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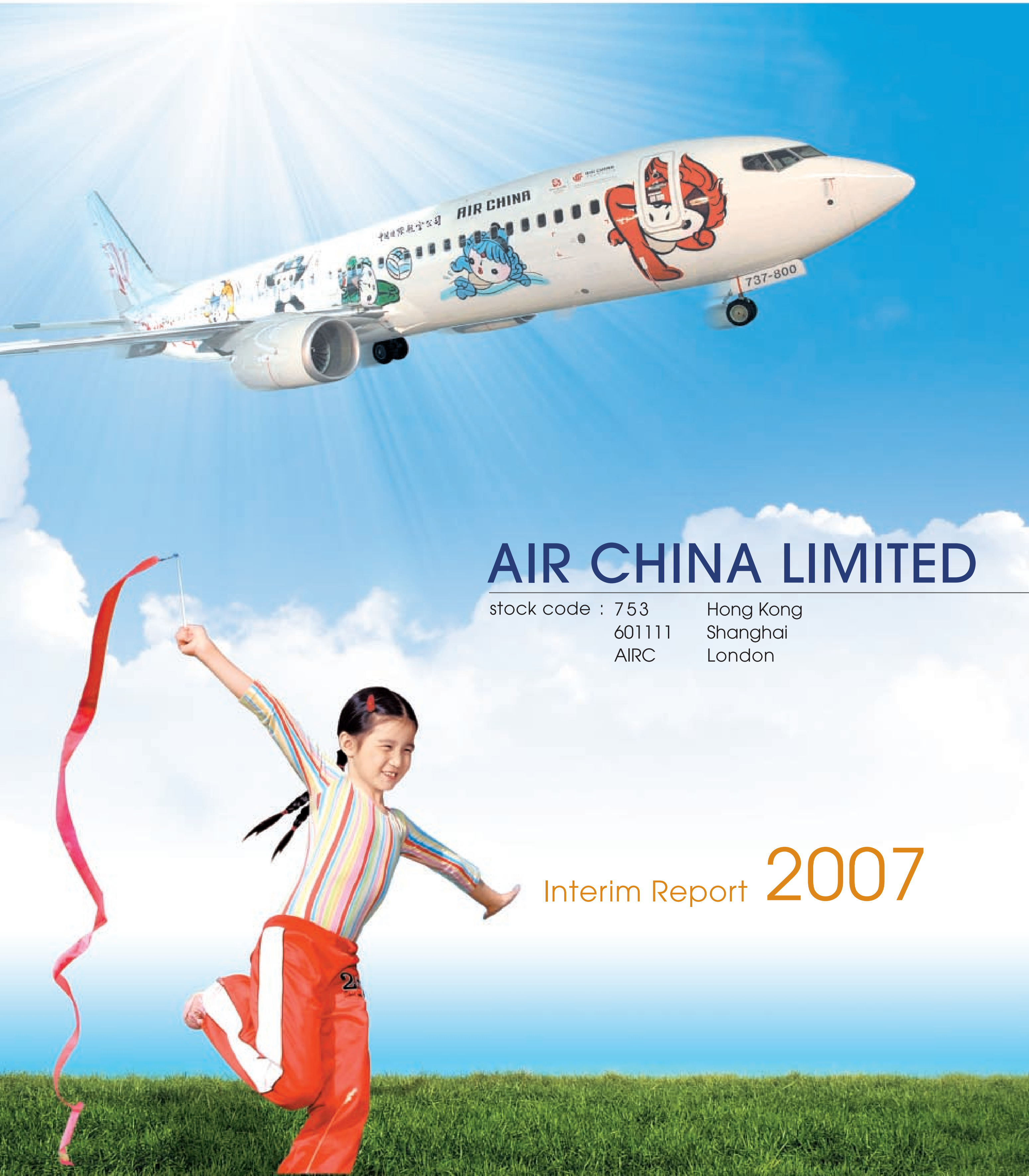
AIRLINE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES



AIR CHINA LIMITED

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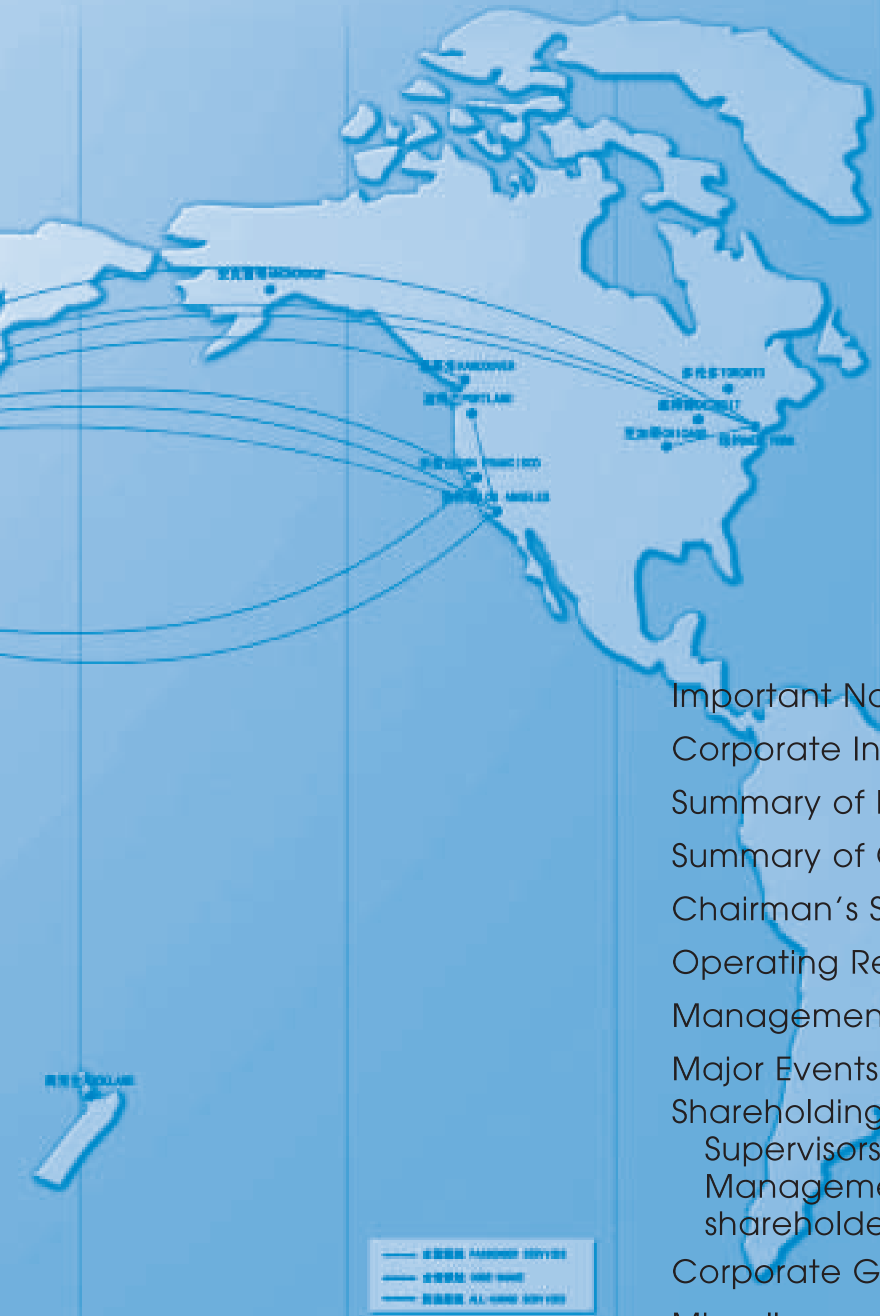
Interim Report 2007



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IMPORTANT NOTICE

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

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

CORPORATE INFORMATION

CHINESE REGISTERED NAME

中國國際航空股份有限公司

ENGLISH NAME

Air China Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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12 Tung Fai Road
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Hong Kong

WEBSITE ADDRESS

www.airchina.com.cn

DIRECTORS

Li Jiaxiang
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Wang Shixiang
Yao Weiting
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Chen Nan Lok, Philip
Ma Xulun
Cai Jianjiang
Fan Cheng
Hu Hung Lick, Henry
Wu Zhipan
Zhang Ke
Jia Kang

SUPERVISORS

Zhang Xianlin
Liao Wei
Zhang Huilan
Liu Feng
Liu Guoqing

LEGAL REPRESENTATIVE OF THE COMPANY

Li Jiaxiang

JOINT COMPANY SECRETARIES

Huang Bin
Li Man Kit *(ACIS, ACS)*

QUALIFIED ACCOUNTANT

Tze-kin Ng, David *(CPA)*

AUTHORISED REPRESENTATIVES

Cai Jianjiang
Li Man Kit

LEGAL ADVISER TO THE COMPANY

Haiwen & Partners (as to PRC Law)
Freshfields Bruckhaus Deringer
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INDEPENDENT AUDITORS

Ernst & Young

H SHARE REGISTRAR AND TRANSFER OFFICE

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Rooms 1712-1716, 17th Floor
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Wanchai
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LISTING VENUES

Hong Kong, London and Shanghai

SUMMARY OF FINANCIAL INFORMATION

	For the six months ended 30 June 2007 RMB'000	For the six months ended 30 June 2006 RMB'000	Change (%)
Operating revenue[(1)]	**23,352,820**	19,930,907	17.17
Profit from operations	**1,366,652**	893,265	53.00
Profit before tax	**2,072,407**	660,482	213.77
Profit after tax (including profit attributable to equity holders of the Company and minority interests)	**1,476,035**	477,653	209.02
Profit attributable to minority interests	**(92,544)**	19,679	(570.27)
Profit attributable to equity holders of the Company	**1,568,579**	457,974	242.50
EBITDA[(2)]	**4,063,013**	3,557,871	14.20
EBITDAR[(3)]	**5,387,864**	4,638,167	16.16
Earnings per share attributable to equity holders of the Company (RMB)	**0.132**	0.049	169.39
Return on equity (%)[(4)]	**5.39**	2.26	138.50

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

(2) EBITDA represents earnings before finance revenue, finance costs, income taxes, share of profits less losses of associates and depreciation as computed under the International Financial Reporting Standards.

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

(4) Return on equity represents profit for the period attributable to the equity holders divided by the Group's equity as at period end.

	30 June 2007 RMB'000	31 December 2006 RMB'000	Change (%)
Total assets	**85,763,284**	83,963,601	2.14
Total liabilities	**56,468,446**	52,227,908	8.12
Minority interests	**174,707**	2,011,435	(91.31)
Equity attributable to equity holders of the Company	**29,120,131**	29,724,258	(2.03)
Equity per share (RMB)	**2.45**	2.50	(2.00)

SUMMARY OF OPERATING DATA

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

	For the six months ended 30 June 2007	For the six months ended 30 June 2006	Change (%)
Traffic			
RPKs (in millions)	**33,286.32**	29,104.08	14.37
International	**14,154.97**	12,157.66	16.43
Domestic	**17,594.30**	15,449.60	13.88
Hong Kong and Macau	**1,537.05**	1,496.83	2.69
RFTKs (in millions)	**1,866.92**	1,566.32	19.19
International	**1,417.89**	1,165.33	21.67
Domestic	**381.90**	333.20	14.62
Hong Kong and Macau	**67.12**	67.79	(0.99)
Passengers carried (in thousands)	**17,870.13**	15,722.06	13.66
International	**3,510.78**	3,044.28	15.32
Domestic	**13,430.80**	11,744.70	14.36
Hong Kong and Macau	**928.55**	933.08	(0.49)
Cargo and mail carried (in tonnes)	**535,716.64**	464,705.25	15.28
Kilometres flown (in millions)	**257.12**	228.09	12.73
Block hours (in thousands)	**405.43**	355.59	14.01
Number of flights	**146,752**	132,283	10.94
International	**27,503**	23,718	15.96
Domestic	**109,633**	98,739	11.03
Hong Kong and Macau	**9,616**	9,826	(2.14)
RTKs (in millions)	**4,861.89**	4,184.72	16.18
Capacity			
ASKs (in millions)	**43,891.33**	39,434.98	11.30
International	**19,057.40**	16,821.03	13.30
Domestic	**22,622.90**	20,450.50	10.62
Hong Kong and Macau	**2,211.03**	2,163.45	2.20
AFTKs (in millions)	**3,515.47**	2,873.34	22.35
International	**2,611.64**	2,033.83	28.41
Domestic	**789.50**	714.60	10.48
Hong Kong and Macau	**114.33**	125.01	(8.55)
ATKs (in millions)	**7,485.27**	6,441.71	16.20
Load factor			
Passenger load factor (RPKs/ASKs)	**75.84%**	73.80%	2.04 percentage point
International	**74.28%**	72.28%	2.00 percentage point
Domestic	**77.77%**	75.55%	2.23 percentage point
Hong Kong and Macau	**69.52%**	69.19%	0.33 percentage point
Cargo and mail load factor (RFTKs/AFTKs)	**53.11%**	54.51%	-1.41 percentage point
International	**54.29%**	57.30%	-3.01 percentage point
Domestic	**48.37%**	46.63%	1.74 percentage point
Hong Kong and Macau	**58.71%**	54.23%	4.48 percentage point

SUMMARY OF OPERATING DATA

	For the six months ended 30 June 2007	For the six months ended 30 June 2006	Change (%)
Yield			
Yield per RPK (RMB)	**0.5939**	0.5670	4.74
International	**0.5747**	0.5260	9.26
Domestic	**0.5991**	0.5865	2.15
Hong Kong and Macau	**0.7107**	0.6992	1.64
Yield per RFTK (RMB)	**1.8377**	2.1032	(12.62)
International	**1.8196**	2.2180	(17.96)
Domestic	**1.4790**	1.2971	14.02
Hong Kong and Macau	**4.2618**	4.0915	4.16
Fleet			
Total number of aircraft in service at period end	**230**	210	9.52
Daily utilization (block hours per day per aircraft)	**9.99**	9.97	0.20

Note: The above summary of operating data for the six months ended 30 June 2007 includes the entire Air China Cargo and Air Macau. Accordingly, the summary of operating data for the six months ended 30 June 2006 has been adjusted to conform to the basis of the current period's presentation.

