AIR CHINA LIMITED
中國國際航空股份有限公司

Interim Report 2006

Stock Code: 753 Hong Kong
AIRC London
601111 Shanghai

Contents

Important Notice

The board and the directors confirm that, the information contained in this Report is free from false records, misleading statements and material omission, and the Directors collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the content therein.

The Company's Chairman Mr. Li Jiaxiang, the Chief Financial Officer Mr. Fan Cheng and the General Manager of Finance Department Mr. Li Youqiang collectively assure that the unaudited condensed consolidated interim financial statements set out in this interim report is true and complete.

CHINESE REGISTERED NAME

中國國際航空股份有限公司

ENGLISH NAME

Air China Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Zhang Huilan
Liu Feng
Liu Guo Qing

LEGAL REPRESENTATIVE OF THE COMPANY

Li Jiaxiang

JOINT COMPANY SECRETARIES

Zheng Baoan
Li Man Kit *(ACIS, ACS)*

QUALIFIED ACCOUNTANT

Tze-kin Ng, David *(FCCA, CPA)*

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Cai Jianjiang
Li Man Kit

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INDEPENDENT AUDITORS

Ernst & Young

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LISTING VENUES

Hong Kong, London and Shanghai

Summary of Financial Information

	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000	Change (%)
Operating revenue(1)	**19,930,907**	16,938,532	17.7
Profit from operations	**893,265**	1,397,345	-36.1
Profit before tax	**660,482**	912,721	-27.6
Profit after tax (including profit attributable to the equity holders of the parent and minority shareholders)	**477,653**	642,392	-25.6
Profit attributable to minority shareholders	**19,679**	51,139	-61.5
Profit attributable to equity holders of the parent	**457,974**	591,253	-22.5
EBITDA(2)	**3,557,871**	3,854,054	-7.7
EBITDAR(3)	**4,638,167**	4,609,822	0.6
Earnings per share (RMB)	**0.049**	0.063	-22.2
Return on owners' equity (%)(4)	**2.26**	3.23	-23.1

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

(2) EBITDA represents earnings before finance revenue (including interest income, net exchange gains and net gains on fuel derivatives), finance costs, income taxes, share of profits less losses from associates and depreciation as computed under the International Financial Reporting Standards.

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

(4) Return on owners' equity is calculated by dividing profit attributable to the equity holders of the parent for the period by the equity attributable to the equity holders of the parent at the period end.

	30 June 2006 RMB'000	31 December 2005 RMB'000	Change (%)
Total assets	**71,508,577**	68,201,943	4.8
Total liabilities	**49,744,993**	46,651,337	6.6
Minority interests	**1,456,743**	1,458,365	-0.1
Owners' equity (excluding minority interests)	**20,306,841**	20,092,241	1.1
Owners' equity per share (RMB)	**2.15**	2.13	0.9

Summary of 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 2006	For the six months ended 30 June 2005	Change (%)
Traffic			
RPK (in millions)	**27,663.1**	23,906.6	15.7
International	**11,313.2**	9,914.7	14.1
Domestic	**15,434.4**	13,177.4	17.1
Hong Kong and Macau	**915.5**	814.5	12.4
RFTK (in millions)	**1,476.0**	1,280.1	15.3
International	**1,114.2**	956.7	16.5
Domestic	**332.5**	295.6	12.5
Hong Kong and Macau	**29.3**	27.8	5.4
Passengers carried (in thousands)	**14,553.9**	12,588.5	15.6
International	**2,356.1**	2,141.0	10.0
Domestic	**11,735.6**	10,041.5	16.9
Hong Kong and Macau	**462.2**	406.0	13.8
Cargo and mail (in tonnes)	**383,498.8**	340,889.0	12.5
Kilometers flown (in millions)	**213.1**	181.0	17.7
Block hours (in thousands)	**330.7**	278.4	18.8
Number of flights	**119,489**	100,489	18.9
International	**16,429**	14,611	12.4
Domestic	**98,695**	82,083	20.2
Hong Kong and Macau	**4,365**	3,795	15.0
RTK (in millions)	**3,950.5**	3,416.6	15.6
Capacity			
ASK (in millions)	**37,492.6**	33,245.0	12.8
International	**15,697.1**	13,800.0	13.7
Domestic	**20,429.5**	18,191.2	12.3
Hong Kong and Macau	**1,366.0**	1,253.8	8.9
AFTK (in millions)	**2,732.6**	2,390.6	14.3
International	**1,955.6**	1,696.2	15.3
Domestic	**713.2**	636.6	12.0
Hong Kong and Macau	**63.8**	57.8	10.4
ATK (in millions)	**6,106.9**	5,382.6	13.5
Load factor			
Passenger load factor (RPK/ASK)	**73.8%**	71.9%	1.9 percentage point
International	**72.1%**	71.8%	0.3 percentage point
Domestic	**75.5%**	72.4%	3.1 percentage point
Hong Kong and Macau	**67.0%**	65.0%	2.0 percentage point
Cargo and mail load factor (RFTK/AFTK)	**54.0%**	53.5%	0.5 percentage point
International	**57.0%**	56.4%	0.6 percentage point
Domestic	**46.6%**	46.4%	0.2 percentage point
Hong Kong and Macau	**46.0%**	48.1%	-2.1 percentage point

Summary of Operating Data

	For the six months ended 30 June 2006	For the six months ended 30 June 2005	Change (%)
Yield			
Yield per RPK (RMB)	**0.56**	0.55	1.8%
International	**0.52**	0.50	4.0%
Domestic	**0.59**	0.58	1.7%
Hong Kong and Macau	**0.75**	0.67	11.9%
Yield per RFTK* (RMB)	**1.94**	2.02	-4.0%
International	**2.06**	2.14	-3.7%
Domestic	**1.33**	1.37	-2.9%
Hong Kong and Macau	**3.98**	4.24	-6.1%
Fleet			
Total number of aircrafts in service at period end	**192**	160	20.0
Daily utilization (block hours per day per aircraft)	**10.4**	10.2	2.0

* Yield per RFTK for the six months ended 30 June 2006 is calculated by dividing cargo and mail revenue (excluding Air Macau) by 51% of RFTK. Yield per RFTK for the six months ended 30 June 2005, which was previously disclosed in the 2005 interim report calculated by dividing cargo and mail revenue (excluding Air Macau) by 100% of RFTK, has been restated to conform to the current period's calculation for comparability.

Dear Shareholders,

The first half of 2006 was a crucial period for the Company. Despite the adverse impact of the sustained surge in international jet fuel prices, the Company maintained its leading position in the domestic aviation industry and made substantial progress in strategic cooperation, broadening financing channels, planning construction of hubs and routes as well as internal operation, which laid solid foundation for the Company's further development and the realization of its strategic goals.

During the reporting period, the Company continued to proactively establish a long-term operational safety mechanism to achieve an overall improvement in its safety management level. Based on flight safety, the Group (including the Company, its subsidiaries and joint ventures) recorded operating revenue (including air traffic revenue and other operating revenue) of RMB19.931 billion, representing a growth of 17.7% compared to the corresponding period of 2005. Passenger service and cargo and mail operations both performed well, with the number of person trips reaching 14.55 million, and cargo and mail carried reaching 383,499 tonnes, representing an increase of 15.6% and 12.5% respectively over the corresponding period of last year.

Due to the increasing international jet fuel prices and the intensive market competition, the operating cost of the Group increased substantially during the first half of 2006, which affected the profit level to a certain extent. By effective means such as optimizing flight route network, intensifying budget management, enhancing overall cost control and foreign exchange management, the Group was able to temper the adverse impact of the soaring jet fuel prices to a certain extent. During the reporting period, profit from operations amounted to RMB893 million, representing a decrease of RMB504 million compared to the same period last year. The Company continued to be the best player in terms of profitability among the peers.

To maintain the long-term competitiveness of the Company and bring good return to its shareholders, in the first half of 2006, the Company carried out the following important works:

- In the first half of 2006, the Company made substantial progress in joining the Star Alliance. The Company entered into a memorandum of understanding with the Star Alliance, and formally declared its intention to join the Star Alliance and started to make comprehensive preparation to satisfy 57 conditions prior to joining the Star Alliance in the access period.

- In the first half of 2006, the Company has made great progress in strategic cooperation. On 8 June 2006, the Company, Cathay Pacific Airways Limited ("Cathay"), China National Aviation Company Limited ("CNAC Limited"), CITIC Pacific Limited ("CITIC Pacific") and Swire Pacific Limited ("SPAC") entered into a restructuring agreement, in respect of which a joint announcement was made. Pursuant to the agreement, the parties have reached the following agreements: SPAC and CITIC Pacific will sell approximately 40.13 million and approximately 359 million Cathay shares to the Company at a price of HK$13.50 per Cathay share respectively; Cathay will subscribe for approximately 1,179 million additional H shares of the Company at a price of HK$3.45 per share; Cathay will acquire 82.21% of Dragonair Shares which are not held by Cathay at a total consideration of HK$8.221 billion. Upon completion of the transactions, CNAC Limited will receive 289 million additional Cathay shares and HK$433 million in cash. Upon the completion of the aforesaid transactions, the Company and CNAC Limited will directly hold 10.16% and 7.34%, respectively, of Cathay's share capital, and will become one of the substantial shareholders of Cathay.

- In August 2006, the Company' A shares were successfully listed on the Shanghai Stock Exchange. The A share issue raised a net proceeds of RMB4.513 billion. The listing in domestic market, on one hand, raised funds necessary for fleet maintenance and, on the other hand, expanded the financing channels for the Company, which offers a favorable platform to further implement the Company's strategic plan and to make institutional improvement.

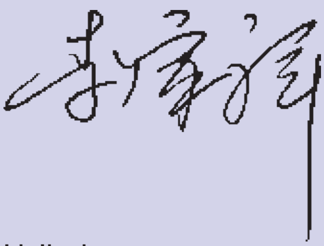
- In the first half of 2006, the Company focused on promoting the construction of the major hubs and the route network planning. The Company continued to increase the number of aircrafts operated in Beijing hub and increase its market share while intensifying the planning of the Chengdu hub and the route network and expanding its transport capacity of the routes originating from Shanghai and the frequency of flights. By constantly optimizing its route network, the Company has improved service quality and enhanced operating efficiency.

During the reporting period, the Company continued with its commitment of providing safe, convenient, comfortable and customized flight services to passengers. As the only flag carrier in the PRC, the Company enjoys extensive brand awareness among consumers. The value of the Company's brand name has been continuously enhanced and its brand advantage has been increasingly recognized in recent years. According to the list of leading companies in 2006 published by Forbes, the Company is ranked No.14 among other airlines in the list of 2000 leading companies in the world. The Company's profitability is ranked No.9 among other airlines in the list of 2000 leading companies in the world.

In the first half of 2006, the Company continued its organizational restructuring to optimise its internal operation. Focusing on the business development strategy, the Company successfully developed three major objectives for its organizational restructuring with a view to perfecting its human resources management mechanism by means of streamlining its management structure, function and procedures on the basis of consolidating its strategic resources. By leveraging on these objectives, the Company will continue to promote restructuring and other reforms so as to effect an overall improvement in the management and operational efficiency of the Company.

The Company will use its best efforts to actively achieve its strategic goals and fulfill its promise to the shareholders and 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 high pressure caused by the cost of jet fuel prices, along with the continuous development of China's economy and the rapid growth of the aviation industry, the Company will continue to improve its strategic positioning, operational workflow and internal management through strategic alliance, cost control and enhancement of operational efficiency in order to keep the Company's profitability.

Lastly, on behalf of the board of directors, I would like to extend my gratitude to our management team and staff for their dedication in offering professional and quality services and their diligence in creating values for our shareholders.



