ended 30 June 2004 of approximately RMB788,352,000, and the number of shares in issue during the period on the assumption that the 6,500,000,000 shares issued as at 30 September 2004, the date of incorporation of the Company, had been in issue throughout the period.

Diluted earnings per share for the six months ended 30 June 2005 and 30 June 2004 has not been calculated because no diluting events existed during these periods.

8. DIVIDEND/DISTRIBUTION

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of dividend payment is based on the lesser of (i) the net profit determined in accordance with the accounting principles and the financial regulations applicable in the PRC; and (ii) the net profit determined in accordance with IFRSs.

The Board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

The Company had a profit distribution of RMB40,969,000 (audited) for the six months ended 30 June 2004.

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9. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Six months ended 30 June 2005 RMB'000 (Unaudited)	2004 RMB'000 (Audited) (Restated)
Loss on disposal of property, plant and equipment	**222,000**	15,948
Amortisation of lease prepayments	**9,780**	111

10. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000 (Unaudited)	Buildings RMB'000 (Unaudited)	Machinery RMB'000 (Unaudited)	Transportation equipment RMB'000 (Unaudited)	Office equipment RMB'000 (Unaudited)	Construction in progress RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2005, net of accumulated depreciation	38,718,863	2,684,860	963,467	315,542	92,055	666,850	43,441,637
Additions	2,112,611	770	38,822	6,540	6,225	356,178	2,521,146
Disposals	(231,775)	(20,703)	(1,519)	(259)	(2,413)	–	(256,669)
Transfer from construction in progress	389,412	22,999	8,172	793	301	(421,677)	–
Depreciation charge for the period	(2,258,095)	(54,438)	(97,198)	(33,655)	(13,323)	–	(2,456,709)
At 30 June 2005, net of accumulated depreciation	38,731,016	2,633,488	911,744	288,961	82,845	601,351	43,249,405
At 30 June 2005							
Cost	66,073,160	3,669,673	2,084,959	1,070,719	226,743	601,351	73,726,605
Accumulated depreciation	(27,342,144)	(1,036,185)	(1,173,215)	(781,758)	(143,898)	–	(30,477,200)
Net carrying amount	38,731,016	2,633,488	911,744	288,961	82,845	601,351	43,249,405

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10. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Aircraft and flight equipment RMB'000 (Audited)	Buildings RMB'000 (Audited)	Machinery RMB'000 (Audited)	Transportation equipment RMB'000 (Audited)	Office equipment RMB'000 (Audited)	Construction in progress RMB'000 (Audited)	Total RMB'000 (Audited)
At 1 January 2004, net of accumulated depreciation	37,789,877	2,715,540	1,051,602	293,144	90,268	483,489	42,423,920
Establishment of a joint venture *(note a)*	(267,119)	(186,169)	(86,932)	(21,673)	–	(3,947)	(565,840)
Additions	4,479,459	42,515	109,019	135,909	77,244	734,028	5,578,174
Disposals	(424,064)	(49,111)	(28,705)	(7,170)	(22,315)	–	(531,365)
Transfer from construction in progress	164,788	285,156	91,393	5,177	206	(546,720)	–
Depreciation charge for the year	(3,024,078)	(123,071)	(172,910)	(89,845)	(53,348)	–	(3,463,252)
At 31 December 2004, net of accumulated depreciation	38,718,863	2,684,860	963,467	315,542	92,055	666,850	43,441,637
At 31 December 2004							
Cost	63,813,626	3,674,146	2,045,002	1,068,502	223,531	666,850	71,491,657
Accumulated depreciation	(25,094,763)	(989,286)	(1,081,535)	(752,960)	(131,476)	–	(28,050,020)
Net carrying amount	38,718,863	2,684,860	963,467	315,542	92,055	666,850	43,441,637

Note:

(a) Upon the establishment of Air China Cargo Co., Ltd. ("Air China Cargo"), a 51%-owned joint venture of the Company, the entire air cargo business and relevant air cargo assets and liabilities were transferred to Air China Cargo in 2004 in the form of the Company's capital contribution and advance to Air China Cargo.

Certain of the Group's bank and other loans are secured by certain of the Group's aircraft, which had an aggregate carrying amount of approximately RMB16,158 million (unaudited) as at 30 June 2005 (31 December 2004: RMB16,586 million (audited)).