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the first half of 2007, with the macro economy of China continuing to grow rapidly and steadily and the total demand in the aviation market expanding at a greater pace, the Company has proactively taken good advantage of the opportunities arising in the market and successfully offset the adverse impact of high oil price and achieved remarkable economic growth. Meanwhile, we have been developing our strategic cooperation and making significant progress in organization transformation, hub integration, service network improvement as well as brand building, laying a solid foundation for achieving the strategic goal of "becoming the recognised airline of mainstream passengers, the most valuable and profitable airline in China, and an airline with international competitive strength".

The Company has always been putting safety on the first place in its production and operation, handling properly the correlation between safety and economic benefits, safety and development, safety and reform, and aiming at establishing a long-term and effective mechanism for the Company's safety management. The first measure is to implement the accountability system for safety in operation, the second is to reinforce the construction of the safety system, and the third is to constantly reexamine and review the principles and methodology for safety management. Only with the further improvement of safety management and enhancement of management capability, can safety in operation be guaranteed.

During the reporting period, the Company's operating performance improved steadily, and the Group (including the Company, its subsidiaries and joint-ventures) recorded an operating revenue (including air traffic revenue and other operating revenue) of RMB23.353 billion, representing an increase of 17.17% from the same period of the previous year. While ensuring absolute flight safety, cheerful results have been achieved in both passenger and cargo services, with passenger volume reaching 17.870 million passengers and cargo and mail volume reaching 535.717 thousand tonnes, representing an increase of 13.7% and 15.3%, respectively, from the same period of the previous year. Profit from operations amounted to RMB1.367 billion, securing its leading position in terms of profitability among the airlines in China.

In order to maintain a long-term competitive strength and continuously generate sound returns to the shareholders, the Company implemented important plans in the following aspects during the first half of 2007:

Commencing aviation alliance cooperation and building a global network. The Company continued to implement the business cooperation plans with Star Alliance and Project Star, and has met 21 out of the 57 entry requirements for Star Alliance. The Company has enabled free sales through code-sharing with Cathay Pacific Airways Limited and has designated Beijing, Hong Kong and Taiwan to be the pilot sales regions for the reciprocal sales representation. The Company has also embarked on a number of cooperation projects with Lufthansa, United Airlines, SAS Scandinavian Airlines, Air New Zealand, Austrian Airlines and Asiana Airlines.

Integrating regional hubs and optimizing route networks. The Company has steadily improved the quality in building the three major domestic hubs in Beijing, Chengdu and Shanghai and increased the operation capacity of those three places, so that the number of connecting flights available has experienced a stable growth with a significant increase in the volume of transit passengers. The Company also stressed on developing its international routes such as those to North America and Europe as well as improving the quality of its brand and service of highly profitable routes such as those to Japan and South Korea, aiming to expand its existing market share.

CHAIRMAN'S STATEMENT

Boosting organization transformation and making progressive breakthrough. Through entering into new performance evaluation contracts and establishing new evaluation system for both its divisions and individuals, the Company has further optimized its management models and resources allocation and boosted the transformation of our core values and adjustment of personnel structure, which laid down a solid foundation for the establishment of a market-oriented human resources management system.

Perfecting service system and improving service management. The function of complaint management through the call centre and service hotline has been brought into full play; and the renovation work for both the first and business class cabins has been completed; the Global Luggage Enquiry System has been put into use; the building of call centres and electronic payment platforms in China and other countries has been accelerated; self-service check-in equipment have been installed in major airports; and check-in areas for first and business classes passengers have been put into use .

Taking advantage of serving the Olympics to enhance brand recognition. As an air-transportation service partner of the 2008 Beijing Olympic Games, the Company has launched a series of Olympics-related promotional activities and been actively participating in highly influential social charity activities. Our Olympic marketing campaign has made significant progress, with the Olympics-oriented products designed and put to the market with sound feedback from our customers.

According to Forbes' ranking of the global leading enterprises in 2007, the Company was among The World's 2000 Largest Public Companies, ranking 13th among international airlines; and 9th among the same in terms of profitability. The Company was also ranked 461st among the top 500 international brands, and the first ever among Chinese airlines to receive an award of "the Most Competitive Chinese Enterprises in the World", representing that the Company has secured itself a place among the world-class prestigious brands.

With further opening up of China's aviation market, and benefiting from the continuing growth in passenger and cargo transportation capability, the Company will secure its leading role in China's aviation industry and devote to build and promote the brand of Air China's services, aiming at achieving better operating results and fulfilling our commitment to the shareholders.

Finally, on behalf of the Board, I would like to thank the dedicated management and staff of the Company for their hard work, who have demonstrated excellent professional quality and devotion in their endeavour in creating the greatest value for our shareholders.

Li Jiaxiang
Chairman

Beijing, PRC
28 August 2007

OPERATING RESULTS REVIEW

REVIEW OF OPERATIONS OF THE COMPANY AND AIR CHINA CARGO

With respect to passenger traffic, during the first half of 2007, the number of passengers carried by the Company increased by 14.6% to 16.687 million compared to the same period last year; the available seat kilometres of the Company increased by 11.8% from the same period last year to 41,940 million, while the average passenger load factor increased by 2.0 percentage points from the same period last year to 75.8%. The Company's passenger traffic reached 31,810 million RPKs, representing an increase of 14.9% from the first half of 2006.

With respect to cargo traffic, during the first half of 2007, cargo and mail carried increased by 18.4% from the same period last year to 454,000 tonnes. The available freight tonne-kilometres of the Company increased by 24.2% from the same period last year to 3,390 million, while freight and mail load factor decreased by 1.5 percentage points from the same period last year to 52.5%. The cargo and mail traffic of the Company increased by 20.8% from the same period last year to 1,780 million RFTKs.

HUB BUILDING

The Company has steadily improved the quality of hub building. The first approach is to expand the transport capacity in Beijing, Chengdu and Shanghai. The number of aircraft serving these three hubs have reached 128, 38 and 31 respectively, with the number of connecting flights available in these three hubs increasing steadily and the connecting flights available per week also increasing continuously as well as the number of transit passengers increasing remarkably. The second is that three peak intervals of scheduled flights have been formed in Beijing, showing particularly the remarkable improvement in connections and hub building. The third is to reinforce timeslot application, and 204, 73 and 82 time slots per week have been added in Beijing, Shanghai and Guangzhou, respectively. The fourth is to improve the quality of flight operation by reducing flight adjustments within 15 days, and the delay ratio due to flight planning has dropped 1 percentage point. The fifth is, on the basis of hub building, to stress on the design and development of new routes services, such as the Beijing-Shanghai Express service and transit connection services, and a number of new products have commenced service, for example, the Beijing International Recreational Transit, Beijing-Tianjin Comprehensive Services and Shanghai International First and Business Class Cabins Services, etc. The sixth is to strengthen the competition for the operation of international routes and securing the hub operation advantages of the Company. The seventh is to increase the marketing efforts for Air China's network. In addition to regular advertisements and distribution of marketing materials, a number of promotional video clips, such as "Beijing Express", "Chengdu Express" and boarding guidance for T3 Terminal have been made, which greatly boosted the building of the Beijing Hub and the Chengdu Regional Hub.

OPERATING RESULTS REVIEW

ROUTE NETWORK

During the reporting period, the Company opened up a number of new routes, such as Beijing-Sapporo, Beijing-Zhuhai, Beijing-Yichang, Beijing-Yancheng, and adjusted the route structure for Beijing-Ho Chi Ming City and optimized the routes of Shandong Airlines and etc. The Company secured the scheduled flights franchise for routes of Beijing-Sao Paulo, Beijing-Saipan, Beijing-Athens via Dubai. The Company established code sharing with Lufthansa on routes of Frankfurt, Munich to Geneva, Basel and Zurich, and with United Airlines on routes of Beijing-Washington D.C. (direct flight) and Denver-Los Angeles and San Francisco. Through selective development of bilateral cooperative partnership, the Company succeeded in expanding its route network in the European and North-American markets.

As at 30 June 2007, the Company and Air China Cargo have a total of 271 routes, among which, 190 are domestic routes, 75 are international routes, and 6 are regional routes. The Company's flights are connecting 26 countries and regions over the globe, including 39 international cities, 77 domestic cities and 1 region.

FLEET

The fleet of the Company continued to expand. During the first half of 2007, there was a net increase of 5 aircraft (in which 9 aircraft were introduced and 4 aircraft were retired) for the Company and Air China Cargo. As at 30 June 2007, the Company and Air China Cargo operated a fleet of 212 aircraft in total with an average age of 7.9 years. Details of the fleet are set out in the table below:

	Number of Aircraft			
Type of aircraft	**Owned**	**Finance Leased**	**Operating Leased**	**Total**
Passenger Aircraft				
Boeing	76	27	44	147
Airbus	25	19	7	51
CRJ-200	–	–	3	3
Freighters	6	–	3	9
Business Jet	–	–	2	2
Total	107	46	59	212

On 6 March 2007, the Company and Air China Import and Export Co. Ltd. entered into an aircraft lease agreement with GECAS for the lease of 11 B737-800 aircraft.

As at 30 June 2007, the Company had completed, as scheduled, the entire renovation work for both the first and business class cabins for 15 aircraft, of which 2 A340 aircraft were completed in the first half of 2007. The smooth implementation of the renovation work for both the first and business class cabins laid a sound foundation for the Company to achieve the structural adjustment of yield from routes and improve the quality of yield from international routes.

As at 30 June 2007, Air Macau operated a fleet of 18 aircraft, of which 13 are passenger aircraft and 5 are freighters.

OPERATING RESULTS REVIEW

MARKET EXPANSION

During the reporting period, the Company accelerated its development of e-commerce and expanded the one-stop boarding business. The Company commenced electronic passenger ticketing operation in 70 domestic destinations and 16 international routes, achieved combined transportation by electronic tickets with 7 domestic airlines and 15 overseas airlines, resulting in the sales of electronic passenger tickets of Air China in 5 overseas global distribution network. The Company commenced online check-in service in 5 domestic cities including Beijing. Currently, the Company offers one-stop boarding service in 35 routes departing from domestic airports and transit to domestic destination, and in 17 routes departing from overseas airports and transit to international and domestic destination via Beijing, collaborating with 13 members of Star Alliance in one-stop boarding business. The Company redesigned the service in "New First and Business Class Cabins" and improved the satisfaction rate for its air services.

During the reporting period, the Company launched various services in relation to the Olympic Games. The Olympic Fuwa Airliner has now served 11 cities, with an average passenger load factor of 89%. The Company was named the official carrier for the "13th Exhibition of Olympic Collection". The Company organized "Olympic Track" activities and prepared the promotional brochures of the Olympic Games. By leveraging the platform of the Olympic Games to promote sales, the Company also launched the "Products of Air China for the Opening and Closing Ceremonies of 2008 Beijing Olympic Games", the "Products of Air China for Various Phases of the Olympic Games" and the "Reception Products" to the market. Regarding the joint marketing with collaboration partners, the Company entered into a strategic collaboration agreement in relation to the Olympic Games with Bank of China and launched the first joint credit card in relation to the Olympic Games in China. The Company also partnered with Panasonic and KODAK for the large-scale marketing activities at the e-commerce platform of Air China.

BUSINESS COOPERATION

The Company regularly participated in various managerial committee meetings of Star Alliance as an observer to study the procedures of entry and to organise internal meetings to review the entry requirements of Star Alliance in anticipation to accelerate the progress of admission to Star Alliance. The Company hosted large-scale seminars aiming to obtain the support from domestic airports and to promote Air China's admission to Star Alliance. During the reporting period, the Company has met an aggregate of 21 entry requirements of Star Alliance, representing 37% of all requirements. The Company set the action plan and schedule in respect of the 9 difficult aspects of the entry requirements of Star Alliance and has implemented and monitored such plan and schedule in a timely manner.

The Company and Cathay Pacific Airways Limited ("Cathay Pacific") commenced free-sales by way of code sharing cooperation, and both parties agreed to carry out pilot cooperation of acting as sales representative for each other in Beijing, Hong Kong and Taiwan as soon as possible. In addition, the parties are also proactively promoting collaboration projects in respect of the IT cooperation, the exchange of flight attendants and joint procurement.

OPERATING RESULTS REVIEW

EMPLOYEES

As at 30 June 2007, the Company had 19,334 employees and its subsidiaries and joint ventures had 13,897 employees.

In preparation for the Company's admission to entry into Star Alliance, the Company is training all frontline employees as scheduled. During the reporting period, the Company has completed training of 50 key trainers.

BUSINESS REVIEW OF AIR MACAU

The Company holds 51% of the shares of Air Macau through China National Aviation Corporation (Macau) Company Limited, a wholly-owned subsidiary of China National Aviation Company Limited ("CNAC"), a subsidiary of the Company. During the first half of 2007, the passenger aircraft of Air Macau completed 10,119 flights, representing an increase of 1.3% as compared to the corresponding period of the previous year, while passengers carried amounted to 1.183 million, representing an increase of 2% as compared to the corresponding period of the previous year, with passenger load factor increased to 75.8%, representing an increase of 2.1 percentage points as compared to the corresponding period of the previous year.