Li Jiaxiang
Chairman

Beijing, 31 August 2006

REVIEW OF OPERATIONS

In the first half of 2006, the Company and Air China Cargo completed in aggregate 330,700 flight hours, representing an increase of 18.8% compared to the corresponding period last year; the daily utilization of aircraft was 10.4 hours, representing an increase of 0.2 hour compared to the corresponding period last year. Passenger traffic of 14.55 million person trips and cargo and mail traffic of 383,500 tonnes, representing an increase of 15.6% and 12.5% respectively compared to the corresponding period last year, were also recorded. Passenger load factor was 73.8%, representing an increase of 1.9 percentage points compared to the corresponding period last year. The cargo and mail load factor was 54%, representing an increase of 0.5 percentage point compared to the corresponding period last year.

The Group's revenue from air transportation business amounted to RMB18.395 billion, among which, revenue from passenger service was RMB16.50 billion, representing an increase of 18.5% compared to the corresponding period last year; revenue from cargo service was RMB1.89 billion, representing an increase of 12.9% compared to the corresponding period last year. Under the stern circumstances of sustained high oil price, the Company proactively took measures to enhance efficiency, save fuel and strengthen cost control. The Company's current cost of traffic per tonne-kilometre is RMB0.5 below the average of that among other domestic airlines. In the first half of 2006, the Group recorded a profit of RMB458 million attributable to shareholders and maintained its leading position among domestic airlines.

During the reporting period, the Company maintained a clean record of safe services. The incident symptom rate per 10,000 flight hours was 0.09 (while it was averagely 0.27 for the industry) and the material error rate per 10,000 flight hours was 0.27, which enables us to maintain a leading position in the industry in terms of safety.

HUBS BUILDING

The Company is positioned as an airline whose route network is centered in hubs. The Company implements a long term development strategy of hub-driven with support from network. During the reporting period, the total number of aircrafts of the Company serving the Beijing hub amounted to 112, representing an increase of 8 aircrafts as compared with that at the end of 2005 and taking up a market share of 44% in Beijing. The planning of Chengdu hub and its route network has been completed, which will provide stronger support to its international and regional routes originating from Chengdu. The total number of aircrafts serving the Chengdu regional hub amounted to 33. Accordingly, cities in the northeast and northwest China and the tourist cities in south China have been effectively linked together. The Company also continued to expand its transport capacity of routes originating from Shanghai. The number of aircrafts serving Shanghai was increased to 29. With the building of south China hub as a breakthrough, the Company has taken a number of measures such as optimising aircraft models and obtaining in advance the air route rights of certain depature places, which will build a solid foundation for the further expansion of transport capacity in south China.

ROUTE NETWORK

During the reporting period, the Company established 12 new routes, 6 new regional destinations and one new national destination. As at 30 June 2006, the passenger and cargo routes of the Company and Air China Cargo amounted to 331, of which 242 were domestic routes, 80 were international routes and 9 were regional routes. Our flights now reach 23 countries and regions all over the world, including 34 international cities, 72 domestic cities and 1 region.

In the course of effectively exploring its route network, the Company simultaneously optimised such network on a continuous basis to improve operating efficiency. During the reporting period, the Company suspended and fine-tuned certain loss-making and poorly performed routes operations while increasing the flight frequency of certain fast-growing flight routes to Europe. By introducing the improved "New First and Business Classes" aircrafts to the routes serving the USA and Germany, the Company has remarkably improved the service quality of the routes and enhanced our competitiveness in the market. For regional routes, we have increased the frequency of flights from Beijing and southwest China to Hong Kong, providing adequate domestic routes support for products sold in the regional markets. While long haul international routes took up a significant share of the broad plane capacity, the Company strengthened the transport capacity of domestic routes that are relatively profitable and may complement our network and routes. With respect to major air routes, we have deployed large-capacity aircraft models, which resulted in an increase of the available seat capacity per week by 12.8% compared to the same period last year.

FLEET

To further expand its transportation capacity and improve the operating efficiency, the Company introduced 16 aircrafts in the first half of 2006. The newly introduced Airbus A330-200 aircraft successfully completed its debut flight to Lhasa. As at 30 June 2006, the Company and Air China Cargo operated a fleet of 192 aircrafts with an average age of 8.1 years. Details of the fleet are set out in the table below:

	Number of aircrafts			
Aircraft type	Self-owned	Finance Lease	Operating Lease	Sub-total
Passenger aircraft				
Boeing series	69	36	30	135
Airbus series	22	11	9	42
CRJ-200	–	–	5	5
Freighter	6	–	2	8
Business jets	–	–	2	2
Total	97	47	48	192

As at 30 June 2006, the Company has completed its first and business classes renovation work for 9 Boeing B747 aircrafts and 2 Airbus A340 aircrafts. A new stage of first and business classes renovation work for Airbus A340 aircrafts has also commenced. Smooth implementation of first and business classes renovation is a critical basis for adjusting the route revenue structure and improving revenue quality of international routes.

On 17 January 2006, the Company and Air China Group Import and Export Trading Co. entered into an aircraft purchase agreement with Boeing Company, pursuant to which the Company agreed to purchase 10 Boeing B737-800 aircrafts from Boeing Company.

On 19 April 2006, the Company and Air China Group Import and Export Trading Co. entered into an aircraft purchase agreement with Boeing Company, pursuant to which the Company agreed to purchase 15 Boeing B737-800 aircrafts from Boeing Company.

On 14 June 2006, the Company and Air China Group Import and Export Trading Co. entered into an aircraft purchase agreement with Airbus S.A.S., pursuant to which the Company agreed to purchase 24 A320 aircrafts from Airbus S.A.S.

The above aircraft purchases will further expand the size of our fleet and increase the passenger transport capacity and the operating efficiency.

MARKET EXPANSION

The Company focused on strengthening the transit and connecting flights and the sales efforts for the first and business classes in implementing its marketing strategy for passenger traffic. In the first half of 2006, the income of the Company generated from connecting flights in its passenger service amounted to RMB3.63 billion, representing an increase of 20.7% over the same period last year. Number of passengers of the first and business classes recorded an increase of 18.6% over the same period last year while income generated from the first and business classes increased by 15.2% over the same period last year.

The Company proactively developed its electronic ticketing sales model. BSP electronic passenger ticket sales is now available in 63 domestic cities. Domestic BSP electronic ticket sales has also been implemented for selling connecting flights tickets. During the reporting period, a total of 5,101,000 electronic passenger tickets were sold. Income from sales of electronic passenger tickets amounted to RMB3,732 million, representing an increase of 311.9% over the same period last year. The Company had started to establish a telemarketing service centre within the PRC, a website for the North America region and a European call centre to enhance the establishment of its sales channels.

Taking advantage of the business opportunities arising from the Beijing Olympic Games, while focusing on improving the products' and services' quality, the Company also strived to improve passenger loyalty through implementing a frequent flyers programme, and to enhance service quality and provide long-term customers with more diversified products. There were 420,000 new frequent flying members registered during the reporting period. As at 30 June 2006, the Company had a total number of 3,430,000 frequent flying members.

In respect of cargo service, the Company strengthened its overseas sales efforts and promoted bundle sales of return flights. The Company also increased its efforts in promoting the sales in connection with the charter cargo planes and thereby the Company recorded an increase of RMB30 million in income during the reporting period. Meanwhile, the Company proactively developed international cargo courier business and entered into strategic alliance with 7 cooperative partners which had further improved the Company's market share in the cargo transport market.

BUSINESS COOPERATION

On 8 June 2006, the Company entered into a restructuring agreement in respect of the restructuring of shareholdings with Cathay, CNAC Limited, CITIC and SPAC. Pursuant to the agreement, the Company, together with CNAC Limited, will in aggregate hold 17.5% shareholding in Cathay and thus will become a substantial shareholder of Cathay. Meanwhile, Cathay will also further increase its shareholding in the Company. The successful conclusion of the agreement represents that a fundamental progress in the strategic partnership between the Company and Cathay has been achieved. Through business cooperation with Cathay, the Company's influence and control in both international and domestic markets will be enhanced. Through cross-shareholding with Cathay, the Company will be provided with stable and relatively good return on investment, which is beneficial to the Company in strengthening its risk resistance capability.

On 22 May 2006, the Company and Star Alliance, one of the world's largest aviation alliances, signed a memorandum of understanding for the Company to join the alliance, which represented a concrete step taken by the Company in joining Star Alliance. Joining Star Alliance will enable the Company to optimize its route network and strengthen the strategy of establishing Beijing as a hub. Through cooperation with members of the Star Alliance, the Company can reduce competition in those shared routes, optimize its international route network structure, and provide more convenient transit service. It also allows the Company to fully utilize its alliance partners' advanced sales technology and strong sales network to expand its sales in the global market, and also to leverage on the alliance's bargaining power of joint procurement to reduce the Company's operating cost.

As at 30 June 2006, in respect of passenger service, the Company has carried out cooperation with about 20 domestic and international airlines through codeshare arrangements, including Lufthansa German Airlines, United Airlines, Canadian Airlines and Finnair. The Company signed codeshare agreements with 18 airlines for international routes, and with Shanghai Airlines and Shandong Airlines for domestic routes. Air China Cargo also signed codeshare agreements with 6 airlines including Lufthansa German Airlines and Nippon Cargo Airlines, achieving codeshare cooperation in respect of cargo service.

EMPLOYEES

As at 30 June 2006, the Company had 18,208 employees and its subsidiaries and joint ventures had 13,514 employees. During the reporting period, the Company developed a comprehensive training programme to provide professional training to the managerial personnel on and above the department general manager level as well as professional technicians. In addition, relevant training programmes were also arranged for other staff.

BUSINESS REVIEW OF AIR MACAU

The Company holds 51% of the capital share of Air Macau through China National Aviation Corporation (Macau) Company Limited (CNAC Macau), a wholly-owned subsidiary of CNAC Limited, a subsidiary of the Company. In the first half of 2006, the number of Air Macau's passenger flights was 9,993 flights, representing an increase of 10.7% compared to the corresponding period last year; the total number of passenger person trips reached 1,160,158, representing an increase of 18.3% compared to the corresponding period last year; its passenger load factor increased to 74.2%, representing an increase of 5.1 percentage points compared to the corresponding period last year.

As for cargo service, in the first half of 2006, the number of Air Macau's cargo flight increased to 2,764 flights, representing an increase of 13.3% compared to the corresponding period last year; the total freight carried was 80,839.1 tonne, compared with 64,524.4 tonne carried in the corresponding period of 2005; its cargo load factor was 63.9%, representing a decrease of 2.0% compared to the corresponding period last year.

As at 30 June 2006, Air Macau had 19 aircrafts, of which 14 were passenger aircrafts and 5 were cargo aircrafts. During the reporting period, Air Macau opened a flight route to Hangzhou with 4 flights per week and added two flights to Guiyang and Changsha.

POST BALANCE SHEET EVENTS

On 9 August 2006, the Company successfully issued 1,639,000,000 A shares of RMB2.8 each in Mainland China, which were listed on the Shanghai Stock Exchange on 18 August 2006. China National Aviation Holding Company ("CNAHC"), the controlling shareholder of the Company, has undertaken that upon the listing and trading of A shares on Shanghai Stock Exchange and up to 31 December 2006, CNAHC will, subject to the market price of the Company's A shares falling below the issue price, increase its shareholding by acquiring shares through the secondary market at a price not lower than the then market price of A shares in accordance with relevant regulatory requirements so as to restore the price of A shares to the issue price and the aggregate purchases of CNAHC will not exceed 600 million A shares. On 17 August 2006, the China Securities Regulatory Commission granted a waiver to CNAHC in respect of its obligation to make a general offer arising from the abovementioned potential increase of shareholding.

On 22 August 2006, the Company's extraordinary general meeting, foreign shareholders class meeting, and domestic shareholders class meeting passed the resolutions in connection with the afore-mentioned restructuring agreement in respect of restructuring of shareholdings among the Company, Cathay, CNAC Limited, CITIC Pacific and SPAC, which will be implemented upon approval by relevant authorities.

On 29 August 2006, the Company successfully issued short-term commercial papers with an amount of RMB2 billion in Mainland China to institutional investors in the inter-bank bond market. The Company intends to use the proceeds from the above issuance for its working capital and to optimize its whole debt structure.