The carrying amount of the aircraft held under finance leases as at 30 June 2005 was approximately RMB10,923 million (unaudited) (31 December 2004: RMB11,999 million (audited)). Leased assets are pledged as security for the related finance lease liabilities.

As at 30 June 2005, the Group was in the process of applying for the title certificates for certain of its buildings with an aggregate carrying amount of approximately RMB597 million (unaudited) (31 December 2004: RMB2,178 million (audited)). 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 of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2005.

11. LEASE PREPAYMENTS

As at 30 June 2005, the Group was in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying amount of approximately RMB106 million (unaudited) (31 December 2004: RMB920 million (audited)). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned lands. The directors of the Company are of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2005.

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12. TRADE RECEIVABLES

The Group normally allows a credit period ranging from 30 days to 90 days to its sales agents and other customers. An aged analysis of the trade receivables of the Group, based on invoice date and net of provision for doubtful debts, is as follows:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Within 30 days	1,803,369	1,838,756
31 to 60 days	168,310	280,382
61 to 90 days	128,378	152,548
Over 90 days	531,294	93,130
At end of period/year	2,631,351	2,364,816

Included in the Group's trade receivables is the following amount due from a joint venture:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Joint venture	462,497	412,539

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Set out below is a breakdown of the Group's prepayments, deposits and other receivables:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Advance payments for aircraft and related equipment acquisitions	3,591,296	2,193,458
Advances and others	400,904	324,655
Manufacturers' credits on aircraft acquisition receivable	69,069	74,518
Prepaid aircraft operating lease rentals	101,125	95,681
Receivables from sale of staff quarters	23,403	24,681
Miscellaneous deposits	188,377	395,595
	4,374,174	3,108,588

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14. TRADE PAYABLES

An aged analysis of the Group's trade payables, based on invoice date, is as follows:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Within 30 days	**2,581,907**	3,108,028
31 to 60 days	**1,104,110**	805,858
61 to 90 days	**599,494**	304,943
Over 90 days	**773,747**	224,779
At end of period/year	**5,059,258**	4,443,608

Included in the Group's trade payables is the following amount due to a joint venture:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Joint venture	**158,645**	179,934

15. OTHER PAYABLES AND ACCRUALS

Set out below is a breakdown of the Group's other payables and accruals:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Provision for staff housing benefits	**352,263**	469,617
Accrued salaries, wages and benefits	**581,378**	692,510
Payable to the Social Security Bureau	**876,404**	–
Interest expense payable	**260,358**	269,928
Accruals for share issuing expenses	**240**	208,644
Custom duties and levies payable	**819,586**	742,201
Current portion of long-term payables	**108,425**	101,802
Current portion of deferred income	**76,943**	76,943
Advances from customers	**270,604**	294,798
Accrued operating expenses	**793,771**	716,548
Others	**411,387**	347,296
	4,551,359	3,920,287

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16. SHARE CAPITAL

	Number of shares 30 June 2005	Nominal value 30 June 2005 RMB'000 (Unaudited)	Number of shares 31 December 2004	Nominal value 31 December 2004 RMB'000 (Audited)
Registered, issued and fully paid				
– State legal person shares of RMB1.00 each	**4,826,195,989**	**4,826,196**	4,855,945,675	4,855,946
– Non-H foreign shares of RMB1.00 each	**1,380,482,920**	**1,380,483**	1,388,992,507	1,388,992
– H shares of RMB1.00 each	**3,226,532,000**	**3,226,532**	2,805,680,000	2,805,680
	9,433,210,909	**9,433,211**	9,050,618,182	9,050,618

A summary of the movements in the Company's issued share capital for the six months ended 30 June 2005 is as follows:

	Number of shares	Nominal value RMB'000 (Unaudited)
At beginning of period	**9,050,618,182**	**9,050,618**
State legal person shares converted into H shares *(note 16 (a))*	**(29,749,686)**	**(29,750)**
Non-H foreign shares converted into H shares *(note 16 (a))*	**(8,509,587)**	**(8,509)**
Share placement *(note 16 (b))*	**420,852,000**	**420,852**
At end of period	**9,433,210,909**	**9,433,211**

Pursuant to the Restructuring, and the basis of presentation thereof, as discussed in note 1, the owners' equity of the Company in the consolidated balance sheet as at 30 September 2004, the date of incorporation of the Company, was converted into the Company's share capital of RMB6,500 million of RMB1.00 each with the rest as capital reserve.