In respect of cargo business, during the first half of 2007, the freighters of Air Macau completed 2,317 flights, representing a decrease of 16.2% as compared to the corresponding period of the previous year, while cargo carried amounted to 81,405.9 tonnes, representing an increase of 0.7% as compared to the corresponding period of the previous year, with cargo load factor increased to 69.5%, representing an increase of 8.8 percentage points as compared to the corresponding period of the previous year.

POST BALANCE SHEET EVENTS

On 7 July 2007, the 32nd meeting of the first Board of the Company passed the resolutions which resolved that Mr. Sun Yude ceased to act as the Vice President of the Company due to job transfer while Mr. Li Huxiao was appointed to act as the Vice President of the Company.

On 10 July 2007, the Company and Air China Import and Export Co. Ltd. entered into the Airbus Aircraft Purchase Agreement with Airbus S.A.S., pursuant to which the Company has agreed to purchase 23 Airbus 320-series aircraft from Airbus S.A.S..

MANAGEMENT DISCUSSION AND ANALYSIS

The interim condensed consolidated financial statements of the Group set out from pages 25 to 47 of this Interim Report, comprising the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the financial statements, were prepared in accordance with International Financial Reporting Standards (IFRSs). The following discussion and analysis are 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.

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

For the six months ended 30 June 2007, profit attributable to equity holders of the Company amounted to RMB1.569 billion, representing an increase of 242.5% compared to the same period in 2006; profit from operations was RMB1.367 billion, representing an increase of 53.0% compared to the same period in 2006. One of the key reasons of the increase in profit attributable to equity holders of the Company and profit from operations of the Group was the rapid growth in revenue from air traffic revenue.

The interim condensed consolidated 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 profits less losses of associates was RMB479 million, representing an increase of 344.1% compared to the same period in 2006, primarily due to the contribution of profit from Cathay Pacific.

PROFIT CONTRIBUTION BY BUSINESS SEGMENT

	For the six months ended 30 June		
	2007	2006	Change
	RMB'000	RMB'000	(%)
Airline operations	**1,279,193**	728,568	75.58
Maintenance services	**10,974**	68,191	(83.91)
Airport terminal services	**59,863**	77,539	(22.80)
Others	**16,622**	18,967	(12.36)
Profit from operations	**1,366,652**	893,265	53.00

EARNINGS PER SHARE

For the six months ended 30 June 2007, the Company's earnings per share was RMB0.132, representing an increase of 169.4% compared to RMB0.049 for the same period in 2006. This was mainly the result of the rapid growth in profit for the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING REVENUE

For the six months ended 30 June 2007, the Group's operating revenue (including air traffic revenue and other operating revenue) was RMB23.353 billion, representing an increase of 17.17% compared to the same period in 2006. The increasing demand in the domestic aviation market and the continuous expansion of our capacity made substantial contribution to the increase in revenue from our airline operations. Passenger revenue of the Group was subject to the seasonality of the aviation industry in China. The peak season of the aviation industry in China falls between July and October each year with the highest demand for passenger traffic during that period. As such, the Group's passenger revenue 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		
	2007	2006	Change
	RMB'000	RMB'000	(%)
Airline operations	**22,734,273**	19,385,010	17.28
Maintenance services	**229,641**	203,968	12.59
Airport terminal services	**256,808**	218,827	17.36
Others	**132,098**	123,102	7.31
Operating revenue	**23,352,820**	19,930,907	17.17

For the six months ended 30 June 2007, revenue from maintenance services increased by 12.59%, primarily due to the increase in maintenance work provided to external parties; and revenue from airport terminal services increased by 17.36% primarily due to the increase in passengers and aircraft to which the airport terminal services were provided.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June		
	2007	2006	Change
	RMB'000	RMB'000	(%)
Mainland China	**12,497,397**	10,759,364	16.15
Hong Kong and Macau	**1,317,013**	1,285,141	2.48
Europe	**3,224,386**	2,476,880	30.18
North America	**2,153,863**	1,594,705	35.06
Japan and Korea	**2,198,633**	2,116,483	3.88
Asia Pacific and others	**1,961,528**	1,698,334	15.50
Operating revenue	**23,352,820**	19,930,907	17.17

The Group's operating revenue is mainly generated from airline operations; the increase of 17.17% of operating revenue in the first half of 2007 was mainly due to the significant increase of revenue from airline operations in the domestic, European and North American markets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2007, the Group's operating expenses amounted to RMB21.986 billion, representing an increase of RMB2.949 billion or 15.5% compared to the same period in 2006. Rising jet fuel costs were 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. A higher increase in aircraft maintenance, repair and overhaul expenses was attributable to the expansion of fleet and increase in maintenance work.

PRINCIPAL OPERATING EXPENSES

	For the six months ended 30 June		
	2007	2006	Change
	RMB'000	RMB'000	(%)
Jet fuel costs	**8,042,121**	7,063,679	13.85
Take-off, landing and depot charges	**2,714,364**	2,415,696	12.36
Depreciation	**2,696,361**	2,664,606	1.19
Aircraft maintenance, repair and overhaul expenses	**946,615**	633,412	49.45
Employee compensation costs	**1,989,282**	1,670,027	19.12
Air catering expenses	**711,389**	653,836	8.8

ANALYSIS OF ASSETS

As at 30 June 2007, the Group had total assets of RMB85.763 billion, representing an increase of 2.1% from 31 December 2006, in which current assets accounted for 12.2%, or RMB10.437 billion, while non-current assets accounted for 87.8%, or RMB75.326 billion. Among the current assets, cash and cash equivalents and the non-pledged deposits with a maturity of more than three months when acquired decreased by 20.9% to RMB4.083 billion from 31 December 2006, while accounts receivable increased by 17.2% to RMB3.323 billion. Among the non-current assets, properties, plant and equipment amounted to RMB56.009 billion, representing an increase of 2.3% from 31 December 2006.

PLEDGED ASSETS

As at 30 June 2007, the Group pledged certain aircraft and properties with an aggregate carrying amount of approximately RMB28.078 billion (compared with RMB34.214 billion as at 31 December 2006) pursuant to certain loan and lease agreements. Details of the pledged assets are set out in note 11 to the interim condensed consolidated financial statements prepared under IFRS.

MANAGEMENT DISCUSSION AND ANALYSIS

DEBT STRUCTURE OF THE GROUP

(Unit: RMB100 million)

	Bank loans, other loans and corporate bonds		Obligations under financial leases	
	30 June 2007	31 December 2006	**30 June 2007**	31 December 2006
Repayable within 1 year	129.10	111.39	17.08	23.55
Repayable over 1 year	160.58	127.02	100.45	112.48

A significant portion of the Group's debts will fall due within one year. The Group expects to meet its obligations through bank loans, internally generated funds and other resources as they fall due and therefore is not exposed to any credit risk.

GEARING RATIO

As at 30 June 2007, the Group's gearing ratio, which represents total liabilities divided by total assets, was 65.8%, representing an increase of 3.6 percentage points from 62.2% as at 31 December 2006. During the reporting period, comparatively more aircraft were purchased and most of the funds were obtained through loans.

INTEREST EXPENSES

For the six months ended 30 June 2007, interest expense of the Group charged to the unaudited condensed consolidated income statement increased from RMB0.909 billion in the same period last year to RMB1 billion, which was in line with the change of capital structure.

INTEREST COVER

For the six months ended 30 June 2007, earnings before finance revenue, finance costs, enterprise income taxes, share of profits less losses of associates and depreciation ("EBITDA") as computed under IFRS, divided by interest expenses, was 4.06 times, compared to 3.91 times for the same period in 2006. The significant increase in interest cover was attributable to the significantly higher profitability for the reporting period than that for the same period in 2006.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2007, capital commitments of the Group decreased by 14% from RMB42.944 billion as at 31 December 2006 to approximately RMB36.931 billion. The Group's capital commitments mainly relate to the purchase of aircraft and the decrease in capital commitment was mainly due to the advance payments for the purchases of aircraft during the reporting period.

Details of the contingent liabilities and commitments of the Group, both arising in the ordinary course of business, as at 30 June 2007 are set out respectively in notes 20 and 21 of the interim condensed consolidated financial statements prepared under IFRS.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

The Group finances its working capital needs through cash inflows from operating activities and bank loans. Like many other airline groups in China, the Group has been operating with a net current liabilities position. As at 30 June 2007 and 31 December 2006, the net current liabilities of the Group were RMB17.519 billion and RMB15.251 billion, respectively.

CAPITAL EXPENDITURE

For the six months ended 30 June 2007, the capital expenditure of the Company amounted to RMB7.318 billion. The Company's total investment in aircraft out of the capital expenditure was RMB3.479 billion, including prepayments of RMB1.983 billion for purchasing aircraft from 2008 onwards.

The capital expenditure incurred for other investments was RMB3.839 billion, which mainly involved certain long-term external investments, the acquisition of spare aircraft engines and aircraft parts of high prices, Air China base project, infrastructure construction of ancillary projects of the No. 3 Terminal of Beijing International Airport and the acquisition of ancillary equipment of the No. 3 Terminal of Beijing International Airport.

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 in China, the Group started to engage in fuel hedging transactions in March 2001. The underlying 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 2007, the Group applied hedging to 46.7% of the spot jet fuel procured during the period, and the net gain on jet fuel derivatives was RMB305 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 2007, the Group's net exchange gains amounted to RMB868 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 2006 Annual Report of the Company.

MAJOR EVENTS

SHARE APPRECIATION RIGHTS ("SARS")

Upon the listing of the Company's H shares, the Company's shareholders approved a long-term equity incentive plan, i.e. the stock appreciation rights scheme ("SAR Scheme"), based on its H shares at a general meeting held on 18 October 2004, for which the Company had obtained approval from relevant government authorities. According to the "Directors and Senior Management Share Appreciation Rights Administration Handbook" which was approved by the shareholders at the 3rd extraordinary general meeting of the Company convened on 28 December 2006 and the "Detailed Implementing Rules of the Share Appreciation Rights Management Measures of Air China Limited (Provisional)" which was passed at the 31st meeting of the first session Board convened on 14 June 2007, and with ratification from the Company's management nomination and remuneration committee, the Company granted the first batch of SARs on 15 June 2007. The grantees of SARs were non-independent directors, senior management, senior operation managers and heads of each unit of the Company who were appointed on or before 31 December 2004 and were recorded on the register and in employment with the Company as at 31 December 2004 (inclusive), making a total number of 109 grantees. The exercise price on the date of grant was HK$2.98, and the settlement price would be the average closing price of that batch of SARs for 5 consecutive trading days in relevant exercisable window period. SARs are exercisable for the first time after the expiry of the second anniversary of the date of grant and shall be exercised in full within five years. Detailed arrangement for exercising the SARs is as follows: 30% of the total number of SARs granted can be exercised in the third year after the date of grant, and not more than 70% can be accumulatively exercised in the fourth year while 100% can be accumulatively exercised in the fifth year. The total number of shares underlying the first batch of SARs granted were 14.94 million, representing 0.12% of the total issued share capital of the Company. The granting of this batch of SARs did not involve any offering of new share and had no dilutive effect on shareholders of the Company. Individual performance contracts were signed between the Company and relevant personnel to whom the SARs was granted. The Company reserves the right to cancel part or all of these SARs for those who fail the assessment.

ANTITRUST INVESTIGATION

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

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

(I) DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2007, none of the Directors, supervisors or chief executive of the Company has interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notifiable to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notifiable to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Mr. Christopher Dale Pratt is a non-executive director of the Company and is concurrently the chairman and executive director of Cathay Pacific, which is a substantial shareholder of the Company and wholly owns Hong Kong Dragon Airlines Limited ("Dragonair"). Mr. Li Jiaxiang is the chairman and a non-executive director of the Company and is concurrently the vice-chairman and a non-executive director of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Save as above, none of the Directors, supervisors or senior management of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

(II) SUBSTANTIAL SHAREHOLDERS

(A) SIGNIFICANT INTERESTS IN THE COMPANY

Pursuant to the record of the register kept in the Company under Section 336 of the SFO, as at 30 June 2007, to the knowledge of the Directors, supervisors and chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group as follows:

Name	Type of interests	Type and number of shares held in the Company	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short position
China National Aviation Holding Company ("CNAHC")	Beneficial owner	4,949,066,567 A shares	40.40%	63.08%	–	–
CNAHC[1]	Attributable interests	1,380,482,920 A shares	11.26%	17.60%	–	–
China National Aviation Corporation (Group) Limited	Beneficial owner	1,380,482,920 A shares	11.26%	17.60%	–	–
Cathay Pacific	Beneficial owner	2,156,052,455 H shares	17.60%	–	48.94%	–
Swire Pacific Limited[2]	Attributable interests	2,156,052,455 H shares	17.60%	–	48.94%	–
John Swire & Sons Limited[2]	Attributable interests	2,156,052,455 H shares	17.60%	–	48.94%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	2,156,052,455 H shares	17.60%	–	48.94%	–
JPMorgan Chase & Co.[3]	Investment manager	256,360,360 H shares	2.09%	–	5.82%	–
		136,649,360 H shares (Lending Pool)	1.12%	–	3.10%	–
Morgan Stanley[4]	Investment manager	323,767,376 H shares	2.64%	–	7.35%	–
		75,379,571 H shares (Short position)	0.62%	–	1.71%	75,379,571 H shares

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

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

1. By virtue of CNAHC's 100% interest in China National Aviation Corporation (Group) Limited, CNAHC is deemed to be interested in the 1,380,482,920 shares of the Company directly held by China National Aviation Corporation (Group) Limited, which were registered as A shares with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 34.32% equity interest and 54.86% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 39.92% interest in Cathay Pacific as at 30th June 2007, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited are deemed to be interested in the 2,156,052,455 H shares of the Company directly held by Cathay Pacific.