The unaudited condensed consolidated interim financial statements of the Group set out from pages 26 to 60 of this Interim Report, comprising the unaudited condensed consolidated income statement, unaudited condensed consolidated balance sheet, unaudited condensed consolidated statement of changes in equity, unaudited condensed consolidated cash flow statement and notes to the unaudited condensed consolidated interim financial statements, were prepared in accordance with International Financial Reporting Standards (IFRSs). The following discussion and analysis are intended designed to assist the reader in understanding the statutory information provided in this Interim Report so as to fully comprehend the financial position of the Group as a whole.

CONSOLIDATED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND PROFIT FROM OPERATIONS

For the six months ended 30 June 2006, profit attributable to equity holders of the Company amounted to RMB458 million, representing a decrease of 22.5% compared to the same period in 2005; profit from operations was RMB893 million, representing a decrease of 36.1% compared to the same period in 2005. The decreases in profit attributable to equity holders of the Company and profit from operations of the Group were mainly due to the rising jet fuel price.

The unaudited condensed consolidated interim financial statements include the operating results of the Company's subsidiaries and joint ventures, which are accounted for under proportionate consolidation. During the reporting period, the share of net profits from associates was RMB108 million, representing a decrease of 28.7% compared to the same period in 2005, primarily due to the decrease in profits from three associates, namely Dragonair, Shandong Aviation Group and Shandong Airlines.

PROFIT CONTRIBUTION BY BUSINESS SEGMENT

	For the six months ended 30 June		
	2006	2005	Change
	RMB'000	RMB'000	(%)
Airline operations	**728,568**	1,213,647	-40.0
Engineering services	**68,191**	96,697	-29.5
Airport terminal services	**77,539**	61,945	25.2
Others	**18,967**	25,056	-24.3
Profit from operations	**893,265**	1,397,345	-36.1

EARNINGS PER SHARE

For the six months ended 30 June 2006, the Group's earnings per share was RMB0.049, representing a decrease of 22.2% compared to RMB0.063 for the same period in 2005. This was mainly the result of a significant decrease in the consolidated profit attributable to equity holders of the Company compared to the same period last year due to the effect of rising jet fuel price.

OPERATING REVENUE

For the six months ended 30 June 2006, the Group's operating revenue (including air traffic revenue and other operating revenue) was RMB19.931 billion, representing an increase of 17.7% compared to the same period in 2005. The increasing demand in the domestic aviation market and the continuous expansion of our transportation capacity made substantial contribution to the increase in revenue from our airline operations. Revenue 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 in the PRC 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 second half of the year is generally higher than that in the first half.

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

	For the six months ended 30 June		
	2006	2005	Change
	RMB'000	RMB'000	(%)
Airline operations	**19,385,010**	16,569,472	17.0
Engineering services	**203,968**	131,518	55.1
Airport terminal services	**218,827**	131,484	66.4
Others	**123,102**	106,058	16.1
Operating revenue	**19,930,907**	16,938,532	17.7

For the six months ended 30 June 2006, revenue from engineering services increased by 55.1%, primarily due to the increase in engineering work provided to external parties; and revenue from airport terminal services increased by 66.4%, which was primarily due to the change in the settlement method of ground services income in Beijing International Airport (from the previous revenue-sharing to franchise fee).

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June		
	2006	2005	Change
	RMB'000	RMB'000	(%)
Domestic	**10,759,364**	8,521,194	26.3
Hong Kong/Macau	**1,285,141**	1,165,547	10.3
Europe	**2,476,880**	2,321,126	6.7
North America	**1,594,705**	1,326,233	20.2
Japan/Korea	**2,116,483**	2,047,609	3.4
Asia Pacific, others	**1,698,334**	1,556,823	9.1
Operating revenue	**19,930,907**	16,938,532	17.7

The Group's operating revenue is mainly generated from airline operations and the increase of 17.7% of operating revenue in the first half of 2006 was mainly due to the significant increase of revenue from airline operations in the domestic market.

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 2006, the Group's operating expenses amounted to RMB19.038 billion, representing an increase of RMB3.496 billion or 22.5% compared to the same period in 2005. Rising jet fuel costs was the main reason for the increase in operating expenses. The rise in jet fuel costs was attributable to the increased fuel consumption and the substantial increase in jet fuel prices. The increase in aircraft maintenance, repair and overhaul expenses was attributable to the addition of 9 aircrafts by operating lease and significant increase in maintenance work.

PRINCIPAL OPERATING EXPENSES

	For the six months ended 30 June		
	2006	2005	Change
	RMB'000	RMB'000	(%)
Jet fuel	**7,063,679**	5,061,760	39.5
Take-off, landing and depot charges	**2,415,696**	2,172,296	11.2
Depreciation	**2,664,606**	2,456,709	8.5
Aircraft maintenance, repairs and overhauls	**633,412**	548,508	15.5
Employee compensation costs	**1,670,027**	1,413,632	18.1
Air catering expenses	**653,836**	610,343	7.1

ANALYSIS OF ASSETS

As at 30 June 2006, the Group had total assets of RMB71.509 billion, representing an increase of 4.8% from 31 December 2005, in which the current assets accounted for 14.9%, or RMB10.628 billion, while non-current assets accounted for 85.1%, or RMB60.880 billion. Among the current assets, cash and cash equivalents increased by 5.3% to RMB2.367 billion from 31 December 2005, while trade receivables amounted to RMB2.728 billion, which was similar to that of 31 December 2005. Among the non-current assets, properties, plant and equipment amounted to RMB50.143 billion, representing an increase of 6.3% from 31 December 2005.

ASSETS MORTGAGE

As at 30 June 2006, the Group mortgaged certain aircrafts and properties with an aggregate carrying amount of approximately RMB29.421 billion (compared with RMB26.958 billion as at 31 December 2005) 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 prepared under IFRS.

DEBT STRUCTURE OF THE GROUP

(Unit: in RMB 100 million)

	Bank borrowings		Obligations under finance leases	
	30 June 2006	31 December 2005	**30 June 2006**	31 December 2005
Repayable within 1 year	**125.81**	104.01	**21.49**	19.55
Repayable over 1 year	**128.98**	128.23	**84.45**	80.79

A significant portion of the Group's debts will fall due within one year. The Group expects to meet its liabilities with bank loans, internal resources and other resources as they fall due. The Group is not exposed to any insolvency risk. Part of the proceeds from the issuance of A shares will be used to repay bank loans incurred for the payment of purchase price of aircrafts in previous periods, which can help optimizing the debt structure of the Group.

GEARING RATIO

As at 30 June 2006, the Group's gearing ratio, which represents total liabilities divided by total assets, was 69.6%, up 1.2 percentage points from 68.4% as at 31 December 2005. The proceeds from the issuance of A shares will be beneficial to reduce the gearing ratio of the Group.

INTEREST EXPENSE

For the six months ended 30 June 2006, interest expense of the Group charged to the unaudited condensed consolidated income statement slightly increased from RMB903 million in the same period last year to RMB909 million, which was approximate to that of the previous year.

INTEREST COVER

For the six months ended 30 June 2006, earnings before finance revenue (including interest income, net exchange gains and net gains on fuel derivatives) and finance costs, enterprise income taxes, share of profits less losses of associates, depreciation and amortisation ("EBITDA") as computed under IFRS, divided by interest expense, was 3.9 times, compared to 4.3 times for the same period in 2005. The significant decrease in interest cover was attributable to the significant decrease in operating profit resulting in a drop in EBITDA.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2006, capital commitments of the Group increased by 25.9% from RMB38.514 billion as at 31 December 2005 to approximately RMB48.498 billion, primarily due to commitments in the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years, and for the construction of certain properties.

Details of the capital commitments of the Group in respect of bank loans, other guarantees and contingent liabilities arising in the ordinary course of business as at 30 June 2006 are set out in notes 19 and 20 of the unaudited condensed consolidated interim financial statements prepared under IFRS.

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 30 June 2006 and 31 December 2005, net current liabilities of the Group were RMB15.514 billion and RMB16.006 billion, respectively.

CAPITAL EXPENDITURE

For the six months ended 30 June 2006, the capital expenditure of the Company amounted to RMB3.836 billion. The Company's total investment in aircraft was RMB3.223 billion, including a prepayment of RMB1.392 billion for purchasing aircrafts from 2006 onwards.

The capital expenditure incurred for other investments was RMB613 million, which mainly involved the improvement of first class and business class cabins of certain aircrafts and other infrastructure investments projects such as Air China base project, ancillary projects of the No. 3 Terminal of Beijing International Airport as well as certain long-term external investment.

OBJECTIVE AND POLICY OF FINANCIAL RISK MANAGEMENT

The Group is exposed to the fluctuations in jet fuel price during its ordinary operations. International jet fuel prices have been historically, and will in the future continue to be, subject to price volatility and fluctuations in supply and demand. The Group's strategy for managing its jet fuel price risk aims to provide itself with protection against sudden and significant price increases. Subject to the applicable laws of the PRC, the Group started to engage in fuel hedging transactions in March 2001. The subjects of hedging instruments were mainly Singapore jet fuel and Brent crude oil derivatives that are closely linked to jet fuel. In the first half of 2006, the Group applied hedging to 39.4% of the spot jet fuel procured during the period, and the net gain on jet fuel derivatives was RMB338 million.

The Group adopted "natural immunity" method to achieve a matching structure of income and expenses by adjusting the proportion of its liabilities in foreign currencies. The Group will continue to avoid exposure to the risk of exchange rate fluctuation by adopting a strategy that matches the income and payment in certain principal currencies. In the first half of 2006, the Group's net exchange gains amounted to RMB200 million.

DISCLOSURE REQUIRED BY 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 2005 Annual Report of the Company.

On 22 May 2006, The Company entered into a memorandum of understanding with the Star Alliance, and formally declared its intention to join the Star Alliance and started to make comprehensive preparation to satisfy 57 conditions prior to joining the Star Alliance in the access period.

On 8 June 2006, the Company, Cathay, CNAC Limited, CITIC Pacific and SPAC entered into a restructuring agreement, in respect of which a joint announcement was made. Pursuant to the agreement, the parties reached agreements in the following issues: SPAC and CITIC Pacific will sell approximately 40.13 million and approximately 359 million Cathay Shares to the Company at a price of HK$13.50 per share, respectively; Cathay will subscribe for approximately 1,179 million additional issued H shares of the Company at a price of HK$3.45 per share; Cathay will acquire 82.21% Dragonair Shares that Cathay did not hold at an aggregate price of HK$8.221 billion. Upon the completion of transactions, CNAC Limited will receive 289 million additional issued Cathay Shares and HK$433 million in cash. Upon the completion of the aforesaid transactions, the Company and CNAC Limited will directly hold shareholdings in Cathay as to 10.16% and 7.34%, respectively, by which the Company will become a substantial shareholder of Cathay.

On 21 June 2006, the Company and CNAC Limited jointly announced that after the completion of the abovementioned restructuring agreement, Air China will launch the privatisation of CNAC Limited at a price of HK$2.80 in cash per CNAC Limited share. If the privatisation is approved and implemented successfully, the Company will at most pay HK$3.227 billion for the privatisation, and CNAC Limited will then become the Company's wholly owned subsidiary and be delisted.

(I) DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2006, Mr. Zhang Xianlin, a supervisor of the Company, had interests in 33,126,000 shares of CNAC Limited, representing approximately 1% of the share capital of CNAC Limited.

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), 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.