A summary of the movements in the Company's issued share capital for the period from 30 September 2004 (date of incorporation) to 31 December 2004 is as follows:

	Number of shares	Nominal value RMB'000 (Audited)
At date of incorporation	6,500,000,000	6,500,000
State legal person shares converted into H shares	(198,331,240)	(198,331)
Non-H foreign shares converted into H shares	(56,730,578)	(56,731)
Share placement and public offer	2,805,680,000	2,805,680
At end of the year	9,050,618,182	9,050,618

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16. SHARE CAPITAL *(Continued)*

Notes:

(a) In January 2005, upon the exercise of the over-allotment options granted to international underwriters, the Company issued 420,852,000 H shares, consisting of 382,592,727 new shares, 29,749,686 H shares converted from State legal person shares and 8,509,587 H shares converted from non-H foreign shares, with a par value of RMB1.00 each at HK2.98 (equivalent to RMB3.17072) per share. The proceeds from the sale of the State legal person shares and non-H foreign shares aggregating approximately RMB117 million, after deducting share issue expenses of approximately RMB4 million which were borne by the Social Security Fund in connection with the sale of the State legal person shares and non-H foreign shares, were remitted to the Social Security Fund.

(b) As referred to in note 16 (a) above, the Company issued 420,852,000 H shares upon the exercise of the over-allotment options granted to international underwriters. After deducting aggregate net proceeds of approximately RMB117 million from the sale of 29,749,686 H shares converted from State legal person shares and 8,509,587 H shares converted from non-H foreign shares, which were remitted to the Social Security Fund and share issue expenses of approximately RMB47 million (before deducting share issue expenses of approximately RMB4 million borne by the Social Security Fund), the Company raised net proceeds of approximately RMB1,170 million, of which paid-up share capital amounted to approximately RMB383 million and capital reserve amounted to approximately RMB787 million.

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

17. CONTINGENT LIABILITIES

As at 30 June 2005, 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 Hong Kong Stock Exchange and the London Stock Exchange, the Company entered into a restructuring agreement with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG"), one of the minority shareholders of the Company and is a Hong Kong incorporated company wholly owned by CNAHC, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the Restructuring, no other 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 in respect of 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 cause of the accident has yet to be released at the date of these unaudited condensed consolidated interim financial statements. Certain injured passengers and families of the deceased passengers 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 30 June 2005, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB190 million in respect of passenger liability and other auxiliary costs. Included in the RMB190 million is an amount of approximately RMB173 million borne by the Company's insurer. As part of the Restructuring, CNAHC has agreed to indemnify the Group for any liabilities relating to the crash of Flight CA129, excluding the compensation already paid up to 30 September 2004 (being the date of incorporation of the Company). The directors of the Company believe that there will not be any material adverse impact on the Group's financial position.

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17. **CONTINGENT LIABILITIES** *(Continued)*

(c) The Company is one of the defendants in a lawsuit pending in the San Francisco Superior Court filed by Environmental World Watch Inc. ("EWW"). The complaint alleges that the Company and certain other commercial airlines operating in California have violated the California Safe Drinking Water and Toxic Enforcement Act (Health and Safety Code Section 25249.5). EWW alleges that the Company and these other airlines caused environmental exposure and occupational exposure from aircraft emissions without providing warnings required by the statue. Up to the date of these unaudited condensed consolidated interim financial statements, the Company has not been served with the complaint by EWW and, therefore, has not been required to appear in the court to defend against the allegation. The status of the proceedings is still preliminary and, therefore, the directors are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The directors are of the opinion that, based on advice from the Company's lawyers in the United States, even if the Company is served with the complaint and is therefore required to appear in the court, it would appear to have valid defense against this litigation and, accordingly, the directors consider that no provision for this complaint is needed.