3. JPMorgan Chase & Co, through its controlled entities, had an attributable interest in 256,360,360 H shares of the Company, out of which the interest in 136,649,360 H shares was held directly by JPMorgan Chase Bank, N.A., 85,800,000 H shares was held directly by JF Asset Management Limited, 1,522,000 H shares was held directly by JF International Management Inc., 31,659,000 H shares was held directly by J.P. Morgan Whitefriars Inc., and 730,000 H shares was held directly by JF Asset Management (Singapore) Limited and 136,649,360 H shares of the Company are securities in the lending pool.

4. Morgan Stanley, through its controlled entities, had an attributable interest in 323,767,376 H shares of the Company and maintained a short position of 75,379,571 H shares of the Company, out of which Morgan Stanley Investment Management Company directly held 231,004,000 H shares, Morgan Stanley & Co International plc. directly held 35,238,358 H shares and maintained a short position of 31,893,942 H shares, Morgan Stanley Hong Kong Securities Limited directly held 132,983 H shares and maintained a short position of 174,000 H shares, Morgan Stanley Asset & Investment Trust Management Co., Limited directly held 10,910,000 H shares, MSDW Equity Finance Services I (Cayman) Limited directly held 13,662,916 H shares and maintained a short position of 13,662,916 H shares, Morgan Stanley Swiss Holdings GmbH directly held 20 H Shares, Morgan Stanley Capital (Cayman Islands) Limited maintained a short position of 1,008,000 H shares, Morgan Stanley Capital Services Inc. directly held 2,785,581 H shares, Morgan Stanley Capital (Luxembourg) S.A. directly held 1,073,940 H shares, and Morgan Stanley & Co. Inc. directly held 28,959,579 H shares and maintained a short position of 28,640,713 H shares.

(B) SIGNIFICANT INTERESTS IN OTHER MEMBERS OF THE GROUP

Member of the Group	Name	Approximate % of share capital
Air Macau	CNAC	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 Airports Holding Company	24%
Air China Cargo	CITIC Pacific Limited	25%

Save as disclosed above, as at 30 June 2007, to the knowledge of the Directors, chief executive and supervisors of the Company, no other person (other than a Director, supervisor or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or otherwise was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

CORPORATE GOVERNANCE

1. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the first half of 2007.

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 the 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 2007. The Company's own code also applies to its supervisors and relevant employees.

MISCELLANEOUS

1. REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 2007.

2. PUBLIC FLOAT

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

3. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2007. 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 based on the lesser of distributable profits determined in accordance with International Financial Reporting Standards and China Accounting Standards.

4. REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2007 and the Company's interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

REVIEW REPORT

ERNST & YOUNG

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To the shareholders of
Air China Limited
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 47 which comprises the condensed consolidated balance sheet of Air China Limited (the "Company") as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

Hong Kong
28 August 2007

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June 2007 RMB'000 (Unaudited)	30 June 2006 RMB'000 (Unaudited)
TURNOVER			
Air traffic revenue	*4*	**21,684,442**	18,394,962
Other operating revenue	*5*	**1,668,378**	1,535,945
		23,352,820	19,930,907
OPERATING EXPENSES			
Jet fuel costs		**(8,042,121)**	(7,063,679)
Take-off, landing and depot charges		**(2,714,364)**	(2,415,696)
Depreciation		**(2,696,361)**	(2,664,606)
Aircraft maintenance, repairs and overhaul costs		**(946,615)**	(633,412)
Employee compensation costs		**(1,989,282)**	(1,670,027)
Air catering charges		**(711,389)**	(653,836)
Aircraft and engine operating lease expenses		**(1,172,875)**	(950,835)
Other operating lease expenses		**(151,976)**	(129,461)
Other flight operation expenses		**(1,996,063)**	(1,664,662)
Selling and marketing expenses		**(1,163,530)**	(861,264)
General and administrative expenses		**(401,592)**	(330,164)
		(21,986,168)	(19,037,642)
PROFIT FROM OPERATIONS	*6*	**1,366,652**	893,265
Finance revenue	*7*	**1,226,399**	568,853
Finance costs	*7*	**(999,572)**	(909,473)
Share of profits and losses of associates		**478,928**	107,837
PROFIT BEFORE TAX		**2,072,407**	660,482
Tax	*8*	**(596,372)**	(182,829)
PROFIT FOR THE PERIOD		**1,476,035**	477,653
Attributable to:			
Equity holders of the Company		**1,568,579**	457,974
Minority interests		**(92,544)**	19,679
		1,476,035	477,653
Dividend:			
Interim	*9*	**–**	–
Earnings per share attributable to equity holders of the Company:			
Basic	*10*	**13.2 cents**	4.9 cents
Diluted	*10*	**N/A**	N/A

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**56,009,300**	54,767,664
Lease prepayments	*12*	**1,003,017**	1,013,529
Interests in associates	*13*	**9,246,117**	9,255,474
Advance payments for aircraft and related equipment		**8,032,021**	6,976,054
Deposits for aircraft under operating leases		**272,316**	259,681
Long term receivable from ultimate holding company		**381,813**	431,813
Available-for-sale investments		**6,104**	6,704
Deferred tax assets		**375,770**	550,222
		75,326,458	73,261,141
CURRENT ASSETS			
Inventories		**1,085,225**	1,015,266
Accounts receivable	*14*	**3,323,415**	2,835,227
Prepayments, deposits and other receivables	*15*	**1,282,405**	1,077,036
Financial assets		**212,572**	99,935
Pledged deposits		**115,722**	211,504
Non-pledged deposits with maturity of more than three months when acquired		**1,473,080**	1,570,777
Cash and cash equivalents		**2,610,344**	3,588,404
Due from ultimate holding company		**313,050**	289,933
Due from related companies		**21,013**	14,378
		10,436,826	10,702,460
TOTAL ASSETS		**85,763,284**	83,963,601
CURRENT LIABILITIES			
Air traffic liabilities		**(2,141,768)**	(1,530,484)
Accounts payable	*16*	**(5,736,018)**	(5,221,061)
Bills payable		**(1,173,618)**	(651,345)
Other payables and accruals	*17*	**(3,705,185)**	(4,192,887)
Financial liabilities		**(100,887)**	(242,108)
Tax payable		**(415,148)**	(534,273)
Obligations under finance leases		**(1,708,006)**	(2,354,905)
Bank and other loans		**(12,910,431)**	(11,139,021)
Provision for major overhauls		**(16,670)**	(47,318)
Due to related companies		**(47,610)**	(39,989)
		(27,955,341)	(25,953,391)
NET CURRENT LIABILITIES		**(17,518,515)**	(15,250,931)
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,807,943**	58,010,210

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2007

	Notes	**30 June 2007 RMB'000 (Unaudited)**	31 December 2006 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Obligations under finance leases		**(10,045,021)**	(11,247,855)
Bank loans, other loans and corporate bonds		**(16,057,653)**	(12,701,977)
Provision for major overhauls		**(1,088,050)**	(921,929)
Provision for early retirement benefits obligations		**(193,395)**	(201,199)
Long term payables		**(218,491)**	(252,591)
Deferred income		**(910,495)**	(948,966)
		(28,513,105)	(26,274,517)
NET ASSETS		**29,294,838**	31,735,693
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued share capital	*18*	**12,251,362**	12,251,362
Treasury shares		**(1,246,955)**	(1,246,955)
Reserves		**18,115,724**	18,117,084
Proposed final dividend		**–**	602,767
		29,120,131	29,724,258
MINORITY INTERESTS		**174,707**	2,011,435
TOTAL EQUITY		**29,294,838**	31,735,693

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Issued share capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Other reserves 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
(Unaudited)											
As at 1 January 2007	**12,251,362**	**(1,246,955)**	**13,484,123***	**–***	**768,398***	**4,053,354***	**(188,791)***	**602,767**	**29,724,258**	**2,011,435**	**31,735,693**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**1,568,579**	**–**	**–**	**1,568,579**	**(92,544)**	**1,476,035**
Final 2006 dividend declared ***(note 9)***	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(602,767)**	**(602,767)**	**–**	**(602,767)**
Transfer to reserve funds	**–**	**–**	**–**	**–**	**317,902**	**(317,902)**	**–**	**–**	**–**	**–**	**–**
Acquisition of minority interest of a subsidiary	**–**	**–**	**(1,294,115)**	**–**	**–**	**–**	**–**	**–**	**(1,294,115)**	**(1,738,840)**	**(3,032,955)**
Share of reserve movement of associates	**–**	**–**	**–**	**55,160**	**–**	**–**	**–**	**–**	**55,160**	**–**	**55,160**
Exchange realignment	**–**	**–**	**–**	**–**	**–**	**–**	**(330,984)**	**–**	**(330,984)**	**(5,344)**	**(336,328)**
As at 30 June 2007	**12,251,362**	**(1,246,955)**	**12,190,008***	**55,160***	**1,086,300***	**5,304,031***	**(519,775)***	**–**	**29,120,131**	**174,707**	**29,294,838**
(Unaudited)											
As at 1 January 2006	9,433,211	–	7,731,926	–	362,884	2,373,794	(34,367)	224,793	20,092,241	1,458,365	21,550,606
Profit for the period	–	–	–	–	–	457,974	–	–	457,974	19,679	477,653
Final 2005 dividend declared *(note 9)*	–	–	–	–	–	–	–	(224,793)	(224,793)	–	(224,793)
Dividends paid to minority shareholders by subsidiaries	–	–	–	–	–	–	–	–	–	(12,952)	(12,952)
Exchange realignment	–	–	–	–	–	–	(18,581)	–	(18,581)	(8,349)	(26,930)
As 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

* The aggregate of these reserve accounts represents the consolidated reserves of RMB18,115,724,000 (31 December 2006: RMB18,117,084,000) on the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**3,073,925**	2,556,084
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(7,396,149)**	(3,501,340)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**3,385,751**	1,067,059
Effect of exchange rate changes on cash and cash equivalents	**(41,587)**	(3,616)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(978,060)**	118,187
Cash and cash equivalents at beginning of period	**3,588,404**	2,248,386
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,610,344**	2,366,573

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2007

1. CORPORATE INFORMATION

Air China Limited (the "Company") was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on the Hong Kong Stock Exchange ("HKSE") and the London Stock Exchange ("LSE") while the Company's A share are listed on the Shanghai Stock Exchange. In the opinion of the Directors, the Company's parent and ultimate holding company is China National Aviation Holding Company ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council.

On 24 January 2007, the Company privatised China National Aviation Company Limited ("CNAC"), a then non wholly-owned subsidiary of the Company, by way of a scheme of arrangement (the "Scheme") under Section 166 of the Hong Kong Companies Ordinance that comprised the following arrangements:

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Company, its subsidiaries and joint ventures (collectively, the "Group") for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the audited annual financial statements, and therefore should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2006. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The principal accounting policies adopted in the preparation of the interim condensed consolidated 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 2006, except for the adoption of the following new International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) which have become effective for accounting periods beginning on or after 1 January 2007.

IFRIC – Int 7	Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
IFRIC – Int 8	Scope of IFRS 2
IFRIC – Int 9	Reassessment of Embedded Derivatives
IFRIC – Int 10	Interim Financial Reporting and Impairment

The adoption of the above IFRSs has had no material impact on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2007.

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

At 30 June 2007

3. SEGMENT INFORMATION

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

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

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

(b) the engineering services segment comprises the provision of aircraft engineering services 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.

In determining the Group's geographical segments, revenue is attributed to the segments based on the origin and destination of each flight segment.

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

Business segments

The following tables present the Group's revenue and profit from operations by business segment for the six months ended 30 June 2007 and 2006:

For the six months ended 30 June 2007

	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	22,734,273	229,641	256,808	132,098	–	23,352,820
Intersegment sales	–	309,462	–	81,826	(391,288)	–
Total revenue	22,734,273	539,103	256,808	213,924	(391,288)	23,352,820
PROFIT FROM OPERATIONS	1,279,193	10,974	59,863	16,622	–	1,366,652

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

At 30 June 2007

3. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the six months ended 30 June 2006

	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	728,568	68,191	77,539	18,967	–	893,265

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the six months ended 30 June 2007 and 2006:

For the six months ended 30 June 2007

	Mainland China 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 and others RMB'000 (Unaudited)**	**Total RMB'000 (Unaudited)**
REVENUE							
Sales to external customers and total revenue	**12,497,397**	**1,317,013**	**3,224,386**	**2,153,863**	**2,198,633**	**1,961,528**	**23,352,820**

For the six months ended 30 June 2006

	Mainland China 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 and 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

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

At 30 June 2007

4. AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Passenger	**19,768,612**	16,502,697
Cargo and mail	**1,915,830**	1,892,265
	21,684,442	18,394,962

Pursuant to the relevant PRC business tax rules and regulations, air traffic revenue for all domestic and outbound international flights is subject to business tax at a rate of 3%. All inbound international, Hong Kong and Macau regional flights are exempted from business tax. Business tax incurred and set off against air traffic revenue for the six months ended 30 June 2007 and 30 June 2006 amounting to approximately RMB551 million and RMB428 million, respectively.

5. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bellyhold income from a joint venture *(note 22)*	**780,966**	699,904
Ground service income	**256,808**	218,827
Aircraft engineering income	**229,641**	203,968
Air catering income	**72,276**	62,335
Government grants:		
Recognition of deferred income	**38,472**	38,472
Others	**72,264**	57,551
Service charges on return of unused flight tickets	**68,142**	48,086
Cargo handling service income	**19,764**	29,444
Training service income	**6,958**	9,437
Import and export service income	**6,846**	10,880
Sale of materials	**4,115**	5,595
Others	**112,126**	151,446
	1,668,378	1,535,945

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

At 30 June 2007

6. PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment, net	**12,425**	9,021
Loss on derecognition of property, plant and equipment	**13,883**	71,427
Amortisation of lease prepayments *(note 12)*	**10,512**	10,155

7. FINANCE REVENUE AND FINANCE COSTS

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	**867,541**	200,422
Interest income	**54,248**	30,338
Gains on fuel derivatives, net	**304,610**	338,093
	1,226,399	568,853
Finance costs		
Interest on bank loans, other loans and corporate bonds	**747,277**	336,128
Interest on finance leases	**362,816**	616,588
Total interest	**1,110,093**	952,716
Less: Interest capitalised	**(110,521)**	(43,243)
	999,572	909,473

The interest capitalisation rate represents the cost of capital from raising the related borrowings and is approximately 4.5% to 6% (2006: 4.5%) per annum.

8. TAX

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

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

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

At 30 June 2007

8. TAX *(Continued)*

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will be effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 onwards will decrease from 33% to 25%. This reduction in corporate income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, "Income Taxes", deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled. As a result, the change in corporate income tax rate has resulted in a decrease in net deferred tax assets of approximately RMB49 million, which has been debited to the income tax expense during the six months ended 30 June 2007.

At the date of approval of these interim condensed consolidated financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements become available.

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

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax – Mainland China	**421,920**	31,788
Deferred income tax – origination and reversal of temporary differences	**174,452**	151,041
Income tax charge for the period	**596,372**	182,829

The share of tax attributable to joint ventures, which are accounted for in the Group's interim condensed consolidated financial statements through proportionate consolidation, amounting to RMB11,117,000 (unaudited) (2006: RMB21,307,000 (unaudited)) is included in the income tax charge for the period.

The share of tax attributable to associates amounting to RMB99,331,000 (unaudited) (2006: RMB5,343,000 (unaudited)) is included in the "Share of profit and losses of associates" on the face of the condensed consolidated income statement for the six months ended 30 June 2007.

9. DIVIDEND

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

The proposed final dividend for the year ended 31 December 2006 was approved by the Company's shareholders on 30 May 2007.

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

At 30 June 2007

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

The calculation of basic earnings per share for the six months ended 30 June 2007 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately RMB 1,568,579,000 (unaudited), and the weighted average of approximately 11,879,594,685 ordinary shares in issue during the period, as adjusted to account for the effect of cross holding with Cathay Pacific Airways Limited ("Cathay Pacific") (note 19).

The calculation of basic earnings per share for the six months ended 30 June 2006 was based on the net profit attributable to equity holders of the Company 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

Diluted earnings per share amounts for the six months ended 30 June 2007 and 30 June 2006 have not been disclosed because no diluting events existed during those periods.

11. 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)
As at 1 January 2007, net of accumulated depreciation	48,337,845	2,658,727	955,774	463,540	133,347	2,218,431	54,767,664
Additions	2,474,943	–	42,488	37,271	29,952	1,435,315	4,019,969
Disposals	(48,861)	(7,425)	(3,076)	(5,543)	(3,683)	–	(68,588)
Transfer from construction in progress	556,923	25,542	33,599	1,129	–	(617,193)	–
Exchange realignment	(8,498)	(2,571)	(1,004)	(1,298)	(13)	–	(13,384)
Depreciation charge for the period	(2,452,373)	(68,548)	(93,853)	(60,870)	(20,717)	–	(2,696,361)
As at 30 June 2007, net of accumulated depreciation	48,859,979	2,605,725	933,928	434,229	138,886	3,036,553	56,009,300
As at 30 June 2007							
Cost	84,164,202	3,882,286	2,372,263	1,281,249	340,680	3,036,553	95,077,233
Accumulated depreciation	(35,304,223)	(1,276,561)	(1,438,335)	(847,020)	(201,794)	–	(39,067,933)
Net book value	48,859,979	2,605,725	933,928	434,229	138,886	3,036,553	56,009,300

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

At 30 June 2007

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

	Aircraft and flight equipment RMB'000 (Audited)	Buildings RMB'000 (Audited)	Machinery RMB'000 (Audited)	Transportation equipment RMB'000 (Audited)	Office equipment RMB'000 (Audited)	Construction in progress RMB'000 (Audited)	Total RMB'000 (Audited)
As at 1 January 2006, net of accumulated depreciation	41,767,629	2,572,551	982,540	318,936	122,985	1,426,087	47,190,728
Additions	10,507,612	20,333	96,578	117,456	54,354	2,453,470	13,249,803
Disposals	(335,251)	(30,208)	(12,416)	(10,393)	(2,336)	–	(390,604)
Transfer from construction in progress	1,241,246	222,893	65,434	131,257	296	(1,661,126)	–
Exchange realignment	(5,846)	(1,608)	–	(776)	–	–	(8,230)
Depreciation charge for the year	(4,837,545)	(125,234)	(176,362)	(92,940)	(41,952)	–	(5,274,033)
As at 31 December 2006, net of accumulated depreciation	48,337,845	2,658,727	955,774	463,540	133,347	2,218,431	54,767,664
As at 31 December 2006							
Cost	81,308,583	3,873,170	2,310,773	1,265,628	318,382	2,218,431	91,294,967
Accumulated depreciation	(32,970,738)	(1,214,443)	(1,354,999)	(802,088)	(185,035)	–	(36,527,303)
Net book value	48,337,845	2,658,727	955,774	463,540	133,347	2,218,431	54,767,664

As at 30 June 2007, certain of the Group's aircraft and buildings with an aggregate net book value of approximately RMB13,096 million (unaudited) (31 December 2006: RMB17,625 million (audited)) were pledged to secure certain bank loans of the Group.

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB14,982 million (unaudited) (2006: RMB16,589 million (audited)).

As at 30 June 2007, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB127 million (unaudited) (31 December 2006: RMB131 million (audited)) transferred from Air China International Corporation, the predecessor of the Company, upon incorporation of the Company. The Group was also in the process of applying for the title certificates of certain buildings acquired by the Group after incorporation with an aggregate net book value of approximately RMB138 million (unaudited) (2006: RMB178 million (audited)). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors of the Company are also of the opinion that the aforesaid matter would therefore have no significant impact on the Group's financial position as at 30 June 2007.

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

At 30 June 2007

12. LEASE PREPAYMENTS

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Cost		
At beginning of period/year	**1,056,558**	1,096,715
Additions	**–**	57,334
Disposals	**–**	(97,491)
At end of period/year	**1,056,558**	1,056,558
Accumulated amortisation		
At beginning of period/year	**43,029**	24,649
Amortisation for the period/year *(note 6)*	**10,512**	21,495
Disposals	**–**	(3,115)
At end of period/year	**53,541**	43,029
Net book value		
At end of period/year	**1,003,017**	1,013,529

As at 30 June 2007, certain of the Group's land use rights, which are accounted for as lease prepayments in the Group's interim condensed consolidated financial statements, with an aggregate net book value of approximately RMB36.9 million (unaudited) (31 December 2006: RMB37.3 million (audited)) were pledged to secure certain of the Group's bank loans.

As at 30 June 2007, the Group was in the process of applying for the title certificates of certain land use rights acquired by the Group after incorporation with an aggregate net book value of approximately RMB50.4 million (unaudited) (2006: RMB51 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 land use rights. The Directors of the Company are also of the opinion that the aforesaid matter would therefore have no significant impact on the Group's financial position as at 30 June 2007.

13. INTERESTS IN ASSOCIATES

As at 30 June 2007, the Group was in the process of completing the registration of its equity interests in certain associates with an aggregate investment cost of approximately RMB75 million (unaudited) (31 December 2006: RMB96 million (audited)) transferred from Air China International Corporation, upon the incorporation of the Company. The Directors of the Company are of the view that the aforesaid matter would have no significant impact on the Group's ownership in those equity interests and also the Group's financial position as at 30 June 2007.

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

At 30 June 2007

14. ACCOUNTS RECEIVABLE

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

	30 June 2007	31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 30 days	**2,697,682**	2,169,345
31 to 60 days	**264,011**	361,524
61 to 90 days	**154,576**	129,790
Over 90 days	**207,146**	174,568
	3,323,415	2,835,227

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

	30 June 2007	31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Joint venture	**340,418**	332,811

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2007	31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Advances and others	**743,910**	620,323
Manufacturers' credits on aircraft acquisition receivables	**86,498**	109,296
Prepaid aircraft operating lease rentals	**189,590**	163,059
Miscellaneous deposits	**262,407**	184,358
	1,282,405	1,077,036

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

At 30 June 2007

16. ACCOUNTS PAYABLES

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Within 30 days	**4,075,595**	3,660,639
31 to 60 days	**794,479**	869,108
61 to 90 days	**444,249**	304,730
Over 90 days	**421,695**	386,584
	5,736,018	5,221,061

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Joint ventures	**117,695**	136,455

17. OTHER PAYABLES AND ACCRUALS

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Provision for staff housing benefits	**21,010**	24,791
Accrued salaries, wages and benefits	**392,764**	870,743
Interest payable	**416,010**	332,281
Custom duties and levies payable	**1,158,217**	1,309,984
Current portion of long term payables	**54,021**	86,945
Current portion of deferred income	**76,943**	76,944
Advances from customers	**405,616**	306,893
Accrued operating expenses	**910,844**	749,202
Others	**269,760**	435,104
	3,705,185	4,192,887

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

At 30 June 2007

18. SHARE CAPITAL

The number of shares of the Company and their nominal value as at 30 June 2007 and 31 December 2006 is as follows:

	Number of shares	**Nominal value**
		RMB'000
Registered, issued and fully paid:		
H shares of RMB1.00 each	4,405,683,364	4,405,683
A shares of RMB1.00 each	7,845,678,909	7,845,679
	12,251,362,273	12,251,362

19. TREASURY SHARES

As at 30 June 2007, the Group owned 17.5% equity interest in Cathay Pacific, which in turn owned 17.6% equity interest in the Company. Accordingly, the 17.5% of Cathay Pacific's shareholding in the Company should be recorded in the Group's interim condensed consolidated financial statements as treasury shares through deduction from equity.

20. CONTINGENT LIABILITIES

As at 30 June 2007, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC, in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC incorporated in Hong Kong) on 20 November 2004 (the "Restructuring Agreement"), except for liabilities constituting or arising out of or relating to the businesses 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 investigation has yet to be finished at the date of approval of these financial statements. Certain injured passengers and families of the deceased passengers and crew members have commenced proceedings in Korean courts seeking damages against Air China International Corporation, the predecessor of the Company. The Group cannot predict the timing of the courts' judgements or the possible outcome of the lawsuits or any possible appeal actions. Up to 30 June 2007, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB233 million in respect of the passenger liability and other auxiliary costs. Included in the RMB233 million is an amount of approximately RMB213 million borne by the Company's insurer. As part of the above-mentioned restructuring, CNAHC has agreed to indemnify the Group for any liabilities relating to the crash of Flight CA129, excluding the compensation already paid up to 30 September 2004 (being the date of incorporation of the Company). The Directors of the Company believe that there would not be any material adverse impact on the Group's financial position.

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

At 30 June 2007

20. CONTINGENT LIABILITIES *(Continued)*

(c) On 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo Co., Ltd. ("Air China Cargo", a 51%-owned joint venture of the Company), claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to achieve increasing, maintaining and stabilising air cargo prices. The status of the proceedings is still in the preliminary stage and therefore the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty and therefore no provision for this claim has been made at this stage.

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Joint venture	**32,250**	32,250
Associates	**139,018**	143,199
	171,268	175,449

21. COMMITMENTS

(a) Capital commitments

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Contracted, but not provided for:		
Aircraft and flight equipment	**33,126,383**	39,663,862
Buildings	**1,348,035**	950,817
Others	**68,024**	44,886
	34,542,442	40,659,565
Authorised, but not contracted for:		
Buildings	**2,165,619**	2,183,678
Others	**223,415**	100,673
	2,389,034	2,284,351
Total capital commitments	**36,931,476**	42,943,916

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

At 30 June 2007

21. COMMITMENTS *(Continued)*

(b) Investment commitments

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

	30 June 2007	31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Associate	**59,277**	59,277
Minority shareholders of CNAC*	**–**	3,122,420
Total investment commitments	**59,277**	3,181,697

* This commitment relates to the privatisation of CNAC, details of which are set out in note 1 to these interim condensed consolidated financial statements.

(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.