(II) SUBSTANTIAL SHAREHOLDERS

(A) SIGNIFICANT INTERESTS IN THE COMPANY

As at 30 June 2006, 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	14.64%	–	100%	–	–
China National Aviation Corporation (Group) Limited	Beneficial owner	1,380,482,920 non-H foreign shares	14.64%	–	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 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%	–
Temasek Holdings (Private) Limited[3]	Attributable interests	400,450,000 H shares	4.25%	–	–	12.41%	–
Wellington Management Company, LLP	Investment manager	226,208,500 H shares	2.40%	–	–	7.01%	–
JP Morgan Chase & Co.[4]	Investment manager	459,361,500 H shares	4.87%	–	–	14.24%	–
		113,358,000 H shares (Lending Pool)	1.20%	–	–	3.51%	–
Morgan Stanley[5]	Investment manager	251,804,110 H shares	2.67%	–	–	7.80%	–
		40,223,485 H shares (Short position)	0.43%	–	–	1.25%	–

Notes: Based on the information available to the Directors, chief executive and Supervisors of the Company (including such information available on the website of the Stock Exchange) and so far as the Directors, chief executive and Supervisors are aware, as at Latest Practicable Date:

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 and their approximately 31.34% equity interest and 53.59% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 46.30% interest in Cathay Pacific, John Swire & Sons 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 Cathay Pacific.

3. 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 Pte Ltd, FPL Alpha Investment Pte Ltd and Fullerton (Private) Limited.

4. JPMorgan Chase & Co, through its controlled entities, had an attributable interest in 459,361,500 H shares of the Company and 113,358,000 H shares of the Company as lending pool, out of which the interest in 113,358,000 H shares was held directly by JPMorgan Chase Bank, N.A., 295,154,000 H shares was held directly by JF Asset Management Limited, 10,078,000 H shares was held directly by JF International Management Inc., 1,441,500 H shares was held directly by J.P. Morgan Whitefriars Inc., 12,000,000 H shares was held directly by J.P. Morgan Securities Ltd., 26,266,000 H shares was held directly by JPMorgan Asset Management (Japan) Limited and 1,064,000 H shares was held directly by JF Asset Management (Singapore) Limited.

5. Morgan Stanley, through its controlled entities, had an attributable interest in 251,804,110 H shares of the Company and maintained a short position of 40,223,458 H shares of the Company, out of which Morgan Stanley Investment Management Company directly held 202,242,000 H shares, Morgan Stanley Uruguay Ltda directly held 1,000 H shares, Morgan Stanley & Co International Limited directly held 6,729,721 H shares and maintained a short position of 2,926,372 H shares, Morgan Stanley Dean Witter Hong Kong Securities Limited directly held 23,568 H shares and maintained a short position of 78,000 H shares, Morgan Stanley Asset & Investment Trust Management Co., Limited directly held 5,134,000 H shares, Morgan Stanley Capital (Cayman Islands) Limited maintained a short position of 1,302,000 H shares, Morgan Stanley Capital Services Inc. directly held 271,355 H shares, Morgan Stanley Capital (Luxembourg) S.A. directly held 1,344,000 H shares, and Morgan Stanley & Co. Inc. directly held 36,058,466 H shares and maintained a short position of 35,917,113 H shares.

(B) SIGNIFICANT INTERESTS IN CNAC LIMITED

As at 30 June 2006, 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 Limited as recorded in the register of CNAC Limited 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	68.36
The Company[2]	Beneficial owner	2,264,628,000	68.36
Best Strikes Limited	Beneficial owner	187,656,000	5.66
On Ling Investments Limited[3]	Attributable interest	322,856,000	9.75
Novel Investments Holdings Limited[3]	Attributable interest	322,856,000	9.75
Novel Enterprises Limited[3]	Attributable interest	322,856,000	9.75
Novel Enterprises (BVI) Limited[3]	Attributable interest	322,856,000	9.75
Novel Credit Limited[3]	Attributable interest	322,856,000	9.75
Novel Holdings (BVI) Limited[3]	Attributable interest	322,856,000	9.75
Westleigh Limited[3]	Attributable interest	322,856,000	9.75

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 Limited duplicate with those interest of the Company.

2. CNACG, the CNAC Limited's former immediate controlling shareholder, transferred its approximately 69 per cent shareholding interest in CNAC Limited 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 Limited. Its interest in CNAC Limited duplicates with those interests of CNAHC.

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

(C) SIGNIFICANT INTERESTS IN OTHER MEMBERS OF THE GROUP

Member of the Group	Name	Approximate % of share capital
Air Macau	CNAC Limited	51%
Air Macau	Sociedale de Turismo e Diversaes de Macau	14%
Air Macau	Servico, Administracao e Participacoes, Lda.	20%
Ameco	Deutsche Lufthansa AG	40%
Air China Cargo	Capital Airport Holding Company	24%
Air China Cargo	CITIC Pacific Limited	25%

Save as disclosed above, as at 30 June 2006, 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 as recorded in the register required to be kept under Section 336 of the SFO.

1. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the first half of 2006, except for the following deviations:

Relevant code provision	Deviation and considered reasons or subsequent compliance
1. Code provision A.1.3 requires, a prior notice of at least 14 days shall be given to all directors to attend regular board meetings.	The board of the Company notifies directors for board meetings 10 days before the date of the meeting. The Company's above practice of notice of meeting is due to, according to PRC regulations, a ten-day prior notice to directors is enough. Artice 98 of the Company's Articles of Association was amended to allow board meetings (other than extraordinary board meetings) to be held with a 14-day prior written notice to all directors. The amendment to the Articles of Association was approved in the extraordinary general meeting held on 28 March 2006 and will become effective after relevant approval is obtained.
2. Code provision E.1.2 requires, among other things, the chairman of the board should attend the annual general meeting.	Mr. Li Jiaxiang, Our Chairman, had to attend the signing ceremony for the Framework Agreement with Boeing and was therefore unable to attend the 2005 annual general meeting of the Company.

2. COMPLIANCE WITH THE MODEL CODE

The Company adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standards set out in the Model Code. 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 2006.

The Company's own code also applies to its supervisors and relevant employees. CNAC Limited, 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 2006.

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 2006.

2. PUBLIC FLOAT

Pursuant to public information available to the Company and to the best knowledge of the directors of the Company, as at the date of this report, the Company has maintained a public float as required by the Listing Rules and agreed by the Stock Exchange of Hong Kong throughout the period under review.

3. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2006. 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 2006 and the Company's unaudited condensed consolidated interim financial statements and the accounting policies and practices adopted by the Group.

A. PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended 30 June 2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Air traffic revenue	*3*	**18,394,962**	15,602,712
Other operating revenue	*4*	**1,535,945**	1,335,820
Turnover		**19,930,907**	16,938,532
Operating expenses			
Jet fuel		**(7,063,679)**	(5,061,760)
Take-off, landing and depot charges		**(2,415,696)**	(2,172,296)
Depreciation	*10*	**(2,664,606)**	(2,456,709)
Aircraft maintenance, repairs and overhauls		**(633,412)**	(548,508)
Employee compensation costs		**(1,670,027)**	(1,413,632)
Air catering charges		**(653,836)**	(610,343)
Aircraft and engine operating lease expenses		**(950,835)**	(637,757)
Other operating lease expenses		**(129,461)**	(118,011)
Other flight operation expenses		**(1,664,662)**	(1,572,899)
Selling and marketing expenses		**(861,264)**	(692,452)
General and administrative expenses		**(330,164)**	(256,820)
Total operating expenses		**(19,037,642)**	(15,541,187)
Profit from operations	*5*	**893,265**	1,397,345
Finance revenue	*6*	**568,853**	267,467
Finance costs	*6*	**(909,473)**	(903,392)
Share of profits less losses from associates		**107,837**	151,301
Profit before tax		**660,482**	912,721
Tax	*7*	**(182,829)**	(270,329)
Profit for the period		**477,653**	642,392
Attributable to:			
Equity holders of the parent		**457,974**	591,253
Minority interests		**19,679**	51,139
		477,653	642,392
Dividend:			
Interim	*8*	**–**	–
Earnings per share attributable to equity holders of the parent:			
Basic	*9*	**4.9 cents**	6.3 cents
Diluted	*9*	**N/A**	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**50,142,552**	47,190,728
Lease prepayments	*11*	**1,060,388**	1,072,066
Interests in associates	*12*	**1,427,707**	3,793,957
Advance payments for aircraft and related equipment		**7,140,767**	7,329,322
Due from CNAHC		**481,813**	531,813
Deposits for aircraft under operating leases		**257,786**	222,945
Available-for-sale investments		**22,266**	22,266
Deferred tax assets		**347,330**	498,371
		60,880,609	60,661,468
CURRENT ASSETS			
Financial assets		**261,859**	127,659
Trade receivables	*13*	**2,727,769**	2,764,475
Inventories		**1,010,442**	851,315
Prepayments, deposits and other receivables	*14*	**1,103,651**	762,435
Pledged deposits		**186,747**	176,575
Non-pledged deposits with maturity of more than three months when acquired		**7,620**	97,375
Asset held for sale	*15*	**2,616,362**	–
Cash and cash equivalents		**2,366,573**	2,248,386
Due from CNAHC		**299,738**	474,216
Due from other CNAHC group companies		**47,207**	38,039
		10,627,968	7,540,475
TOTAL ASSETS		**71,508,577**	68,201,943
CURRENT LIABILITIES			
Financial liabilities		**(25,149)**	(1,791)
Trade payables	*16*	**(4,990,313)**	(4,601,364)
Bills payable		**(773,485)**	(327,937)
Other payables and accruals	*17*	**(3,417,799)**	(4,168,435)
Dividends payable to CNAHC and CNACG		**(147,905)**	–
Provision for major overhauls		**(54,417)**	(18,721)
Air traffic liabilities		**(1,821,388)**	(1,476,619)
Tax payable		**(14,937)**	(421,077)
Obligations under finance leases		**(2,149,297)**	(1,954,873)
Bank and other loans		**(12,580,815)**	(10,401,170)
Due to CNAHC and CNACG		**(133,680)**	(133,680)
Due to other CNAHC group companies		**(32,728)**	(40,471)
		(26,141,913)	(23,546,138)
NET CURRENT LIABILITIES		**(15,513,945)**	(16,005,663)
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,366,664**	44,655,805

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2006

	Notes	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Obligations under finance leases		**(8,444,754)**	(8,078,671)
Bank and other loans		**(12,898,148)**	(12,822,879)
Long term payables		**(315,359)**	(352,880)
Deferred income		**(987,438)**	(1,025,910)
Provision for major overhauls		**(775,355)**	(635,718)
Provision for early retirement benefits obligations		**(182,026)**	(189,141)
		(23,603,080)	(23,105,199)
NET ASSETS		**21,763,584**	21,550,606
Represented by:			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued share capital	*18*	**9,433,211**	9,433,211
Reserves		**10,873,630**	10,659,030
		20,306,841	20,092,241
MINORITY INTERESTS		**1,456,743**	1,458,365
TOTAL EQUITY		**21,763,584**	21,550,606

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

(Unaudited)	Attributable to equity holders of the parent: Issued share capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Foreign exchange translation reserve RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	**9,433,211**	**7,731,926**	**362,884**	**2,373,794**	**(34,367)**	**224,793**	**20,092,241**	**1,458,365**	**21,550,606**
Profit for the period	**–**	**–**	**–**	**457,974**	**–**	**–**	**457,974**	**19,679**	**477,653**
Dividends paid to shareholders *(note 8)*	**–**	**–**	**–**	**–**	**–**	**(224,793)**	**(224,793)**	**–**	**(224,793)**
Exchange realignment	**–**	**–**	**–**	**–**	**(18,581)**	**–**	**(18,581)**	**(8,349)**	**(26,930)**
Dividends paid to minority shareholders by subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,952)**	**(12,952)**
At 30 June 2006	**9,433,211**	**7,731,926**	**362,884**	**2,831,768**	**(52,948)**	**–**	**20,306,841**	**1,456,743**	**21,763,584**

(Unaudited)	Attributable to equity holders of the parent: Issued share capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Foreign exchange translation reserve RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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	382,593	787,503	–	–	–	–	1,170,096	–	1,170,096
Dividends paid to minority shareholders by subsidiaries	–	–	–	–	–	–	–	(55,261)	(55,261)
At 30 June 2005	9,433,211	7,729,925	93,020	1,053,448	–	–	18,309,604	1,476,165	19,785,769

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**2,556,084**	4,693,402
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(3,501,340)**	(5,086,756)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**1,067,059**	(2,119,154)
Effect of exchange rate changes on cash and cash equivalents	**(3,616)**	3,775
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**118,187**	(2,508,733)
Cash and cash equivalents at beginning of period	**2,248,386**	9,413,224
Cash and cash equivalents at end of period	**2,366,573**	6,904,491

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Air China Limited (the "Company") was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "PRC" or "Mainland China"), on 30 September 2004. The Company's H shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the London Stock Exchange.