(d) The Group has issued guarantees to banks in respect of the bank loan facilities granted to the following parties:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Joint venture	**115,000**	–
Associates	**179,000**	214,002
	294,000	214,002

18. **COMMITMENTS**

(a) **Capital commitments**

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Contracted, but not provided for:		
Aircraft and flight equipment	**20,580,667**	8,750,195
Buildings	**111,975**	544,855
Others	**31,602**	8,426
	20,724,244	9,303,476
Authorised, but not contracted for:		
Buildings	**2,425,181**	2,528,544
Total capital commitments	**23,149,425**	11,832,020

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18. **COMMITMENTS** *(Continued)*

(b) **Investment commitment**

As at 30 June 2005, the Company committed to make a capital contribution of approximately RMB372 million (US$45 million) (31 December 2004: RMB422 million) to a joint venture.

(c) **Operating lease commitments**

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

The Group had the following future minimum lease payments under non-cancellable operating leases:

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
Within one year	**1,703,995**	1,140,228
In the second to fifth years, inclusive	**6,063,470**	3,215,879
Over five years	**3,160,822**	1,000,319
	10,928,287	5,356,426

19. **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. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to corporations in 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 were conducted in the usual course of business.

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19. **RELATED PARTY TRANSACTIONS** *(Continued)*

The Group had the following significant transactions carried out in the ordinary course of business between the Group and (i) CNAHC, its subsidiaries (other than the Group) and joint ventures (collectively known as "CNAHC Group"); (ii) its joint ventures; and (iii) its associates:

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
A. Included in air traffic revenues		
Sale of air tickets		
CNAHC Group	**6,010**	9,050
Associates	**617**	2,233
	6,627	11,283
Sale of cargo space		
CNAHC Group	**95,671**	91,895
Charter flight service		
CNAHC Group	**186,690**	–
B. Included in other operating revenues		
Aircraft and related equipment lease income		
CNAHC Group	**–**	450
Joint ventures	**1,735**	–
	1,735	450
Aircraft engineering income		
Associates	**4,750**	9,474
Ground services income		
CNAHC Group	**488**	–
Associates	**13,384**	9,547
	13,872	9,547
Bellyhold income		
Joint venture	**711,910**	670,145
Others		
CNAHC Group	**11,042**	281
Joint ventures	**8,122**	50
Associates	**3,576**	266
	22,740	597
C. Included in finance costs		
Interest income		
Associates	**1,024**	1,224
Interest expense		
Associates	**8,965**	9,947

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19. RELATED PARTY TRANSACTIONS *(Continued)*

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
D. Included in operating expenses		
Airport ground services, take-off, landing and depot expenses		
CNAHC Group	**45,047**	50,450
Associates	**111,678**	103,157
	156,725	153,607
Air catering charges		
CNAHC Group	**24,338**	18,607
Joint ventures	**50,657**	38,527
Associates	**3,048**	–
	78,043	57,134
Repair and maintenance costs		
Joint ventures	**197,616**	209,578
Associates	**40,837**	13,491
	238,453	223,069
Sale commission expenses		
CNAHC Group	**14,950**	10,790
Management fees		
CNAHC Group	**5,088**	5,088
Others		
CNAHC Group	**47,643**	22,609
Associates	**59,551**	–
	107,194	22,609

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19. **RELATED PARTY TRANSACTIONS** *(Continued)*

	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited)
E. Deposits, loans and bills payable		
Deposits placed with an associate	**478,119**	566,985
Loans from an associate	**193,028**	481,132
Bills payable to an associate	**97,705**	–
F. Outstanding balance with related parties		
Due from CNAHC (long-term)	**581,813**	631,813
Due from other CNAHC group companies	**28,839**	44,916
Due from associates	**109,208**	90,842
Due from a joint venture	**462,497**	412,539
Due to associates	**71,473**	81,591
Due to shareholders	**967,835**	2,256,117
Due to other CNAHC group companies	**29,561**	49,617
Due to a joint venture	**158,645**	179,934

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

	Six months ended 30 June	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Audited)
G. Compensation of key management personnel of the Group		
Short term employee benefit	**2,110**	1,907
Post-employment benefit	**60**	44
Total compensation paid to key management personnel	**2,170**	1,951

(a) In addition to the above, on 18 October 1997, China National Aviation Company Limited ("CNAC"), a company incorporated in Hong Kong which is 69%-owned by the Company, entered into a licence agreement with China National Aviation Corporation ("CNAC (PRC)") pursuant to which CNAC (PRC) has agreed to grant a licence to CNAC, free of royalty, for the right to use certain trademarks in Hong Kong, the Taiwan region and Macau so long as CNAC is a subsidiary of CNACG.