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

	30 June 2007	31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**2,391,344**	2,301,491
In the second to fifth years, inclusive	**6,759,964**	6,276,717
Over five years	**4,631,866**	3,126,336
	13,783,174	11,704,544

22. RELATED PARTY TRANSACTIONS

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

FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

At 30 June 2007

22. RELATED PARTY TRANSACTIONS *(Continued)*

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:

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Included in air traffic revenue		
Sale of air tickets:		
CNAHC Group	**1,912**	1,560
Associates	**1,652**	1,517
	3,564	3,077
Sale of cargo space:		
CNAHC Group	**129,319**	103,711
Government charter flights:		
CNAHC Group	**353,710**	221,831

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(b) Included in other operating revenue		
Aircraft engineering income:		
Associates	**13,821**	11,853
Ground services income:		
CNAHC Group	**508**	96
Joint ventures	**1,256**	696
Associates	**36,447**	31,983
	38,211	32,775
Bellyhold income:		
Joint venture *(note 5)*	**780,966**	699,904
Others:		
CNAHC Group	**12,223**	12,101
Joint ventures	**3,932**	8,780
Associates	**16,795**	13,845
	32,950	34,726

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

At 30 June 2007

22. RELATED PARTY TRANSACTIONS *(Continued)*

	For the six months ended	
	30 June 2007 RMB'000 (Unaudited)	30 June 2006 RMB'000 (Unaudited)
(c) Included in finance revenue and finance costs		
Interest income:		
Associate	**795**	1,562
Interest expense:		
Associate	**1,421**	7,913
(d) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	**37,718**	39,867
Associates	**128,253**	137,908
	165,971	177,775
Air catering charges:		
CNAHC Group	**25,725**	24,488
Joint ventures	**64,122**	57,778
Associates	**11,228**	2,244
	101,075	84,510
Repair and maintenance costs:		
Joint ventures	**208,234**	200,596
Associates	**66,957**	74,179
	275,191	274,775
Sales commission expenses:		
CNAHC Group	**4,112**	2,186
Associates	**2,493**	4,210
	6,605	6,396
Management fees:		
CNAHC Group	**4,694**	4,995
Aircraft leasing fees:		
Associates	**226,737**	205,227
Others:		
CNAHC Group	**45,608**	36,110
Joint venture	**645**	–
Associates	**9,234**	7,310
	55,487	43,420

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

At 30 June 2007

22. RELATED PARTY TRANSACTIONS *(Continued)*

		For the six months ended	
		30 June 2007	30 June 2006
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(e)	**Deposits, loans and bills payable**		
	Deposits placed with an associate	**89,677**	200,242
	Loans from an associate	**91,812**	76,461
	Bills payable to an associate	**–**	(95,733)
(f)	**Outstanding balances with related parties**		
	Long term receivable from ultimate holding company	**381,813**	431,813
	Due from ultimate holding company	**313,050**	289,933
	Due from related companies	**21,013**	14,378
	Due from associates	**163,002**	144,914
	Due from a joint venture	**340,418**	332,811
	Due to related companies	**(47,610)**	(39,989)
	Due to associates	**(61,753)**	(89,426)
	Due to joint ventures	**(117,695)**	(136,455)

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

(g) An analysis of the compensation of key management personal of the Group is as follow:

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Compensation of key management personnel of the Group:		
Short term employee benefits	**1,941**	2,243
Post-employment benefits	**120**	76
	2,061	2,319

(h) On 25 August 2004, CNACG entered into two licences agreements with CNAC pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, as long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect for the use of these trademarks during the six months ended 30 June 2007 and 2006.

(i) The Company entered into several agreements with CNAHC which govern the use of trademarks granted by the Company to CNAHC; the provision of financial services by China National Aviation Finance Co., Ltd.; the provision of construction project management services by China National Aviation Construction and Development Company; the subcontracting of charter-flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services, media and advertising services 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.

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

At 30 June 2007

22. RELATED PARTY TRANSACTIONS *(Continued)*

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.

23. EVENT AFTER THE BALANCE SHEET DATE

On 10 July 2007, the Company and Air China Group Import and Export Trading Co. ("AIE"), a wholly-owned subsidiary of the Company, entered into an aircraft purchase agreement with Airbus S.A.S ("Airbus"), pursuant to which the Company has agreed to purchase 23 Airbus 320-series aircraft (the "Airbus Aircraft") from Airbus at an aggregate consideration of US$1,406 million (equivalent to approximately RMB10,707 million). The aggregate consideration for the acquisition of the Airbus Aircraft is payable in cash by instalments and the Airbus Aircraft are scheduled to be delivered in stages from 2009 to 2012.

24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 28 August 2007.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	For the six months ended	
	30 June 2007 RMB'000 (Unaudited)	30 June 2006 RMB'000 (Unaudited)
Revenue from operations	**22,744,019**	19,287,805
Less: Cost of operations	**19,111,618**	16,592,254
Tax and surcharges	**546,090**	473,363
Selling expenses	**1,370,680**	1,035,486
Administrative expenses	**501,452**	528,042
Finance costs	**126,794**	716,634
Add: Gains from changes in fair value	**253,858**	110,842
Investment income	**354,274**	187,756
Including: Investment income from associates and joint ventures	**352,024**	210,169
Profit from operations	**1,695,517**	240,624
Add: Non-operating income	**76,328**	73,125
Less: Non-operating expenses	**71,842**	33,989
Including: Loss on disposal of non-current assets	**44,248**	5,146
Total profit	**1,700,003**	279,760
Less: Income tax	**476,942**	23,514
Net profit	**1,223,061**	256,246
Net profit attributable to equity holders of the Company	**1,300,297**	236,794
Minority interests	**(77,236)**	19,452

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

UNAUDITED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
ASSETS		
Current assets:		
Cash and bank balances	**3,935,981**	4,982,844
Financial assets	**212,572**	99,935
Account receivables	**3,374,680**	2,664,323
Other receivables	**990,057**	904,639
Prepayments	**404,915**	298,704
Inventories	**746,054**	704,367
Total current assets	**9,664,259**	9,654,812
Non-current assets:		
Long term receivables	**304,369**	293,160
Long-term equity investments	**11,338,873**	11,547,275
Fixed assets	**50,101,728**	50,007,863
Construction-in-progress	**11,079,221**	9,309,266
Intangible assets	**525,322**	527,211
Goodwill	**131,945**	131,945
Deferred tax assets	**447,770**	513,211
Long-term deferred assets	**11,983**	10,563
Total non-current assets	**73,941,211**	72,340,494
Total assets	**83,605,470**	81,995,306

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

UNAUDITED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2007

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term loans	**9,600,422**	8,016,656
Financial liabilities	**100,887**	242,108
Bills payable	**1,173,618**	610,545
Accounts payables	**6,272,776**	5,908,949
Domestic air traffic liabilities	**448,043**	383,851
International traffic liabilities	**1,688,366**	1,147,200
Receipts in advance	**106,583**	14,770
Accrued employee compensations	**304,280**	412,135
Taxes payable	**1,332,203**	1,700,858
Interest payable	**279,443**	138,226
Other payables	**1,274,910**	1,547,640
Current portion of long-term liabilities	**4,763,773**	5,205,258
Total current liabilities	**27,345,304**	25,328,196
Non-current liabilities:		
Long-term loans	**12,493,946**	9,130,330
Corporate bonds	**3,000,000**	3,000,000
Long-term payables	**1,243,087**	1,140,234
Obligations under finance lease	**10,045,021**	11,247,855
Provisions	**75,648**	47,822
Total non-current liabilities	**26,857,702**	24,566,241
Total liabilities	**54,203,006**	49,894,437
Shareholders' equity:		
Share capital	**12,251,362**	12,251,362
Capital reserve	**13,061,705**	14,291,942
Less: Treasury shares	**(1,246,955)**	(1,246,955)
Reserve funds	**1,037,467**	719,565
Retained profits	**4,662,805**	4,283,177
Exchange differences arising on translation of foreign currency denominated financial statements	**(538,627)**	(203,150)
Shareholder's equity attributable to the Company	**29,227,757**	30,095,941
Minority interests	**174,707**	2,004,928
Total shareholders' equity	**29,402,464**	32,100,869
Total liabilities and shareholders' equity	**83,605,470**	81,995,306

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

On 1 January 2007, the Company adopted China Accounting Standards and application guidelines thereof issued by the Ministry of Finance in 2006 (collectively "CAS") and prepared the relevant financial statements with reference to Accounting Method for Civil Aviation Enterprises.

These interim financial statements are prepared in accordance with *CAS 32 – Interim Financial Reporting* issued by the Ministry of Finance, and therefore don't contain all the information and contents disclosed in the annual financial statements; accordingly, these interim financial statements should be read in conjunction with the 2006 annual financial statements of the Group.

In preparing these interim financial statements, the Company retroactively adjusted the accounts requiring retroactive adjustments in the relevant accounting year and restated the relevant financial statements in accordance with *CAS 38 – First Time Adoption of China Accounting Standards, Q&A No. 7 on Regulations Governing Information Disclosure of Publicly Listed Companies – Comparison of Preparation and Disclosure of Financial Information in the Transition Period between Old accounting standards and CAS* (Zheng Jian Kuai Ji Zi [2007] No. 10) issued by China Securities Regulatory Commission. For the specific impacts, please refer to Section 23 of Significant Accounting Policies and Accounting Estimates. The financial statements for the 6 months ended 30 June 2006 are not audited or reviewed.

The Company was listed on HKSE on 15 December 2004 and prepared financial statements in accordance with IFRS. According to *the Opinions of Experts on Implementation of Accounting Standards* issued by Accounting Standards Committee of the Ministry of Finance on 1 February 2007 and based on the relevant information collected, the Company retroactively adjusted the relevant transactions and events because of changes in accounting policies. The accounting policies used in preparing these interim financial statements and the interim financial statements for comparable accounting periods are set out in note 3.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information set out below is prepared according to the following principal accounting policies and accounting estimates.

1. ACCOUNTING YEAR

The Group adopts the Gregorian calendar year as its accounting year, commencing from 1 January to 31 December each year.

2. REPORTING CURRENCY

The Group takes renminbi (RMB) for reporting and preparing the financial statements, in unit of RMB'000 save as otherwise specified.

The subsidiaries, joint ventures and associates of the Group may, in light of the principal economic environments in which they operate, determine their own reporting currencies, which will be converted into RMB in the preparation of financial statements.

3. BASIS OF PREPARATION AND PRINCIPLE OF MEASUREMENT

The Company adopts accrual basis accounting, and measures assets except financial derivatives based on historical cost.

4. BASIS OF CONSOLIDATION

The consolidated financial statements include financial statements of the Company and all the subsidiaries thereof for the half year ended 30 June 2007. Subsidiaries refer to invested entities controlled by the Group.

In preparing the consolidated financial statements, the subsidiaries adopt the same accounting year and accounting policies as the Company. All the significant transactions between the companies of the Group are eliminated when consolidated.

Within the shareholders' equity of the consolidated subsidiaries, the parts not owned by the Group are disclosed separately as minority interests in the consolidated financial statements.

BUSINESS COMBINATION NOT UNDER COMMON CONTROL

The Group adopts acquisition for business combination not under common control. The cost of combination is the fair value of the assets given up, liabilities incurred or assumed and equity securities issued by the Group on the date of acquisition in order to obtain the right to control the entity acquired. The assets, liabilities or contingent liabilities taken by the Group on the date of acquisition are recognised at fair value.

The difference of the cost of combination of the Group above the fair value of identifiable net assets of the entity acquired is recognised as goodwill and is stated as cost less cumulative provision for impairment; the difference of the cost of combination of the Group below the fair value of the identifiable net assets of the entity acquired is as current gains/losses.

The operating results of the entity acquired are consolidated from the date on which control is obtained by the Group, and cease to be consolidated from the date on which control is transferred out of the Group.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. BASIS OF CONSOLIDATION *(Continued)*

BUSINESS COMBINATION UNDER COMMON CONTROL

The Group adopts the pooling of interest method to account for business combination under common control. The assets and liabilities of the entity under combination are measured at the original book value except for adjustments made because of different accounting policies, and no goodwill is recognised. Shareholders' equity is adjusted by the difference between the consideration and the fair value of the net assets acquired. The net profit of the combined entity before combination is included in the consolidated income statement.

5. CASH EQUIVALENTS

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

6. FOREIGN CURRENCY TRANSLATION

FOREIGN-CURRENCY TRANSACTIONS

In respect of the foreign currency transactions conducted, the Group translates amounts in foreign currency into amounts in reporting currency.

In the initial recognition of foreign currency transactions, amounts in foreign currency are translated into amounts in reporting currency at the spot exchange rate on the transaction date. The monetary items in foreign currency at the balance sheet date are translated at the spot exchange rate on the balance sheet date, and the exchange difference arising therefrom is stated as exchange gain/loss except that the exchange difference arising from the foreign-currency loans relating to construction of assets meeting the capitalization conditions is processed following the principle of capitalization of loan expenses.

TRANSLATION OF OVERSEAS OPERATIONS

In preparing financial statements, the Group converts the reporting currency for overseas operations into RMB: The assets and liabilities in the balance sheet are translated at the spot exchange rate at the balance sheet date, the shareholders' equity excluding "retained earnings" is translated at the spot exchange rate when incurred, and the revenues and expenses in the income statement are translated at the average exchange rate when the transactions are conducted. The aforesaid translation differences are set out separately as foreign exchange translation reserve under equity in the balance sheet. The foreign exchange translation reserve would be carried to current gain/loss when related overseas operations are disposed.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

7. INVENTORIES

Inventories comprise expendables, work-in-progress, general equipment, flight supplies, raw materials acquired, low value consumables, materials for further processing by external parties and others. Expendables refer to spare parts, which are consumed when used, generally of lower value, in large quantity and cannot be repaired after use. However they may also comprise spare parts that are of lower value but can be repaired more than once. Inventories are measured at actual costs when acquired and are calculated on a weighted-average basis. The costs of work-in-progress include direct materials, direct labours and manufacturing overheads based on appropriate proportion.

Stocktaking is based on perpetual inventory system.

Except for work-in-progress, inventories are charged to the income statement when consumed.

Inventories are measured at the balance sheet date by the lower of cost and net realisable value, and provision for inventory depreciation is made for the difference by which the cost is higher than the net realisable value. Net realisable value refers to the estimated selling prices of inventories minus the estimated costs of completion and sales costs and relevant taxes in the daily operations.

8. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments are measured at the initial cost when acquired.

Long-term equity investments of the Group in invested entities with control over the invested entities and long-term equity investments of the Group in invested entities without joint control over or material impact on the invested entities, without quotation on active market, and with fair value impossible to be measured reliably are accounted for at cost.

When the cost method is adopted, the cash dividend or profit to be distributed as announced by the invested entities is recognized as current return on investment. The recognized return on investment is limited to the acquired share of the cumulative net profit of the invested entities after accepting the investments; the part of profit or cash dividend exceeding the aforesaid amount is taken back as initial investment cost.

Long-term equity investments of the Group in invested entities with control, joint control or material impact on the invested entities are accounted for using equity accounting.

When the equity accounting is adopted, if the initial investment cost of long-term equity investments is greater than the fair value of the due identifiable net asset of the invested entities at the time of investment, the difference is included in the initial investment cost of long-term equity investments; if the initial investment cost of long-term equity investments is smaller than the fair value of the due identifiable net asset of the invested entities at the time of investment, the difference is stated as current gain/loss, and the long-term equity investment cost is adjusted at the same time.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. LONG-TERM EQUITY INVESTMENTS *(Continued)*

In accounting by the equity method, after long-term equity investments, the Group recognizes the current investment gain/loss and adjusts the book value of long-term equity investments as per the net gain/loss of the invested entities to be shared by the Group. The book value of long-term equity investments is deducted as per the Group's share of the profit or cash dividend distributed as announced by the invested entities. In recognizing the net loss of the invested entities, the book value of the long-term equity investments and other long-term equity substantively forming net investments of the invested entities are written down until zero, except that the Group has the obligation to undertake extra loss. Other changes in owners' interests excluding net gain/loss of the invested entities are reflected by adjusting the book value of long-term equity investments and stated as owners' interests, and are carried over to the current gain/loss at appropriate proportion at the time of disposal of the said investments.

In the disposal of long-term investments, the difference between the book value of long-term investments and the consideration received is stated as current gain/loss.

9. FIXED ASSETS

Fixed assets are tangible assets of considerable unit value held or used for more than one year in the production of goods, provision of services, leasing or for administrative purposes.

Fixed assets are recognized only when their related economic interests are very likely to flow into the Group and their costs can be measured reliably. Subsequent expenses relating to fixed assets, if qualified for recognition, are stated as fixed asset cost; otherwise, they are stated as current gain/loss when incurred.

Fixed assets are measured at the cost when acquired. The cost of fixed assets comprises the purchase price, relevant taxes, and other directly attributable expenditure for bringing the assets to the intended condition for use, such as transportation and installation costs.

Fixed assets acquired through finance leases are recognised as assets held under finance leases and are measured at the lower of the fair value of the leased assets upon commencement of the finance leases and the present value of minimum lease payments. Finance leases are stated as long-term payables which will be determined on the basis of the minimum lease payments. The differences between the carrying amounts of the leased assets and long-term payables are recognised as unrecognized finance costs which will be amortized by actual interest rate method during the lease terms.

Pursuant to the document Cai Kuai Han [2004] No. 54 "Reply of Ministry of Finance Concerning Extension of Pilot Site for Fixed Assets Management of Rotables of Aviation Operation" issued by Ministry of Finance, the Company states rotables as fixed assets.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. FIXED ASSETS *(Continued)*

If the component parts of fixed assets have different service lives and are subject to different depreciation rates or methods, the said component parts will be recognized as individual fixed assets.

Provision for depreciation of fixed assets (including fixed assets held under finance leases) is withdrawn by the straight-line method. The estimated service lives, estimated net residual values and annual depreciation rates of various fixed assets are as follows:

Category	Estimated service life	Estimated net residual value	Annual depreciation rate
Core parts and auxiliary driving devices of aircraft engines	15-20 years	5%	4.75%~6.33%
Aircraft substitutes	6-12 years	–	8.33%~16.67%
Engine substitutes	2-7 years	–	14.29~50%
Houses and buildings	15-35 years	5%	2.71%-6.33%
Machinery	8-20 years	5%	4.75%-11.88%
Transport equipment	6 years	5%	15.83%
Office equipment	4-10 years	5%	9.5%-23.75%
Rotables	10 years	–	10%

At least at the end of each year, the Group rechecks the service lives, estimated net residual values and depreciation methods of fixed assets, and makes adjustments where necessary.

10. CONSTRUCTIONS IN PROGRESS

Construction in progress represents necessary expenditure incurred before the assets are ready for their intended uses and includes direct materials, direct labour cost, equipment under installation, construction and installation fees, project management fees and net gains/losses arising from trial operation as well as borrowing costs which can be capitalised.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

11. INTANGIBLE ASSETS

Intangible assets of the Group are measured at cost when acquired.

The service lives of intangible assets are determined on the estimated profit-making duration, and intangible assets whose estimated profit-making duration cannot be determined are treated as intangible assets with indefinite service life.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. INTANGIBLE ASSETS *(Continued)*

The service lives of various intangible assets are as follows:

	Service life
Land use right	50 years
Computer software	2-5 years

Intangible assets with limited service lives are amortized by the straight-line method in their service lives. At least at the end of each year, the Group rechecks the service lives and amortization methods of intangible assets with limited service lives, and makes adjustments where necessary.

12. REGULAR MAINTENANCE AND OVERHAUL EXPENSES

The regular maintenance incurred for aircraft owned or under finance leases are stated as current expenses when incurred; from 1 January 2007, overhaul expenses meeting the specified conditions are capitalized when incurred and are recognized as fixed asset replacement cost, and provision for depreciation is withdrawn in the reasonable period. For aircraft under operating leases which require overhauls to be undertaken before the return of aircraft to lessors, the estimated cost of overhaul is calculated on a straight-line basis or by reference to the flown hours of the aircraft under the relevant operating leases and is accrued and charged to the income statement during the lease terms.

13. FINANCIAL INSTRUMENTS

Financial instruments refer to contracts forming the financial assets of an enterprise and forming the financial liabilities or equity instruments of other entities.

RECOGNITION AND DISCONTINUING RECOGNITION OF FINANCIAL INSTRUMENTS

A financial asset or financial liability is recognized when the Group becomes a party to the contract of financial instrument.

Recognition is discontinued when a financial asset meets any of the following conditions:

(1) The contract right to collect the cash flow of the said financial asset terminates;

(2) The said financial asset is transferred and meets the following condition for discontinuing recognition of financial asset transfer.

If the current obligation of the financial liability is exempted in part or in whole, recognition of the said financial liability or part thereof will be discontinued.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. FINANCIAL INSTRUMENTS *(Continued)*

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

At the time of initial recognition, financial assets of the Group are classified into financial assets measured at fair value with changes stated as current gain/loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value at the time of initial recognition. The relevant transaction expenses for assets other than financial assets measured at fair value with changes stated as current gain/loss are stated as initially recognized amount.

Financial assets measured at fair value with changes stated as current gain/loss

Financial assets measured at fair value with changes stated as current gain/loss include tradable financial assets and financial assets specified at the time of initial recognition to be measured at fair value with changes stated as current gain/loss. Tradable financial assets comprise financial assets acquired for disposal in the near term and financial derivatives. Such financial assets are measured subsequently at fair value, and all the realized and unrealized gains/losses are stated as current gains/losses.

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets which have a fixed maturity date and fixed or determinable recovery amount and which the Group has the intent and capacity to hold to maturity. Such financial assets are measured subsequently at amortized cost by the actual interest rate method, and all the gains/losses arising from discontinuing recognition, depreciation or amortization are stated as current gains/losses.

Loans and receivables

Loans and receivables refer to non-derivative financial assets without quotation on the market but with fixed or determinable recovery amount. Such financial assets are measured subsequently at amortized cost by the actual interest rate method, and all the gains/losses arising from discontinuing recognition, depreciation or amortization are stated as current gains/losses.

Available-for-sale financial assets

Available-for-sale financial assets refer to non-derivative financial assets specified at the time of initial recognition to be available for sale and financial assets excluding “Other financial assets”. Such financial assets are measured subsequently at fair value. Their discount and premium are amortized by the actual interest rate method and recognized as interest revenue. Except that the depreciation loss and the exchange difference of foreign currency monetary financial assets are recognized as current gain/loss, the change in the fair value of available-for-sale financial assets is recognized as a separate part of the capital reserve; before discontinuing recognition or depreciation of the said financial assets, the recognized cumulative gain/loss of the capital reserve are carried over to current gain/loss. The dividend or interest revenue from available-for-sale financial assets is stated as current gain/loss.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

13. FINANCIAL INSTRUMENTS *(Continued)*

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES

At the time of initial recognition, financial assets of the Group are classified into financial liabilities measured at fair value with changes stated as current gain/loss, and other financial liabilities. The relevant transaction expenses relating to financial liabilities not classified as financial liabilities measured at fair value with changes stated as current gain/loss are stated as initially recognized amount.

Financial liabilities measured at fair value with changes stated as current gain/loss

Financial liabilities measured at fair value with changes stated as current gain/loss include tradable financial liabilities and financial liabilities specified at the time of initial recognition to be measured at fair value with changes stated as current gain/loss. Such financial liabilities are measured subsequently at fair value, and all the realized and unrealized gains/losses are stated as current gains/losses.

Other financial liabilities

Such financial liabilities are measured subsequently at amortized cost by the actual interest rate method.

FINANCIAL DERIVATIVES

The Group uses financial derivatives. Financial derivatives are measured initially at fair value on the date of conclusion of the derivative transaction contract, and are measured subsequently at their fair value. A financial derivative with positive fair value is recognized as an asset and a financial derivative with negative fair value is recognized as a liability.

Any gain/loss not complying with hedge accounting regulations arising from change in fair value is directly stated as current gain/loss.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets or financial liabilities active on the market is determined by the quotation on the active market. The Group uses evaluation techniques to determine the fair value of financial instruments not active on the market, which evaluation techniques include referring to the prices of market transactions between informed and voluntary parties, referring to the current fair value of other essentially identical financial instruments, cash flow discount method and option pricing model.

IMPAIRMENT OF FINANCIAL ASSETS

The Group checks the book value of financial assets on the balance sheet date, and withdraws provision for impairment if there is evidence that the said financial assets impaired. Evidence of impairment of financial assets refers to any event that occurs after initial recognition of the financial assets and has impact on the foreseeable future cash flow of the said financial assets, which impact can be reliably measured.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. FINANCIAL INSTRUMENTS *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

Financial assets measured at amortized cost

If there is evidence that the said financial assets impaired, the book value of the said financial asset is written down as the current value of foreseeable future cash flow (excluding future credit loss not incurred), and the written-down amount is stated as current gain/loss. The current value of foreseeable future cash flow is determined by the original actual interest rate discount of the said financial assets and with reference to the value of the relevant collaterals.

Upon separate impairment test on financial assets large in unit value, if there is evidence that they have impaired, the impairment loss will be recognized and stated as current gain/loss. For financial assets not large in unit value, impairment test is included in the test on financial asset portfolios with similar credit risks. For financial assets (including financial assets large or not large in unit value) not found to have impaired upon separate impairment test, another impairment test is included in the test on financial asset portfolios with similar credit risks. For financial assets recognized as impaired, impairment test is not included in the test on financial asset portfolios with similar credit risks.

After the Group recognizes the impairment loss of the financial assets measured at amortized cost, if there is evidence that the said financial assets have restored to the original value and objectively relate to events happening after the said loss is recognized, the original recognized loss will be restated as current gain/loss. However, the book value after restatement does not exceed the amortized cost of the said financial assets on the restatement day on the assumption that no provision for impairment is withdrawn.

In respect of receivables, if there is evidence (e.g. the debtors are likely to go bankrupt or have significant financial difficulties) that the Group cannot duly and fully recover the receivables as per the agreed terms, provision for impairment will be withdrawn following the above principle. The book value of the receivables decreases through provision accounts (provision for bad debts). If any creditor's right impairment assessed as unrecoverable, its recognition will be discontinued.

Financial assets measured at cost

If there is evidence that the said financial assets have impaired, the difference between the book value of the said financial assets and the current value of their foreseeable future cash flow discounted at the current market yield of similar financial assets is recognized as impairment loss and stated as current gain/loss. Impairment loss incurred will not be reversed once recognized.

Available-for-sale financial assets

If there is evidence that the said financial assets have impaired, the cumulative loss arising from decreased fair value and originally included into capital reserve will be restated as current gain/loss. The restated cumulative loss is the balance of the initial cost of available-for-sale financial assets minus the principal recovered, amount amortized, the current fair value and impairment loss originally stated as gain/loss.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)

13. FINANCIAL INSTRUMENTS *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

Available-for-sale financial assets (Continued)

For available-for-sale debt instruments whose impairment loss is recognized, if their fair value increases in the following accounting period and objectively relates to events happening after the original depreciation loss is recognized, the original recognized loss will be restated as current gain/loss. Impairment loss of available-for-sale equity instrument is not reversed back through current gain/loss.