In the opinion of the directors, the Company's parent and ultimate holding company is China National Aviation Holding Company ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council.

The unaudited condensed consolidated interim financial statements of the Company, its subsidiaries and joint ventures (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*.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the audited annual financial statements, and should be read in conjunction with the Group's audited annual financial statements for the year ended 31 December 2005.

The principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements of the Group are materially consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2005, except for the adoption of the following new IFRSs and revised International Financial Reporting Interpretation Committee ("IFRIC Interpretation") which have become effective for accounting periods beginning on or after 1 January 2006.

IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 and IFRS 4 Amendments	Financial Guarantee Contracts
IFRIC – Int 4	Determining whether an Arrangement contains a Lease

IAS 39 Amendment for cash flow hedges of forecast intragroup transactions permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the entity's financial statements.

IAS 39 Amendment for the fair vale option restricts the use of options to designate any financial asset or financial liability to be measured at fair value through the income statement.

IAS 39 and IFRS 4 Amendments for financial guarantee contracts require that financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

IFRIC – Int 4 provides guidance for determining whether an arrangement is, or contains, a lease that should be accounted for in accordance with IAS 17 "Leases".

The adoption of the above revised IFRSs and new IFRIC has no material impact on the Group's unaudited condensed interim consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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 the following four business segments:

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

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

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

(d) the "others" segment comprises the provision of air catering services and other airline-related services.

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

Business segments

An analysis of the Group's revenue and operating results by business segment for the six months ended 30 June 2006 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)
REVENUE						
Sales to external customers	19,385,010	203,968	218,827	123,102	–	19,930,907
Intersegment sales	–	343,730	–	38,224	(381,954)	–
Total revenue	19,385,010	547,698	218,827	161,326	(381,954)	19,930,907
PROFIT FROM OPERATIONS						
Segment results	728,568	68,191	77,539	18,967	–	893,265

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

2. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue and operating results by business segment 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)
REVENUE						
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 revenue	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

Geographical segments

The following tables present the consolidated revenue by geographical segment for the six months ended 30 June 2006 and 30 June 2005:

For the six months ended 30 June 2006

	Domestic RMB'000 (Unaudited)	**Hong Kong/ 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)**
REVENUE							
Sales to external customers and total revenue	**10,759,364**	**1,285,141**	**2,476,880**	**1,594,705**	**2,116,483**	**1,698,334**	**19,930,907**

For the six months ended 30 June 2005

	Domestic RMB'000 (Unaudited)	Hong Kong/ 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)
REVENUE							
Sales to external customers and total revenue	8,521,194	1,165,547	2,321,126	1,326,233	2,047,609	1,556,823	16,938,532

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

3. AIR TRAFFIC REVENUE

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Passenger	**16,502,697**	13,927,279
Cargo and mail	**1,892,265**	1,675,433
	18,394,962	15,602,712

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

Type of revenue	Applicable business tax rate
Air traffic revenue	3% of air traffic revenue (all inbound international and Hong Kong and Macau regional flights are exempted from business tax)
Other operating revenue	3% to 5% of other operating revenue

PRC business tax incurred for the six months ended 30 June 2006 and 2005, netted against air traffic revenue amounted to approximately RMB428 million (unaudited) and RMB372 million (unaudited), respectively.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

4. OTHER OPERATING REVENUE

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bellyhold income from a joint venture	**699,904**	711,910
Aircraft engineering income	**203,968**	131,518
Ground services income	**218,827**	131,484
General aviation income	**80,278**	94,522
Air catering income	**62,335**	65,539
Government grants:		
(i) Recognition of deferred income	**38,472**	38,472
(ii) Others	**57,551**	9,676
Service charges on return of unused flight tickets	**48,086**	34,502
Cargo handling service income	**29,444**	33,005
Sale of materials	**5,595**	5,839
Import and export service income	**10,880**	5,974
Training service income	**9,437**	9,832
Aircraft and related equipment lease income	**561**	14,834
Gain on disposal of items of property, plant and equipment, net	**–**	170
Others	**70,607**	48,543
	1,535,945	1,335,820

5. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of items of property, plant and equipment, net	**9,021**	–
Derecognition of unamortised major overhaul costs in property, plant and equipment	**71,427**	222,000
Amortisation of lease prepayments	**10,155**	9,780

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

6. FINANCE REVENUE AND FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	**200,422**	175,459
Interest income	**30,338**	37,006
Gains on fuel derivatives, net	**338,093**	55,002
	568,853	267,467
Finance costs		
Interest expense	**952,716**	903,392
Less: Interest capitalized	**(43,243)**	–
	909,473	903,392

The interest capitalisation rate represented the cost of capital from raising the related borrowings and is approximately 4.5% (2005: Nil) per annum.

7. TAX

According to the PRC Enterprise Income Tax Law, the Company, its subsidiaries, joint ventures and associates established in the PRC are subject to enterprise income tax at rates ranging from 12% to 33% (2005: 15% to 33%) on their taxable income.

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
Current income tax charge		
– Mainland China	**25,115**	50,204
– Hong Kong	**6,673**	4,604
Deferred income tax:		
Relating to origination and reversal of temporary differences	**151,041**	215,521
Income tax charge for the period	**182,829**	270,329

Share of tax attributable to joint ventures, which are accounted for in the Group's consolidated financial statements through proportionate consolidation, amounting to RMB21,307,000 (unaudited) (2005: RMB29,303,000 (unaudited)) is included in the income tax charge for the period.

Share of tax attributable to associates amounting to RMB5,343,000 (unaudited) (2005: RMB20,746,000 (unaudited)) is included in the "Share of profits less losses from associates" on the face of the unaudited condensed consolidated income statement.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

8. DIVIDEND

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

The proposed final dividend for the year ended 31 December 2005 was approved by the Company's shareholders on 12 June 2006.

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the net profit attributable to equity holders of the parent for the six months ended 30 June 2006 of approximately RMB457,974,000 (unaudited) and 9,433,210,909 ordinary shares in issue during the period.

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 (unaudited), and the weighted average number of approximately 9,412,073,189 ordinary 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 granted to international underwriters to subscribe for the Company's H shares during the period.

Diluted earnings per share amounts for the six months ended 30 June 2006 and 30 June 2005 have not been disclosed because no diluting events existed during these periods.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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 2006, net of accumulated depreciation	41,767,629	2,572,551	982,540	318,936	122,985	1,426,087	47,190,728
Additions	4,496,767	14,266	41,797	25,022	13,707	1,174,800	5,766,359
Disposals	(88,411)	(32,987)	(7,269)	(13,738)	(720)	–	(143,125)
Transfer from construction in progress	340,662	7,659	7,790	2,770	–	(358,881)	–
Exchange adjustment	(3,184)	(875)	(346)	(2,399)	–	–	(6,804)
Depreciation charge for the period	(2,450,127)	(76,707)	(84,993)	(34,928)	(17,851)	–	(2,664,606)
At 30 June 2006, net of accumulated depreciation	44,063,336	2,483,907	939,519	295,663	118,121	2,242,006	50,142,552
At 30 June 2006							
Cost	75,311,606	3,650,844	2,218,878	1,065,668	284,299	2,242,006	84,773,301
Accumulated depreciation	(31,248,270)	(1,166,937)	(1,279,359)	(770,005)	(166,178)	–	(34,630,749)
Net carrying amount	44,063,336	2,483,907	939,519	295,663	118,121	2,242,006	50,142,552

	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 2005, net of accumulated depreciation	38,718,863	2,684,860	963,467	315,542	92,055	666,850	43,441,637
Additions	7,185,603	10,022	112,533	72,122	32,270	1,394,017	8,806,567
Disposals	(469,378)	(44,861)	(4,542)	(15,975)	(273)	–	(535,029)
Transfer from construction in progress	467,440	71,898	67,571	5,147	22,724	(634,780)	–
Exchange adjustment	(6,542)	(1,826)	–	(1,399)	–	–	(9,767)
Depreciation charge for the year	(4,128,357)	(147,542)	(156,489)	(56,501)	(23,791)	–	(4,512,680)
At 31 December 2005, net of accumulated depreciation	41,767,629	2,572,551	982,540	318,936	122,985	1,426,087	47,190,728
At 31 December 2005							
Cost	70,705,988	3,698,597	2,192,095	1,076,728	276,239	1,426,087	79,375,734
Accumulated depreciation	(28,938,359)	(1,126,046)	(1,209,555)	(757,792)	(153,254)	–	(32,185,006)
Net carrying amount	41,767,629	2,572,551	982,540	318,936	122,985	1,426,087	47,190,728

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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

Certain of the Group's bank loans were secured by certain of the Group's aircraft and buildings which had an aggregate carrying amount of approximately RMB16,304 million (unaudited) at 30 June 2006 (31 December 2005: RMB16,471 million (audited)).

The carrying amount of aircraft held under finance leases at 30 June 2006 was approximately RMB13,117 million (unaudited) (31 December 2005: RMB10,487 million (audited)). Leased assets are pledged as security for the related finance lease liabilities.

At 30 June 2006, the Group was in the process of applying to obtain the title certificates of certain of its buildings with an aggregate carrying amount of approximately RMB134 million (unaudited) (31 December 2005: RMB270 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 and the aforesaid matter would not have any significant impact on the Group's financial position as at 30 June 2006.

11. LEASE PREPAYMENTS

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Cost		
At beginning of period/year	**1,096,715**	938,992
Additions	**–**	157,723
Disposals	**(2,444)**	–
At end of period/year	**1,094,271**	1,096,715
Accumulated amortisation		
At beginning of period/year	**24,649**	5,094
Amortisation for the period/year	**10,155**	19,555
Disposals	**(921)**	–
At end of period/year	**33,883**	24,649
Net book value		
At end of period/year	**1,060,388**	1,072,066

Certain of the Group's bank loans were secured by certain of the Group's land use rights, which are accounted for as lease prepayments in the Group's consolidated financial statements, with an aggregate carrying amount of approximately RMB38 million (unaudited) at 30 June 2006 (31 December 2005: Nil (audited)).