On 25 August 2004, CNAC (PRC) entered into two assignment agreements with CNACG pursuant to which CNAC (PRC) has agreed to assign, free of royalty, the above-mentioned trademarks to CNACG for use in Hong Kong and Macau, respectively. 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 those trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. These licence agreements supersede the licence agreement entered into between CNAC (PRC) and CNAC on 18 October 1997.

No royalty charge was levied in respect for the use of the above trademarks during the six months ended 30 June 2005 and the year ended 31 December 2004.

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19. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Pursuant to certain of the Company's aircraft leasing arrangements and bank loans arrangements, the overseas lessors and lenders require guarantees to be given by major PRC state-owned banks. In giving such guarantees, the PRC state-owned banks in turn require CNAHC and China National Aviation Finance Co., Ltd. ("CNAF") to provide counter-guarantees in favour of the banks. As at the balance sheet date, the amounts of such counter-guarantees provided by CNAHC and CNAF were as follows:

	30 June 2005	31 December 2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
CNAHC:		
Finance leases	–	921,000
Bank loans	–	1,455,000
	–	2,376,000
CNAF:		
Finance leases	–	3,976,000
Bank loans	–	761,000
	–	4,737,000
	–	7,113,000

(c) 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; media and advertising services arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance and other ground services by China Aircraft Services Limited.

(d) There were no pension payments relating to the Supplementary Pension Benefits of the Group for the six months ended 30 June 2005. All pension payments relating to the Supplementary Pension Benefits of RMB26 million for the six months ended 30 June 2004 were borne by CNAHC.

Apart from the transactions detailed above and elsewhere in the unaudited condensed consolidated interim financial statements, the Group also conducts business with the PRC government and enterprises directly or indirectly owned or controlled by the PRC government but not controlled by CNAHC (collectively "Other State-owned Enterprises"). In the opinion of the directors, since the Group considers itself as a profit-oriented private enterprise when doing business with Other State-owned Enterprises, transactions with Other State-owned Enterprises are not considered as transactions, which require disclosures under the requirements of IAS 24 (revised 2003) *Related Party Disclosures*.

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20. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 7 July 2005, the Group has approved an increase of RMB50,000,000 in the share capital of Southwest Air Catering Company Limited ("SWACL"), a 60%-owned jointly-controlled entity of CNAC. The purpose of the increase in share capital is for SWACL's further investment and development. CNAC's share in the additional capital contribution in SWACL of RMB30,000,000 has not been injected as of the date of these unaudited condensed consolidated interim financial statements.

(b) On 21 July 2005, the People's Bank of China announced that the Renminbi exchange rate regime was reformed to a floating exchange rate regime based on market demand and supply with reference to a basket of foreign currencies. As a result, the exchange rate of US dollar against Renminbi was adjusted to RMB8.11 per US dollar effective from the close of business on 21 July 2005. The directors of the Company are of the view that the aforesaid appreciation of Renminbi would not have adverse impact on the operations and financial position of the Group.

(c) On 28 July 2005, CNAC and CNAHG renewed the management service agreement with the same terms under the management service agreement dated 27 August 2003. Pursuant to the renewed management service agreement, CNACG has agreed to provide secretarial, personnel, accounting and general office administrative services to CNAC and its subsidiaries for a period of three years from 1 July 2005 to 30 June 2008 at a monthly fee of HK$500,000 (equivalent to approximately RMB530,000).

(d) Subsequent to 30 June 2005, airlines companies in the PRC, including the Company, have obtained government approval to impose fuel surcharges on domestic routes (not including those flying between Mainland China, Hong Kong and Macau) to deflect a portion of the increasing jet fuel cost, the principal operating cost of airlines. From 1 August 2005 to 31 December 2005, airlines companies in the PRC will collect RMB20 from each passenger travelling less than 800 kilometres and RMB40 from each traveller on flights exceeding that distance.