14. BORROWING COSTS

Borrowing costs refer to interest incurred and other relevant costs, including interest, amortization of discounts or premiums, ancillary costs and exchange differences in connection with the Group's borrowings.

Borrowing costs for asset acquisition or construction qualified for capitalization are capitalized directly, and other borrowing costs are stated as current gain/loss. Assets qualified for capitalization refer to fixed assets, investment properties and inventories which take a long time for acquisition or construction before reaching the condition for intended use or disposal.

Borrowing costs are capitalised if:

(1) the capital expenditure has been incurred;

(2) the borrowing costs have been incurred; and

(3) the acquisition or construction activities that are necessary to bring the asset into the condition for intended use have commenced.

Capitalization of borrowing costs ceases when the fixed assets qualified for capitalization have reached the condition for intended use or disposal, Borrowing costs incurred thereafter are recognised as current gain/loss.

In the capitalization period, the capitalization amount of interest in each accounting period is determined as follows:

– For specific borrowings, it is determined by the interest expenses incurred in the current period minus the provisional deposit interest revenue or return on investment;

– For common borrowings occupied, it is determined by the weighted average of capital expenditure exceeding the specified borrowings multiplied by the capitalization rate of the common borrowings occupied.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

15. CORPORATE BONDS

Corporate bonds issued are stated at face value. The difference between the actual cost and book value of the bonds is stated as premium or discount and is amortized on a straight line basis while the bonds subsist. Difference between the issue price and the face value is stated as the premium or discount of the bonds, and is amortized by the actual interest rate method over the term of the bonds when the relevant interest is accrued.

16. IMPAIRMENT OF ASSETS

Impairment of assets other than inventories, deferred tax assets and financial assets are determined as follows:

The Group judges on the balance sheet date whether assets have any sign of impairment, and if such a sign appears, the Group will estimate the recoverable amount and conduct impairment test. At least impairment test is conducted every year on the goodwill resulting from merger and intangible assets with indefinite service life regardless whether there is any sign of impairment.

The recoverable value is the higher of the net value of the fair value of the assets minus the disposal expenses and the current value of the foreseeable future cash flow of the assets. The Group estimates the recoverable value based on individual assets. If it is difficult to assess the recoverable value of an individual asset, the recoverable value of the asset group to which the said asset belongs is determined. An asset group is determined based on whether the principal cash inflow from the asset group is independent of the cash inflow of other assets or asset groups.

If the recoverable value of an asset or asset group is lower than its book value, the Group will write down the book value to the recoverable value, and the written-down amount is stated as current gain/loss, and provision for impairment of assets will be withdrawn accordingly.

In respect of impairment test on goodwill, the book value of goodwill resulting from merger is reasonably amortized to the relevant asset group from the date of acquisition; when it is difficult to be amortized to the asset group, it is amortized to the relevant asset group portfolio. The relevant asset group or asset group portfolio is the one which can benefit from the synergistic effect of merger and is not larger than the reported part determined by the Group.

If the goodwill related asset group or asset group portfolio has any sign of impairment, impairment test is conducted first on the asset group or asset group portfolio not containing goodwill, thereby calculating the recoverable value and recognizing the corresponding depreciation loss. Then impairment test is conducted on goodwill related asset group or asset group portfolio, with a comparison of its book value and recoverable value; the difference by which the recoverable value is lower than the book value is recognized as impairment loss of goodwill.

Impairment loss of assets, once recognized, will not be restated in the following accounting period.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

17. FORESEEABLE LIABILITIES

If an obligation relating to contingencies meets all the following conditions, the Group recognizes it as a foreseeable liability:

– The said obligation is the current obligation undertaken by the Group;

– The fulfillment of the said obligation is likely to cause a flow of economic interests out of the Group; and

– The value of the obligation can be measured reliably.

The Group currently maintains a frequent flyer program, namely Air China Companion Club Incentive Program, which provides travel awards to members based on accumulated mileage. The estimated incremental cost to provide free travel is recognized as an expense and accrued as a current liability when mileage accumulates. When members redeem their travel awards or when their entitlements expire, the relevant liability is reversed accordingly to reflect settlement of liabilities.

18. PRINCIPLES OF REVENUE RECOGNITION

When air passenger, cargo and mail services are provided by the Group, revenue from passenger, cargo and mail transportation is recognised as air traffic revenue upon the rendering of the relevant transportation services. Ticket sales for transportation services 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 Accounting Centre of China Aviation or International Air Transport Association (IATA). Transportation revenue should be recognised based on flight coupons upon the rendering of the relevant transportation services.

Agency commission income is recognised when invoices are issued by other carriers i.e. when the sales offices of the Group sell air tickets on behalf of other carriers and when such carriers receive the flight coupons after the transportation services have been provided, settlement will be performed through the domestic clearing network of civil aviation (for domestic airlines) or IATA (for foreign airlines) for the collection of proceeds from ticket sales from the Group. Upon recognition, the Group will deduct the amount of agency commission it is entitled to from the proceeds of those ticket sales and recognise it as income of the Group.

For the rendering of other services, revenue is recognised when the relevant services are rendered and completed within the same 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 recognised when the significant risks and rewards of ownership of the goods have been passed to the buyers such that the Group no longer maintains either managerial rights or control over the goods.

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SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

18. PRINCIPLES OF REVENUE RECOGNITION *(Continued)*

Revenue from other operations is stated at the net invoiced amount of the goods sold (excluding the amount of output value added tax) and sales return is deducted from the revenue during the period when sales return occurred. Return of goods sold on or before the balance sheet date after the balance sheet date and before the date of approval of the financial statements are treated as adjusting events; cash discount is recognised as expenses during the period as and when incurred; and sales rebate is set off against revenue during the period when incurred.

Interest revenue is recognised according to the principal outstanding and the accrued interest at the applicable rate.

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

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

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

19. OPERATING LEASES

Operating lease refers to the lease of assets in which the lessor retains the risks and rewards of ownership of the assets. Rental charges under operating leases are stated as current expenses on a straight-line basis over the lease terms.

20. REMUNERATION OF EMPLOYEES

Salaries, bonuses, subsidies, allowances, welfares, social insurance and housing provident funds of employees are recognized in the accounting period in which the employees render services. If the said period expires more than one year after the balance sheet date, if the impact of discount is significant, it is stated as the current value.

The employees of the Group participate in the old-age insurance managed by the local governments, which old-age insurance is stated as current gain/loss when incurred.

The staff cost of internally retired employees from the time of internal retirement to the time of statutory retirement is withdrawn by lump sum, which withdrawal will be deducted at the time of distribution of pensions.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

21. INCOME TAXES

Income taxes comprise current income taxes and deferred income taxes. Income tax expenses or revenue is stated as current gain/loss except that the goodwill or transactions arising from merger are stated as owners' interests.

Current income taxes refer to current payable income taxes based on the current taxable income. The taxable income is calculated after adjusting the before-tax profit of the year in accordance with relevant tax laws.

The Group measures the current tax liabilities or assets formed in the current and preceding periods as per the foreseeable payable or refundable income tax calculated pursuant to the tax law.

The Group withdraws the deferred income tax by the debt method according to the provisional difference between the book value of assets and liabilities on the balance sheet date and the tax basis.

The provisional differences of various payable taxes are the basis for recognition of deferred tax liabilities, unless the provisional differences of payable taxes arise in the following transactions:

(1) initial recognition of goodwill, or initial recognition of assets or liabilities incurred in a transaction with the following features: the said transaction is not corporate merger and affects neither the profit nor the taxable income; and

(2) for provisional differences of payable taxes relating to investments in subsidiaries, joint ventures and associates, the time for restatement of the said provisional differences can be controlled and the said provisional differences are unlikely to be restated in the foreseeable future.

The Group recognizes deferred tax assets arising from deductible provisional differences to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible provisional differences, unless the deductible provisional differences arise in the following transaction:

(1) the said transaction is not corporate merger and affects neither the profit nor the taxable income; and

(2) the deductible provisional differences relating to investments in subsidiaries, joint ventures and associates cannot meet the following conditions at the same time: the provisional differences are likely to be restated in the foreseeable future, and it is very likely to obtain taxable taxes which can be deducted from the deductible provisional differences.

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SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

21. INCOME TAXES *(Continued)*

On the balance sheet date, the Group measures the deferred tax assets and deferred tax liabilities pursuant to the tax law at the applicable tax rate for the period in which the said assets are expected to be recovered or the said liabilities are expected to be settled, and reflects the tax implications of the expected recovery or assets or settlement of liabilities on the balance sheet date.

The Group rechecks the book value of the deferred tax assets on the balance sheet date. If it is likely that sufficient taxable income cannot be obtained in the future to offset the interest of the deferred tax assets, the book value of the deferred tax assets will be written down. If sufficient taxable income is likely to be obtained, the amount written down will be restated.

22. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

IMPAIRMENT OF GOODWILL

The Group evaluates at least once a year whether its goodwill has impaired, which entails estimation of the use value of the asset groups to which goodwill is allocated. In estimating the use value, the Group needs to estimate the future cash flow from the said asset group and selects the appropriate discount rate to calculate the current value of the future cash flow.

DEFERRED TAX ASSETS

To the extent that there is likely sufficient taxable profit to offset losses, deferred tax assets should be recognized in relation to all tax losses not used. It requires the management to determine the value of the to-be-recognized deferred tax assets by using adequate discretion to estimate the time and amount of future taxable profit in combination with tax planning policy.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

23. FIRST TIME ADOPTION OF CAS

As set out in Note 2, the Group adopted CAS on 1 January 2007, and the cumulative impacts of first time adoption of CAS are as follows:

	2007			2006	
	Treasury shares	Reserve funds	Retained earnings	Reserve funds	Retained earnings
Opening balance before retrospective adjustments	–	768,398	4,131,428	362,884	1,582,711
Retrospective adjustments:					
Long-term equity investment differences under common control	–	–	(195,795)	–	(219,383)
Provision for early retirement benefits	–	–	(201,198)	–	(189,142)
Unrealised gain/(loss) on financial derivatives	–	–	(142,173)	–	125,868
Deferred taxes	–	–	513,211	–	279,557
Share of net assets of associates	(1,246,955)	–	(22,464)	–	89,084
Change in scope of consolidation	–	(48,833)	48,833	(48,833)	48,833
Others	–	–	151,335	–	104,690
Opening balance after retrospective adjustments	(1,246,955)	719,565	4,283,177	314,051	1,822,218

The impacts of CAS on the net profit for the 6 months ended 30 June 2006 are as follows:

Amount before retrospective adjustments	45,104
Retrospective adjustments:	
Goodwill arising from business combination under common control	7,465
Provision for early retirement benefits	7,116
Unrealized gain on fuel derivatives	110,842
Deferred taxes	(20,890)
Share of net profits of associates	81,482
Others	5,675
Net profit for six months ended 30 June 2006 under CAS	236,794

24. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Save for the impacts arising from first time adoption of CAS, these financial statements adopt the same accounting policies and accounting estimates as in the previous years.

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND CAS

Effects of significant differences between net profit under CAS and profit attributable to equity holders of the Company under IFRS are analysed as follows:

	Notes	For the six months ended 30 June 2007 RMB'000 (Unaudited)	30 June 2006 RMB'000 (Unaudited)
Net profit under CAS		**1,300,297**	236,794
Deferred taxes	*(i)*	**(108,313)**	(130,151)
Additional depreciation from restatement of costs of property, plant and equipment	*(ii)*	**(82,030)**	(82,171)
Reversal of depreciation and amortisation arising on asset revaluation	*(iii)*	**223,468**	249,836
Government grant	*(iv)*	**(8,722)**	(307)
Effect of component accounting	*(v)*	**245,648**	190,339
Others		**(1,769)**	(6,366)
Profit attributable to equity holders of the Company under IFRS		**1,568,579**	457,974

FINANCIAL INFORMATION PREPARED UNDER CHINA ACCOUNTING STANDARDS AND SUPPLEMENTARY INFORMATION

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND CAS

(Continued)

Effects of significant differences between equity attributable to the equity holders of the Company under CAS and IFRS are analysed as follows:

	Notes	**30 June 2007 RMB'000 (Unaudited)**	31 December 2006 RMB'000 (Audited)
Equity attributable to equity holders of the Company under CAS		**29,227,757**	30,095,941
Deferred taxes	*(i)*	**(71,302)**	37,012
Restatement of costs of property, plant and equipment	*(ii)*	**810,798**	892,828
Reversal of revaluation surplus	*(iii)*	**(1,196,316)**	(1,419,784)
Government grant	*(iv)*	**(435,864)**	(427,142)
Effect of component accounting	*(v)*	**791,051**	545,403
Others		**(5,993)**	–
Equity attributable to equity holders of the Company under IFRS		**29,120,131**	29,724,258

Notes:

i. Difference in deferred taxes is mainly due to the differences between CAS and IFRS on net profit and net assets.

ii. Differences in the costs of fixed assets mainly relate to fixed assets acquired in foreign currencies prior to 1 January 1994 and stated at the equivalent amount of RMB translated at the then prevailing exchange rates prescribed by the government (i.e. the government-prescribed rates ruling at that time). Under IFRS, such difference is stated at the equivalent amount of RMB translated at the then prevailing market rate (i.e the swap rate ruling at that time), resulting in a difference in the costs of fixed assets between the financial statements prepared under IFRS and under CAS 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 CAS are reversed in the financial statements prepared in accordance with IFRS.

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

v. Difference arising from the effect of component accounting is caused by the timing difference of first adoption.

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 tonne, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

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

LOAD FACTORS

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

UTILISATION

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