12. INTERESTS IN ASSOCIATES

At 30 June 2006, the Group was in the process of applying to register the already transferred equity interests in certain associates with an aggregate cost of approximately RMB96 million (unaudited) (31 December 2005: RMB101 million (audited)) from Air China International Corporation, the predecessor of the Company, into the Company's name. The directors of the Company are of the view that the Company owns the aforesaid equity interests and the aforesaid matter would not have any significant impact on the Group's financial position at 30 June 2006.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

13. 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, net of provision for doubtful debt, is analysed as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 30 days	**1,835,131**	1,770,628
31 to 60 days	**355,157**	458,454
61 to 90 days	**222,836**	177,587
Over 90 days	**314,645**	357,806
At end of period/year	**2,727,769**	2,764,475

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Joint venture	**460,893**	451,965

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Advances and others	**713,308**	457,568
Manufacturers' credits on aircraft acquisition receivables	**131,977**	62,930
Prepaid aircraft operating lease rentals	**86,671**	110,472
Receivables from the sale of staff quarters	**1,625**	4,333
Miscellaneous deposits	**170,070**	127,132
	1,103,651	762,435

15. ASSET HELD FOR SALE

On 8 June 2006, Air China, Cathay Pacific Airways Limited ("Cathay"), China National Aviation Company Limited ("CNAC", a subsidiary of the Company), CITIC Pacific Limited ("CITIC Pacific") and Swire Pacific Limited ("SPAC") entered into a conditional agreement in relation to the restructuring of the shareholdings in Cathay and Hong Kong Dragon Airlines Limited ("Dragonair", an associate of CNAC). Upon the agreement becoming unconditional, the Group will dispose of CNAC's entire interest in Dragonair to Cathay in exchange for 288,596,335 shares in Cathay at an issue price of HK$13.5 per share and cash amounting to approximately HK$433 million (equivalent to approximately RMB450 million). Accordingly, the Group's interest in Dragonair was classified as an asset held for sale at 30 June 2006.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

16. TRADE PAYABLES

An aged analysis of the Group's trade payables is as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 30 days	3,021,290	3,247,501
31 to 60 days	934,888	603,010
61 to 90 days	379,033	293,407
Over 90 days	655,102	457,446
At end of period/year	4,990,313	4,601,364

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Joint venture	97,735	115,435

17. OTHER PAYABLES AND ACCRUALS

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Provision for staff housing benefits	86,011	135,381
Accrued salaries, wages and benefits	637,995	894,052
Interest expense payable	312,113	308,152
Custom duties and levies payable	983,118	982,819
Current portion of long term payables	89,609	100,218
Current portion of deferred income	76,943	76,943
Advances from customers	213,363	259,965
Accrued operating expenses	690,906	1,038,995
Others	327,741	371,910
	3,417,799	4,168,435

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

18. SHARE CAPITAL

	Number of shares 30 June 2006	Nominal value 30 June 2006 RMB'000 (Unaudited)	Number of shares 31 December 2005	Nominal value 31 December 2005 RMB'000 (Audited)
Registered, issued and fully paid:				
– State legal person shares of RMB1.00 each	**4,826,195,989**	**4,826,196**	4,826,195,989	4,826,196
– Non-H foreign shares of RMB1.00 each	**1,380,482,920**	**1,380,483**	1,380,482,920	1,380,483
– H shares of RMB1.00 each	**3,226,532,000**	**3,226,532**	3,226,532,000	3,226,532
	9,433,210,909	**9,433,211**	9,433,210,909	9,433,211

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

On 8 June 2006, the Company, Cathay, CNAC, CITIC Pacific and SPAC entered into a conditional agreement in relation to the restructuring of the shareholdings in Cathay and Dragonair. Upon the agreement becoming unconditional, the Company will issue 1,179,151,364 H Shares of the Company to Cathay with a par value of RMB1.00 each at HK$3.45 (equivalent to RMB3.5514) per H share of the Company, resulting in gross proceeds, before share issue expenses, of approximately HK$4,068 million (equivalent to approximately RMB4,188 million).

19. CONTINGENT LIABILITIES

As at 30 June 2006, 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", and which is a Hong Kong incorporated company wholly-owned by CNAHC) on 20 November 2004 (the "Restructuring Agreement"), except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no other liabilities 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 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, possible outcome of the lawsuits or any possible appeal actions. Up to 30 June 2006, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB202 million in respect of the passenger liability and other auxiliary costs. Included in the RMB202 million is an amount of approximately RMB184 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 would not be any material adverse impact on the Group's financial position.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

19. CONTINGENT LIABILITIES *(Continued)*

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Joint venture	**14,250**	91,000
Associates	**147,191**	149,109
	161,441	240,109

20. 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 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Contracted, but not provided for:		
Aircraft and flight equipment	**47,089,449**	31,696,796
Buildings	**674,648**	835,902
Others	**49,563**	22,339
	47,813,660	32,555,037
Authorised, but not contracted for:		
Aircraft and flight equipment	**403,698**	3,973,095
Buildings	**280,964**	1,920,079
Others	**–**	65,608
	684,662	5,958,782
Total capital commitments	**48,498,322**	38,513,819

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

20. **COMMITMENTS** *(Continued)*

(b) **Investment commitments**

At the balance sheet date, the Group is committed to make the following capital contributions:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Associates	**119,488**	102,922
Cathay *(note 20(b)(i))*	**5,549,017**	–
Minority shareholders of CNAC *(note 20(b)(ii))*	**3,199,161**	–
	8,867,666	102,922

(i) On 8 June 2006, the Company, Cathay, CNAC, CITIC Pacific and SPAC entered into a conditional agreement in relation to the restructuring of the shareholdings in Cathay and Dragonair. Upon the agreement becoming unconditional, the Company will acquire 359,170,636 shares and 40,128,292 shares of Cathay from CITIC Pacific and SPAC respectively at an issue price of HK$13.50 (equivalent to RMB13.8969) each, details of which are set out in the announcement made by the Company dated 8 June 2006.

(ii) On 21 June 2006, the Company and CNAC, jointly announced that, subject to satisfaction of certain pre-condition terms, the Company will make the proposal to privatise CNAC and acquire the remaining 1,048,052,000 shares in issue from the minority shareholders of CNAC at a price of HK$2.80 (equivalent to RMB2.8823) each. The Company would also acquire 104,378,000 outstanding options of CNAC at a consideration of HK$1.66 (equivalent to RMB1.7088) each for cancellation.

(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.

At the balance sheet date, the Group had the following future minimum lease payments under non-cancellable operating leases:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within one year	**2,054,515**	1,507,057
In the second to fifth years, inclusive	**6,592,611**	2,862,349
Over five years	**3,904,687**	1,066,083
	12,551,813	5,435,489

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

21. 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 (see below) were conducted in the usual course of business.

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
A. Included in air traffic revenue		
Sale of air tickets:		
CNAHC Group	**1,560**	6,010
Associates	**1,517**	617
	3,077	6,627
Sale of cargo space:		
CNAHC Group	**103,711**	95,671
Government charter-flights:		
CNAHC Group	**221,831**	186,690

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
B. Included in other operating revenue		
Aircraft and related equipment lease income:		
Joint ventures	**–**	1,735
Aircraft engineering income:		
Associates	**11,853**	4,750
Ground services income:		
CNAHC Group	**96**	488
Joint Ventures	**696**	–
Associates	**31,983**	13,384
	32,775	13,872
Bellyhold income:		
Joint venture	**699,904**	711,910
Others:		
CNAHC Group	**12,101**	11,042
Joint ventures	**8,780**	8,122
Associates	**13,845**	3,576
	34,726	22,740
C. Included in finance revenue and finance costs		
Interest income:		
Associate	**1,562**	1,024
Interest expense:		
Associate	**7,913**	8,965

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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

	Six months ended 30 June 2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
D. Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	39,867	45,047
Associates	137,908	111,678
	177,775	156,725
Air catering charges:		
CNAHC Group	24,488	24,338
Joint ventures	57,778	50,657
Associates	2,244	3,048
	84,510	78,043
Repair and maintenance costs:		
Joint ventures	200,596	197,616
Associates	74,179	40,837
	274,775	238,453
Sale commission expenses:		
CNAHC Group	2,186	14,950
Associates	4,210	–
	6,396	14,950
Management fees:		
CNAHC Group	4,995	5,088
Aircraft leasing fee:		
Associates	205,227	54,543
Others:		
CNAHC Group	36,110	47,643
Associates	7,310	5,008
	43,420	52,651

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
E. Deposits, loans and bills payable		
Deposits placed with an associate	284,998	470,863
Loans from an associate	271,553	203,016
Bills payable to an associate	479,195	103,426
F. Outstanding balances with related parties		
Due from CNAHC (long term)	481,813	531,813
Due from CNAHC (short term)	299,738	474,216
Due from other CNAHC group companies	47,207	38,039
Due from associates	177,150	62,948
Due from a joint venture	460,893	451,965
Dividends payable to CNAHC and CNACG	(147,905)	–
Due to CNAHC and CNACG	(133,680)	(133,680)
Due to other CNAHC group companies	(32,728)	(40,471)
Due to associates	(50,330)	(95,905)
Due to a joint venture	(97,735)	(115,435)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

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

The long-term amount due from CNAHC is unsecured, interest-free and is not repayable within one year from the balance sheet date. Except for the long-term amount due from CNAHC, the outstanding balances with related parties are unsecured, interest-free and repayable within one year.

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
G. Compensation of key management personnel of the Group		
Short term employee benefits	**2,243**	2,110
Post-employment benefits	**76**	60
Total compensation paid to key management personnel	**2,319**	2,170

(a) In addition to the above, on 18 October 1997, CNAC 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, Taiwan 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. 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, 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 2006 (six months ended 30 June 2005: Nil).

(b) The Company entered into several agreements with CNAHC which governs the use of trademarks granted by the Company to CNAHC; the provision of financial services by China National Aviation Finance Co., Ltd.; the provision of construction project management services by China National Aviation Construction and Development Company; the subcontracting of charter-flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services, media and advertising services arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance and other ground services by China Aircraft Services Limited.

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

22. EVENTS AFTER THE BALANCE SHEET DATE

(a) Subsequent to 30 June 2006, upon receiving the approval from China Securities Regulatory Commission, the Company issued 1,639,000,000 A shares at an offer price of RMB2.80 per share. The Company's A shares were listed on the Shanghai Stock Exchange on 18 August 2006.

After deducting share issue expenses of approximately RMB76 million, the Company raised net proceeds of approximately RMB4,513 million from the above A share issuance, of which approximately RMB1,639 million and RMB2,874 million were credited to paid-up capital and capital reserve, respectively.

Pursuant to the prospectus dated 8 August 2006 in relation to the initial public offering of the Company's A shares, CNAHC and CNACG, being the largest two shareholders of the Company, have undertaken not to sell or entrust their shareholding in the Company to any third party within 36 months after listing of the Company's A share on the Shanghai Stock Exchange.

(b) On 22 August 2006, the Company's domestic shareholders' class meeting, foreign shareholders' class meeting and the extraordinary general meeting have passed the following resolution:

(i) the issuance of 1,179,151,364 H shares by the Company to Cathay or such other securities (as approved by the directors of the Company) to Cathay which may be convertible into 1,179,151,364 H shares;

(ii) the sale of all shares held by CNAC in Dragonair, which accounted for as an asset held for sale in the Group's unaudited condensed consolidated balance sheet at 30 June 2006, to Cathay in consideration of Cathay issuing new Cathay shares of 288,596,335 and the payment in cash of HK$433 million (equivalent to approximately RMB446 million) to CNAC; and

(iii) the purchase of 359,170,636 and 40,128,292 Cathay shares by the Company from CITIC Pacific and SPAC, respectively, at the price of HK$13.50 (equivalent to approximately RMB13.8969) per share.

Certain other conditions to the completion of the above transactions, including but not limited to obtaining the approvals from the PRC regulatory authorities, have not yet been fulfilled at the date of issuance of this interim financial statements.

(c) On 29 August 2006, the Company issued short-term commercial paper amounting to RMB2,000 million. The commercial paper issued is unsecured, bears interest at 3.70% per annum and has a term of one year.

23. 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 30 August 2006.

B. PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS ("PRC GAAP")

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from principal operations	**20,865,759**	17,642,197
Less: Costs of principal operations	**17,548,251**	14,772,687
Taxes and surcharges on principal operations	**521,200**	432,495
Profit from principal operations	**2,796,308**	2,437,015
Add: Profit from other operations	**142,420**	125,280
Less: Operating expenses	**1,074,902**	877,492
Administrative expenses	**896,529**	793,380
Finance costs	**739,020**	743,346
Profit from operations	**228,277**	148,077
Add: Non-operating income	**25,025**	21,696
Subsidy income	**57,552**	9,677
Investment income/(losses)	**(26,213)**	103,822
Less: Non-operating expenses	**35,598**	33,156
Total profit	**249,043**	250,116
Less: Income tax	**46,014**	119,696
Minority interests	**55,749**	97,004
Net profit	**147,280**	33,416

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
ASSETS		
Current assets:		
Cash and bank balances	**2,818,507**	2,744,162
Accounts receivable	**2,930,808**	3,063,390
Other receivables	**1,283,497**	869,164
Prepayments	**84,480**	36,284
Interest receivables	**–**	1,016
Subsidy receivables	**201,120**	107,460
Inventories	**1,230,633**	1,090,692
Deferred expenses	**100,312**	114,729
Total current assets	**8,649,357**	8,026,897
Long-term investments:		
Long-term equity investments	**2,314,902**	2,316,815
Differences on equity investments	**818,931**	869,019
Long-term debt investments	**48,509**	48,995
Total long-term investments	**3,182,342**	3,234,829
Fixed assets:		
Fixed assets, at cost	**58,518,430**	54,173,359
Less: Accumulated depreciation	**8,356,733**	6,247,726
Net book value of fixed assets	**50,161,697**	47,925,633
Less: Provisions for impairment in fixed assets	**60**	60
Net book value of fixed assets after impairment	**50,161,637**	47,925,573
Construction-in-progress	**9,678,929**	9,368,638
Total fixed assets	**59,840,566**	57,294,211
Intangible assets	**497,063**	506,023
Total assets	**72,169,328**	69,061,960

CONSOLIDATED BALANCE SHEET *(continued)*

At 30 June 2006

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term loans	**9,655,429**	7,477,498
Bills payable	**773,485**	327,937
Accounts payable	**5,321,738**	5,003,444
Domestic air traffic liabilities	**381,395**	353,822
International air traffic liabilities	**1,448,883**	1,123,702
Receipts in advance	**33,270**	68,318
Wages payable	**260,530**	498,838
Welfare payable	**202,088**	217,804
Taxes payable	**464,924**	861,806
Other creditors	**1,213,218**	1,872,495
Dividend payable	**147,905**	–
Other payables	**401,565**	365,419
Accrued expenses	**827,232**	810,299
CAAC Infrastructure Development Fund payable	**119,341**	120,595
Long-term liabilities due within one year	**5,377,900**	5,133,430
Total current liabilities	**26,628,903**	24,235,407
Long-term liabilities:		
Long-term loans	**10,488,189**	10,182,992
Corporate bonds	**3,000,000**	3,000,000
Long-term payables	**1,058,261**	953,097
Obligations under finance leases	**8,444,754**	8,078,671
Total liabilities	**49,620,107**	46,450,167
Minority interests	**2,808,615**	2,771,771
Shareholders' equity:		
Share capital	**9,433,211**	9,433,211
Capital reserve	**8,505,439**	8,505,379
Revenue reserve funds	**362,884**	362,884
Including: Statutory public welfare fund	**101,371**	101,371
Retained profits	**1,505,198**	1,582,711
Including: Discretionary reserve fund proposed by Board of Directors	**84,302,863**	84,302,863
Dividend proposed by Board of Directors	**–**	224,793,416
Exchanges differences arising on retranslation of foreign currency denominated financial statements	**(66,126)**	(44,163)
Total shareholders' equity	**19,740,606**	19,840,022
Total liabilities and shareholders' equity	**72,169,328**	69,061,960

SIGNIFICANT ACCOUNTING POLICIES

Accounting regulations

The financial statements of the Company and the Group were prepared under the "Accounting Standards for Business Enterprises", "Accounting System for Business Enterprises", "Accounting Method for Civil Aviation Enterprises" and other relevant regulations issued by the Ministry of Finance ("MOF").

Accounting year

The Group adopts the Gregorian calendar year as its financial year, commencing from 1 January to 31 December each year. However, the accounting period for these financial statements is from 1 January 2006 to 30 June 2006.

Reporting currency

The reporting currency and the currency adopted for the preparation of these financial statements is Renminbi ("RMB"). Unless otherwise stated, all units are expressed in RMB.

Basis of preparation and principle of measurement

Except for subsidy income, the financial statements of the Group have been prepared on an accrual basis and according to the historical cost as the principle of measurement.

Foreign currency transactions

The Group's reporting currency is RMB. Foreign currency transactions are translated into the reporting currency at the exchange rate quoted by the People's Bank of China at the transaction date. At the balance sheet date, monetary items denominated in foreign currencies will be adjusted according to the approximate market exchange rate ruling at that date. Any exchange difference arising therefrom will be charged to the income statement as exchange gains or losses for the period. Exchange gains or losses arising from borrowings in association with the acquisition or the construction of fixed assets will be capitalised.

Translation of financial statements denominated in foreign currencies

All assets and liabilities are translated into RMB at the exchange rate ruling at the period end. Shareholders' equity, other than retained profits, is translated into RMB at the exchange rate ruling at the date of transaction. Retained profits will be recorded at translated amount and the amount as shown in the income statement and profit appropriation statement. The differences between the carrying amounts of total assets and the aggregate carrying amounts of total liabilities together with shareholders' equity after translation will be separately reported as exchange differences arising on retranslation of financial statements denominated in foreign currency below the line of retained profits. All the items in the income statement and profit appropriation statement will be translated into RMB at the average exchange rates of the period. All the items in the cash flow statement will be translated into RMB at the exchange rates ruling at the end of the period. All the opening balances and the actual amounts for the prior year are reported as previously translated.

Basis of preparation of consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the requirements of document [1995] No.11 "Provisional regulations on consolidated financial statements" and "Accounting System for Business Enterprises" issued by the MOF. Investees in which the Company has more than 50% interest with voting rights or in which the Company has less than 50% interest with voting rights but in substance has dominant control over the investees which should be consolidated.

In the preparation of the Group's consolidated financial statements, the financial statements of subsidiaries are prepared for the same reporting and by using the same accounting policies as the parent company. All significant intercompany transactions and balances, including any unrealised profit, have been eliminated on consolidation.

In the preparation of the Group's consolidated financial statements, the assets, liabilities, revenue, expenses and profits of joint ventures are included in the consolidated financial statements through proportionate consolidation. For those jointly controlled entities which are not significant with reference to the Group's overall financial position and operating results, equity accounting method will be adopted.

SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation of consolidated financial statements *(continued)*

Subsidiaries are fully consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which control is transferred out of the Group. Jointly controlled entities are fully consolidated from the date on which joint control is obtained by the Company and cease to be consolidated from the date on which joint control is transferred out of the Group.

Cash equivalents

Cash equivalents held by the Group are short-term and highly liquid investment which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

Provision for bad debts

Bad debts are recognised in the event that:

(1) The debtor is bankrupt or dies and the debts cannot be recovered with its remaining properties;

(2) The debtor fails to fulfill its obligation of repayment of debt when due and there is substantial evidence showing that the debt cannot be recovered.

Bad debts are recognised by way of provision before approval and are written off against the relevant receivables balances (including accounts receivables and other receivables when approved).

The Group makes bad debt provisions for accounts receivables and other receivables. Specific provision for bad debts is made when the bad debts on accounts receivables and other receivables are confirmed. General provision for accounts receivables and other receivables is made on aging analysis where the age and the recoverability of the receivables will be considered, except for those accounts receivables and other receivables on which special provision for bad debts has been made. The percentage of general provision for bad debts applied by the Group as determined after considering the financial situation and cash flow of the debtors is as follows:

Age	**Percentage of provisions for bad debts**
Within one year	0.3%
Over one year and less than two years	5%
Over two years and less than three years	10%
Over three years and less than four years	30%
Over four years and less than five years	50%
Over five years	100%

Inventories

Inventories comprise expendable spare parts, work-in-progress, general aviation equipment, flight supplies, raw materials acquired, low value consumables, materials for further processing by external parties and others. Expendable spare parts refer to spare parts which are consumed in full when issued and generally comprise spare parts which are of lower value and are in large quantity and will not be repaired after use. However they may also comprise equipment that are of lower value but can be repaired and maintained. Inventories are measured on the actual costs of acquisition. Inventories are calculated on the basis of actual costs and will be calculated on weighted-average method when issued.

The physical record of inventories is maintained by perpetual method.

Except for work-in-progress, inventories are fully charged to income statement upon consumption.

SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories *(continued)*

Impairment loss will be recognised when the costs of inventories cannot be recovered due to the damage or obsolesce of the inventories and on the reason that they are sold at a price lower than costs. Impairment loss will be recognised for other inventories on the basis of the lower of costs and net realisable value. If the cost of the inventories is higher than its realisable value, impairment loss will be made on an individual item basis. Net realisable value is determined based on the estimated selling price obtained in the normal course of operation less the costs of completion and the estimated costs necessary for the sales.

Long-term investments

Long-term investments comprise investments in shares and other equity investments and will be initially measured at investment cost when acquired.

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under historical cost method. Where the Company has the ability to control, jointly control or exercise significant influence over an investee enterprise, the long-term investment is accounted for under the equity method of accounting.

When long-term equity investment is accounted for under the equity method of accounting, the difference on equity investment, which represents the excess of the initial investment cost over the Company's share of shareholders' equity in the investee, will be amortised over the investment period as stipulated in the contract or not more than 10 years. Where the initial investment cost is less than the Company's share of shareholders' equity in the investee, such shortfall is accounted for as capital surplus. If the investment was acquired prior to 17 March 2003, such shortfall will be recognised as long-term differences on equity investments and will be amortised on a straight-line basis over the investment period.

The carrying value of the long-term equity investment, which is accounted for under the equity method of accounting, will be adjusted according to the Group's share of post-acquisition net profit or loss of the investee and such adjustment will be recognised as an investment profit or loss for the period to the extent that the loss reduces the carrying value of the long-term equity investment to nil.

The initial investment cost of long-term debt investment is measured at costs. The interest income of long-term debt investment, which is determined by the face value and interest rate, is accounted for as investment income for the period.

In the event that the market value reduces or the recoverable value of the investee is lower than the carrying value of the investment under the circumstance that the operation of the investee deteriorates, such difference will be recognised in the income statement for the period as impairment in long-term investment.

Fixed assets

Fixed assets are tangible assets with comparatively high unit value held by the Group for use in the production of goods, supply of services, leasing or for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated at the actual cost of acquisition. Interests on specific borrowing and exchange difference arising therefrom that are related to the acquisition or construction of fixed assets and incurred before the assets are ready for their intended uses are capitalised. Any subsequent expenses in relation to significant expansion and technical improvement will be included in fixed assets as capital expenditure when it is probable that future economic benefits, in excess of the original estimation, will flow to the enterprise. Maintenance and repairs are recognised as expenses in the period in which they are incurred. Net gains or losses on fixed assets arising from the stock take gain or loss, retirement, damages and disposal of fixed assets are accounted for as non-operating income or expenses for the period.

Fixed assets that acquire through finance leases are recognised as assets held under finance leases and are measured at the lower of the carrying value and the present value of minimum lease payments commencing from the date of lease. Finance leases are accounted for as the long-term payable which will be determined on the basis of the minimum lease payment. The difference arising therefrom will be recognised as unrealised finance costs which will be amortised under actual interest rate method during the lease period.

SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets *(continued)*

Pursuant to the document Cai Hui Han [2004] No. 54 "Reply from MOF relating to the extension of Pilot Site for Fixed Assets Management of High Value Rotables of Aviation Operation" issued by the MOF of the People's Republic of China, the Group accounts for high value rotables as fixed assets.

Fixed assets (including fixed assets held under finance leases) are depreciated using the straight-line method and the annual depreciation rates for fixed assets are determined by the original costs, estimated economic useful lives or the estimated useful lives at the time of acquisition and the residual values of the fixed assets as follows:

Category	Estimated useful life	Estimated residual value	Annual depreciation rate
Aircraft and engines	20 years	5%	4.75%
Buildings and construction	15-35 years	5%	2.71%-6.33%
Machinery and equipment	8-20 years	5%	4.75%-11.88%
Transportation equipment	6 years	5%	15.83%
Office equipment	4-10 years	5%	9.5%-23.75%
High value rotables	10 years	–	10%

Depreciation on fixed assets is charged on a monthly basis and the depreciation will be provided in the following month after the acquisition of fixed assets and will be ceased to be provided in the month immediately after the fixed assets are disposed of.

Fixed assets are measured at the lower of carrying value and recoverable amount at the end of the period and impairment loss will be recognised in the period in which the recoverable amount falls below the carrying value.

Construction in progress

Construction in progress represents necessary expenses incurred before the assets are ready for their intended uses and include direct materials, direct labour cost, equipment pending for installation, installation fee, project management fee and net profit or loss arising from trial operation as well as the borrowing costs which are allowed to be capitalized. Construction in progress is transferred to fixed assets when it is ready for its intended use.

For construction projects which have been suspended and will not be resumed for construction within three years or which have become functionally or technically obsolete or the economic benefits to which they bring to the enterprises are highly uncertain, impairment loss will be recognised and charged to the income statement in the period it incurred.

The Group will review the construction in progress on an individual basis at the end of the period and impairment of construction in progress, determined as the difference between the recoverable amount and the carrying value, will be charged to the income statement in the period when the recoverable amount falls below the carrying value.

Intangible assets

Intangible assets of the Group are stated at the actual cost of acquisition. The cost of the intangible assets is amortised on a straight-line basis over the estimated useful life commencing from the month of acquisition. If the estimated useful life is longer than the contracted beneficial period or the effective period stipulated by law, the intangible assets will be amortised on a straight-line basis in the contracted beneficial period or the effective period stipulated by law, whichever is shorter. Where the useful life of intangible assets is not stipulated by the contract or law, it is amortised over a period of five years.

The Group will review the economic benefits that are expected to bring to the Group by the intangible assets on an individual basis at the end of the period and impairment, determined as the difference between the recoverable amount and the carrying value, will be charged to the income statement in the period when the recoverable amount falls below the carrying value.

SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Maintenance and overhaul expenses

The regular maintenance and overhaul expenses incurred for aircrafts owned or held under finance lease are charged to the income statement as incurred. Overhauls are required to be conducted before the aircrafts held under operating leases are returned to lessor and the estimated cost of overhaul, which is calculated on a straight-line basis or by reference to the flown hours of the aircrafts held under operating lease, will be charged to the income statement during the lease period.

Borrowing costs

Borrowing costs comprise interest incurred, amortisation of discounts or premiums, ancillary costs and exchange differences in connection with the Group's borrowings. Specific borrowing refers to funds borrowed specifically for the acquisition or construction of fixed assets and are capitalised as part of the cost of the fixed assets if:

(1) the capital expenditures have been incurred;

(2) the borrowing costs have been incurred; and

(3) the activities that are necessary to bring the asset into its intended use have been commenced.

If the acquisition and construction activities pertaining to the fixed assets are suspended abnormally, and have been suspended for more than three consecutive months, the capitalisation of borrowing costs will be ceased and recognised as expenses for the period until the resumption of such acquisition and construction activities.

Capitalisation of borrowing costs ceases when the fixed assets have reached their expected usable condition. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

The amount of interest costs, including the amortisation of premiums and discounts, capitalised for the period is determined based on the weighted average of cumulative expenditures incurred for the acquisition or construction of a fixed asset and the weighted average interest rate, and is limited to the actual amount of interest incurred or the amortisation of premiums and discounts on the specific borrowings during the period. Exchange differences on borrowings in foreign currencies and ancillary costs arising from special borrowings are capitalised to the extent of the amount actually incurred.

Borrowing costs incurred from other borrowings are recognised directly as financial expenses in the period when incurred.

Corporate bonds

Corporate bonds issued are recorded at face value. Difference between the issue price and the face value is treated as the premium or discount of the bonds and is amortised on a straight-line basis over the life of the bonds when the relevant interest is accrued.

Principles of revenue recognition

When airline passenger, cargo and mail services are provided by the Group, revenue from passenger, cargo and mail transportation is recognised as transportation revenue upon the rendering of the transportation services. Ticket sales for transportation not yet provided are included in current liabilities as "domestic air traffic liabilities" or "international air traffic liabilities"; ticket sales for carriage undertaken but not sold by the Group and tickets sold but not carried by the Group must be settled through Civil Aviation Administration of China (CAAC) or International Air Transport Association (IATA). Transportation revenue should be recognised based on flight coupons upon the rendering of the transportation services.

Agency commission income is recognised when invoices are issued by another carrier. When the sales representatives of the Group sell air tickets on behalf of other carriers and when such carriers received tickets of connecting flights after it has effectively provided the air carriage, it shall perform the settlement through the domestic clearing network of civil aviation (for domestic airlines) or IATA (for foreign airlines) and collect the proceeds from ticket sales by the Group. Upon recognition, the Group shall deduct the amount of agency commission it is entitled to from those ticket sales and recognise it as an income of the Group.

SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Principles of revenue recognition *(continued)*

For the rendering of other services, revenue is recognized when the relevant service is rendered and completed within one accounting year. For services rendered and completed in more than one accounting year, when the outcome of the transaction involving the rendering of services can be estimated reliably, the relevant revenue from the rendering of services is recognised by the percentage of completion method.

Revenue from the sales of goods is regonised when the significant risks and rewards of ownership of the goods have been passed to the buyers such that the Group no longer maintain neither management nor control of our goods.

Revenue from other businesses is stated at the net invoice amount of the goods sold (net of the amount of output value-added tax), the return of goods occurred, and sales return is charged to the revenue for the current period. Goods sold on and before the balance sheet date of the year are treated as adjusting events, if return of goods occurs in the period from the balance sheet date to the date of approval of the financial accounting report; cash discount is recognised as expenses during the period as and when incurred; and sales discount is set off the revenue for the period when actually occurs.

Interest income is recognised according to the principal outstanding and the accrued interest on the applicable rate.

Dividend income is recognised as revenue when a shareholder's right to receive the dividend is established.

Rental income is recognised on a straight-line basis over the term of the leases.

Operating income included in the consolidated financial statements does not include intra-group transactions.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rental charges under the operating leases are credited to the expenses for the current period on a straight-line basis over the lease terms.

Accounting treatment of income tax

The Group accounts for enterprise income tax by using the tax payable method.

Frequent flyer programme

The Group currently maintains one frequent flyer programme, namely, the Air China Companion Club incentive programme, which provides travel awards to members based on accumulated mileage. The estimated incremental cost to provide free travel is recognised as an expense and accrued as a current liability as members accumulate mileage. As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly, to reflect the acquittal of the outstanding obligations.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control, or jointly control the other party or exercise significant influence over the other party in making financial and operation decisions; or where two or more parties are subject to common control, these parties are also considered as related parties.

Accounting policies, changes to accounting estimates and significant accounting errors

During the reporting period, the Group had adopted consistent accounting estimates and no adjustment in significant accounting errors existed, except for the adjustments made by the Group in the measurement of financial derivative instruments.

The risk management policy that the Group adopted to control aviation fuel prices aimed to protect the operating cost from being affected by unexpected or huge surge in aviation fuel prices. For this purpose, the Group used the authorized financial instruments (e.g. swap and option) with approved counterparts within the specified transaction amounts. As there was no relevant requirements on this kind of transaction under the PRC GAAP in previous years, such financial derivative instruments were previously recognized as profit or loss when they expired.

Pursuant to the requirements of the Accounting Standards for Business Enterprises No. 24- hedge set out in "the [2006] No. 3 Document" promulgated by the MOF, from this year onwards, the calculation of such financial derivative instruments are subject to adjustments, and such instruments will be recognized at fair values through profit or loss on the balance sheet date of the year. Excluding the effect on profit or loss attributable to the minority shareholders, such adjustment in calculation has boosted up the net profit for the period by RMB102,176,388.

RECONCILIATION OF THE GROUP'S FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND IFRS

Reconciliation of net profit attributable to the Group under PRC GAAP and IFRS:

	Notes	Six months ended 30 June 2006 RMB'000 (Unaudited)	 2005 RMB'000 (Unaudited)
Net profit attributable to the Group recorded in financial statements prepared under PRC GAAP		**147,280**	33,416
Deferred taxes	*(i)*	**(151,041)**	(215,521)
Effect of depreciation on adjustment of costs of fixed assets	*(ii)*	**(82,171)**	(82,195)
Effect of depreciation and amortisation arising on revaluation of assets	*(iii)*	**249,836**	251,754
Effect of amortisation of differences on equity investments in Hong Kong Dragon Airlines Limited ("Dragonair") and Jardine Airport Services Limited ("JASL")	*(iv)*	**22,308**	22,307
Reversal of amortisation of differences on equity investment in other investments	*(v)*	**17,830**	17,830
Early retirement benefits	*(vi)*	**7,116**	2,891
Government grant	*(vii)*	**(307)**	8,672
Capitalisation of major overhaul expenses of aircraft and engines	*(viii)*	**190,339**	426,000
Others		**56,784**	126,099
Net profit attributable to the Group recorded in financial statements prepared under IFRS		**457,974**	591,253

RECONCILIATION OF THE GROUP'S FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND IFRS *(continued)*

	Notes	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Equity of the Group attributable to the shareholders of the Company recorded in the financial statements prepared under PRC GAAP		**19,740,606**	19,840,022
Deferred taxes	*(i)*	**347,330**	498,371
Differences in net book value of fixed assets	*(ii)*	**970,403**	1,052,574
Effect of asset revaluation	*(iii)*	**(1,660,317)**	(1,910,153)
Unamortised differences on equity investments in Dragonair and JASL	*(iv)*	**759,378**	737,071
Early retirement benefits	*(vi)*	**(182,025)**	(189,141)
Government grant	*(vii)*	**(416,462)**	(416,155)
Capitalisation of major overhaul expenses of aircraft and engines	*(viii)*	**498,397**	311,058
Others		**249,531**	168,594
Equity of the Group attributable to the shareholders of the Company recorded in the financial statements prepared under IFRS		**20,306,841**	20,092,241

Notes:

i. In accordance with the IFRS, provision for deferred tax is required. In accordance with PRC GAAP, the Company has adopted the tax payable method to accounts for enterprise income tax. Therefore, no provision for deferred tax has been made in the financial statements prepared under PRC GAAP.

ii. Differences in the original costs of fixed assets mainly relate to fixed assets acquired in foreign currencies prior to 1 January 1994 and stated at the amount denominated in RMB which was translated at the then prevailing exchange rate prescribed by the government (the government-prescribed prices ruling at that time). Such difference is stated at the amount denominated in RMB which is translated at the then prevailing market rate (i.e the swap rate ruling at that time), resulting in a difference in the original costs of fixed assets between the financial statements prepared under IFRS and under PRC GAAP respectively.

iii. In accordance with the accounting policies under IFRS, all assets are recorded at historical costs. Therefore, the revaluation of assets and its amortisation recorded under PRC GAAP is reversed in the financial statements prepared in accordance with IFRS.

iv. In accordance with IFRS, the amortisation of the difference of equity investments in Dragonair and JASL under PRC GAAP is reversed.

v. In accordance with IFRS, the amortisation of the differences of equity investments arising on the acquisition of three air catering companies and Shandong Aviation Group Corporation, Shandong Airlines Co., Ltd. and Sichuan SNECMA Aeroengine Maintenance Co., Ltd. under PRC GAAP is reversed.

vi. In accordance with IFRS, when a retiring staff tenders for his/her retirement, the staff costs accrued up to his/her retirement should be provided for on a one-off basis whereas there was no such requirement under PRC GAAP.

RECONCILIATION OF THE GROUP'S FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND IFRS *(continued)*

Notes: (continued)

vii. In accordance with IFRS, government-endowed assets or government subsidies should be included in the government grant receivable or the assets. These assets are also credited to deferred income in the balance sheet which is amortised, on a straight-line basis, to the income statement. In accordance with PRC GAAP, when government-endowed assets are received, they should be debited to the relevant assets and credited to the capital reserve; and when government subsidies are received, they should be debited to the cash at bank and in hand and included in the income statement as subsidies income.

viii. In accordance with the requirement of IAS 16 (2004 Amendment), the costs of major overhauls in respect of self-owned or finance-leased aircraft and engines shall be capitalised and depreciation is provided thereon.

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

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