(e) On 8 August 2005, the Company and Air China Group Import and Export Trading Co. entered into an agreement with Boeing Company, pursuant to which the Company has agreed to purchase 15 Boeing 787 aircraft (formerly known as "Boeing 7E7 aircraft") (the "Boeing Aircraft") from Boeing Company for an aggregate consideration of approximately US$2.16 billion (equivalent to approximately RMB18 billion). The aggregate consideration for the acquisition of the Boeing Aircraft is payable by cash in instalments. The Boeing Aircraft are scheduled to be delivered in stages from mid-2008 to the end of 2010.

21. COMPARATIVE FIGURES

In 2004, the Company has reclassified its interest in Air China Cargo from a subsidiary to a joint venture upon the termination of a discussion to acquire additional equity interests in Air China Cargo from another joint venture partner. Accordingly, certain comparative amounts for the six months ended 30 June 2004 have been reclassified to conform with the presentation of the annual audited financial statements of the Group for the year ended 31 December 2004 and the current period's presentation.

22. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of directors on 5 September 2005.

Corporate Governance

1. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the first half of 2005, except for the following deviations:

	Relevant code provision	Deviation and considered reasons or subsequent compliance
1	Code provision A.5.4 requires, among others, the board should establish written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") Companies for relevant employees in respect of their dealings in the securities of the issuer.	A code of conduct regarding directors, supervisors, and relevant employees' securities transactions on terms no less exacting than the required standard set out in the Model Code was adopted by the Company on 5 September 2005.
2	Code provision E.1.2 requires, among others, the chairman of the board should attend the annual general meeting.	Our Chairman, Mr. Li Jiaxiang, who is a member of the Chinese government delegation, was required to attend the annual meeting of the International Air Transport Association and was therefore unable to attend the annual general meeting of the Company on 30 May 2005.
3	Code provisions B.1.3 and C.3.3. require for, among others, specific written terms of reference of the remuneration committee and audit committee, respectively.	Written terms of reference of the remuneration committee and audit committee, as required by the relevant Code provisions, were adopted by the Company on 12 April 2005.

2. COMPLIANCE WITH THE MODEL CODE

After having made specific enquiry, the Company confirms that all of its directors and supervisors have complied with the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules throughout the first half of 2005.

On 5 September 2005, the Company adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Company's own code also applies to its supervisors and relevant employees.

CNAC, which is a subsidiary of the Company listed in Hong Kong, confirms that all of its directors have complied with the required standard set out in the Model Code throughout the first half of 2005.

Miscellaneous

1. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of 2005.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2005, Mr. Zhang Xianlin, a supervisor of the Company, had interests in 33,126,000 shares, which represents approximately 1% of the share capital of CNAC.

Save as the above mentioned, none of our directors, supervisors and chief executive has any interests or short positions in the shares, underlying shares or debentures of the Company or its any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), or recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Miscellaneous

SIGNIFICANT INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, to the knowledge of the directors, chief executive and supervisors of the Company the interests and short positions of the following persons (other than the Company's directors, supervisors or chief executive) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Type of interests	Type and number of shares of the Company held	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 non-H foreign shares of the Company	Percentage of the total issued H shares of the Company	Short position
CNAHC	Beneficial owner	4,826,195,989 domestic shares	51.16%	100%	–	–	–
CNAHC[1]	Attributable interests	1,380,482,920 non-H foreign shares	14.63%	–	100%	–	–
China National Aviation Corporation (Group) Limited	Beneficial owner	1,380,482,920 non-H foreign shares	14.63%	–	100%	–	–
Cathay Pacific	Beneficial owner	943,321,091 H shares	10.00%	–	–	29.24%	–
Swire Pacific Limited[2]	Attributable interests	943,321,091 H shares	10.00%	–	–	29.24%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	943,321,091 H shares	10.00%	–	–	29.24%	–
John Swire & Sons Limited[2]	Attributable interests	943,321,091 H shares	10.00%	–	–	29.24%	–
Wellington Management Company, LLP[3]	Investment manager	153,112,100 H shares	1.62%	–	–	4.75%	–
Temasek Holdings (Private) Limited[4]	Attributable interests	400,450,000 H shares	4.25%	–	–	12.41%	–

Miscellaneous

Note:

1. By virtue of CNAHC's 100% interest in China National Aviation Corporation (Group) Limited, CNAHC is deemed to be interested in the 1,380,482,920 non-H foreign shares of the Company directly held by China National Aviation Corporation (Group) Limited.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited, John Swire & Son's (H.K.) Limited's 51.91% interest in Swire Pacific Limited, John Swire & Sons Limited's 52.86% interest in Swire Pacific Limited and Swire Pacific Limited's 46.48% interest in Cathy Pacific, each of John Swire & Son Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited are deemed to be interested in the 943,321,091 H shares of the Company directly held by Cathy Pacific.

3. Pursuant to the last notification filed by Wellington Management Company, LLP dated 20 December 2005, it had an interest of 5.45% of the total issued H shares of the Company. Given subsequent issuance of H shares pursuant to the over-allotment option in January 2005, we believe the interests of Wellington Management Company, LLP in the total issued shares and in the total issued H shares of the Company have been reduced to 1.62% and 4.75%, respectively, as at 30 June 2005.

4. Temasek Holdings (Private) Limited, through its controlled entities, had an attributable interest in 400,450,000 H shares of the Company, out of which the interest in 292,500,000 H shares (representing approximately 9.07% of the total issued H shares) was held directly by Aranda Investment (Mauritius) Pte Ltd. and the interest in the remaining 107,950,000 H shares was held directly by Dahlia Investments Ptd Ltd, FPL Alpha Investment Pte Ltd and Fullerton (Private) Limited.

As at June 30, 2005, to the knowledge of the directors, chief executive and supervisors of the Company, the interests and short positions of the following persons in the shares and underlying shares of CNAC, as recorded in the register of CNAC, required to be kept under Section 336 of the SFO were as follows:

	Capacity	No. of shares	Percentage of the issued share capital
CNAHC(1)	Attributable interest	2,264,628,000	68.4
The Company(2)	Beneficial owner	2,264,628,000	68.4
Best Strikes Limited	Beneficial owner	187,656,000	5.6
On Ling Investments Limited(3)	Attributable interest	322,856,000	9.7
Novel Investments Holdings Limited(3)	Attributable interest	322,856,000	9.7
Novel Enterprises Limited(3)	Attributable interest	322,856,000	9.7
Novel Enterprises (BVI) Limited(3)	Attributable interest	322,856,000	9.7
Novel Credit Limited(3)	Attributable interest	322,856,000	9.7
Novel Holdings (BVI) Limited(3)	Attributable interest	322,856,000	9.7
Westleigh Limited(3)	Attributable interest	322,856,000	9.7

Miscellaneous

Notes:

1. CNAHC owns approximately 51.16 per cent of the total issued share capital of the Company and the entire issued share capital of CNACG, a company incorporated in Hong Kong, which in turn owns approximately 14.64 per cent of the total issued share capital of the Company. Accordingly, its interests in CNAC duplicate with those interest of the Company.

2. CNACG, CNAC's former immediate controlling shareholder, transferred its approximately 69 per cent shareholding interest in CNAC to the Company in September 2004 by way of a capital contribution in return for the Company's non-H foreign shares, as such the Company becomes the immediate controlling shareholder of CNAC. Its interest in CNAC duplicates with those interests of CNAHC.

3. 5.6% of the interest held by each of these companies in CNAC duplicates with Best Strikes Limited's interest in CNAC. The interests of these companies in CNAC also duplicate each other.

Save as disclosed above, as at 30 June 2005, to the knowledge of the directors, chief executive and supervisors of the Company, no other person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the SFO.

3. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2005. The undistributed profit will be accumulated for a one-off payment by year end. It is currently expected that the distribution ratio will range from 15% to 30% of the distributable profit.

4. REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2005 and the Company's interim unaudited condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

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

TRAFFIC MEASUREMENTS

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

YIELD MEASUREMENTS

LOAD FACTORS

"cargo load factor"	RFTKs expressed as a percentage of AFTKs
"passenger load factor"	RPKs expressed as a percentage of ASKs
"overall load factor"	RTKs expressed as a percentage of ATKs

UTILISATION

"block hours"	each whole or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft