中國國際航空股份有限公司

AIR CHINA LIMITED

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

(Stock Code: 00753)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

SUSPENSION OF STOCK APPRECIATION RIGHTS PROGRAM

The board of directors (the "Board") of Air China Limited (the "Company") announced the unaudited interim results of the Company, its subsidiaries and joint ventures (collectively, the "Group") for the six months ended 30 June 2009, with comparative figures for the corresponding period of last year, as follows:

FINANCIAL INFORMATION

A. Prepared in accordance with International Financial Reporting Standards ("IFRSs")

Unaudited Interim Condensed Consolidated Income Statement

	Notes	For the six months ended **30 June 2009** *RMB'000* **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
TURNOVER			
Air traffic revenue	*3*	**21,209,451**	24,378,838
Other operating revenue	*4*	**1,900,288**	1,173,909
		23,109,739	25,552,747
OPERATING EXPENSES			
Jet fuel costs		**(6,098,289)**	(10,608,221)
Movements in fair value of fuel derivative contracts		**1,449,791**	312,947
Take-off, landing and depot charges		**(2,706,284)**	(2,785,661)
Depreciation		**(3,405,580)**	(2,907,421)
Aircraft maintenance, repairs and overhaul costs		**(879,252)**	(984,264)
Employee compensation costs		**(2,936,752)**	(2,555,265)
Air catering charges		**(694,285)**	(739,434)
Aircraft and engine operating lease expenses		**(1,139,662)**	(1,214,134)
Other operating lease expenses		**(235,418)**	(206,622)
Other flight operation expenses		**(1,959,590)**	(2,169,924)
Selling and marketing expenses		**(1,322,048)**	(1,283,874)
General and administrative expenses		**(362,105)**	(494,589)
		(20,289,474)	(25,636,462)
PROFIT/(LOSS) FROM OPERATIONS	*5*	**2,820,265**	(83,715)
Finance revenue	*6*	**260,215**	1,968,527
Finance costs	*6*	**(729,335)**	(921,358)
Share of profits and losses of associates		**315,720**	(94,927)
Gain on disposal of subsidiaries and an associate		**–**	477,680
PROFIT BEFORE TAX		**2,666,865**	1,346,207
Tax	*7*	**150,384**	(298,637)
PROFIT FOR THE PERIOD		**2,817,249**	1,047,570

	Notes	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
Attributable to:			
Equity holders of the Company		**2,878,224**	1,127,226
Minority interests		**(60,975)**	(79,656)
		2,817,249	1,047,570
Earnings per share attributable to equity holders of the Company:	*9*		
Basic		**24.3 cents**	9.5 cents
Diluted		**N/A**	N/A

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

	Note	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
PROFIT FOR THE PERIOD		**2,817,249**	1,047,570
Share of reserve movements of associates	*10*	**36,106**	100,673
Exchange realignment		**(13,176)**	(691,302)
Others		**(3,000)**	58,420
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**19,930**	(532,209)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**2,837,179**	515,361
Attributable to:			
Equity holders of the Company		**2,899,200**	600,766
Minority interests		**(62,021)**	(85,405)
		2,837,179	515,361

Unaudited Interim Condensed Consolidated Statement of Financial Position

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	**73,473,364**	71,821,000
Lease prepayments	**1,928,407**	1,945,258
Intangible asset	**58,780**	60,147
Goodwill	**346,845**	346,845
Interests in associates	**6,800,411**	6,271,533
Advance payments for aircraft and related equipment	**6,604,024**	7,052,508
Deposits for aircraft under operating leases	**245,354**	229,899
Long term receivable from ultimate holding company	**181,813**	231,813
Available-for-sale investments	**1,997**	1,997
Deferred tax assets	**2,115,840**	2,022,652
	91,756,835	89,983,652
CURRENT ASSETS		
Aircraft and flight equipment held for sale	**204,280**	350,896
Inventories	**1,213,441**	1,242,597
Accounts receivable	**1,959,300**	1,850,289
Bills receivable	**1,287**	1,604
Prepayments, deposits and other receivables	**2,324,908**	1,555,908
Derivative financial instruments	**–**	253,406
Due from ultimate holding company	**325,280**	361,892
Due from related companies	**7,528**	7,537
Tax recoverable	**56,290**	55,625
Pledged deposits	**778,730**	1,750,460
Cash and cash equivalents	**3,193,054**	2,987,358
	10,064,098	10,417,572
TOTAL ASSETS	**101,820,933**	100,401,224
CURRENT LIABILITIES		
Air traffic liabilities	**(1,922,496)**	(2,262,338)
Accounts payable	**(6,377,417)**	(6,923,895)
Bills payable	**(2,616,467)**	(1,420,438)
Other payables and accruals	**(4,456,262)**	(4,689,649)
Derivative financial instruments	**(3,639,602)**	(7,727,918)
Tax payable	**(6,895)**	(10,332)
Obligations under finance leases	**(3,809,134)**	(4,064,038)
Bank and other loans	**(15,457,338)**	(15,330,837)
Provision for major overhauls	**(259,801)**	(232,926)
Due to related companies	**(116,963)**	(62,924)
	(38,662,375)	(42,725,295)
NET CURRENT LIABILITIES	**(28,598,277)**	(32,307,723)
TOTAL ASSETS LESS CURRENT LIABILITIES	**63,158,558**	57,675,929

	30 June 2009 *RMB'000* (Unaudited)	31 December 2008 *RMB'000* (Audited)
NON-CURRENT LIABILITIES		
Obligations under finance leases	**(16,509,445)**	(16,480,784)
Bank loans, other loans and corporate bonds	**(19,944,593)**	(17,342,868)
Provision for major overhauls	**(1,186,755)**	(1,262,921)
Provision for early retirement benefit obligations	**(190,635)**	(211,209)
Long term payables	**(18,975)**	(44,785)
Deferred income related to frequent-flyer programme	**(916,349)**	(689,233)
Deferred income related to government grants	**(756,608)**	(795,080)
Deferred tax liabilities	**(325,573)**	(392,543)
	(39,848,933)	(37,219,423)
NET ASSETS	**23,309,625**	20,456,506
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Issued capital	**12,251,362**	12,251,362
Treasury shares	**(1,353,714)**	(1,353,714)
Reserves	**11,944,404**	9,045,204
	22,842,052	19,942,852
MINORITY INTERESTS	**467,573**	513,654
TOTAL EQUITY	**23,309,625**	20,456,506

Notes:

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009 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 Stock Exchange of Hong Kong Limited.

Significant accounting policies

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2008, 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).

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

(a) IFRS 1 and IAS 27 Amendments – *Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments had no impact on these interim condensed consolidated financial statements.

(b) IFRS 2 Amendments *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments have had no significant implications on its accounting for share-based payments.

(c) IFRS 7 Amendments *Financial Instruments: Disclosures*

IFRS 7 has been amended to enhance disclosures about fair value measurement and liquidity risk. In the first year of application, entities need not provide comparative information for the disclosures required by the amended paragraphs of IFRS 7.

(d) IFRS 8 *Operating Segments*

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Adoption of this standard did not have any effect on the financial position or performance of the Group. The new disclosures required by IFRS 8 are shown in note 3 to the interim condensed consolidated financial statements.

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has selected to present two statements.

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

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no significant financial impact on the Group.

(g) IAS 32 and IAS 1 Amendments *Financial Instruments: Presentation and Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no significant financial impact on the Group.

(h) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*

The Amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial assets out of the fair value through profit or loss category; and the assessment to be made on the basis of the circumstances that existed on the later of the date when the entity first became a party to the contract, and the date of a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract. IAS 39 is also amended to state that, if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss. As the Group currently has no such financial instruments, the amendments have had no significant financial impact on the Group.

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

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

In preparing the financial statements for the year ended 31 December 2008, the Group early adopted IFRIC 13 *Customer Loyalty Programmes* which requires that customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The fair value of the consideration received or receivable from the sales transaction is allocated between the loyalty award credits and the other components of the sale transactions. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed when the Group fulfils its obligations to supply the awards.

Prior to the adoption of IFRIC 13, the incremental cost of providing awards in exchange for miles earned by the members of the Group's frequent-flyer programme was accrued as operating expense after allowing for miles which were not expected to be redeemed. Upon the adoption of IFRIC 13, the miles earned by customers as part of a sales transaction are accounted for as a separate component of the sales transaction and is deferred until the miles are redeemed or the miles lapsed expired. IFRIC 13 has been adopted by the Group retrospectively and therefore certain comparatives in the interim condensed consolidated financial statements have been restated. The effect of the above mentioned changes on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2008 is as follows:

	2008 *RMB'000* (Unaudited)
Consolidated income statement for the period ended 30 June	
Decrease in turnover	(93,713)
Decrease in selling and marketing expenses	32,935
Increase in deferred tax charge	(75,000)
Decrease in profit for the period	(135,778)
Consolidated statement of financial position as at 1 January 2008	
Increase in deferred income	(1,095,002)
Decrease in other payables and accruals	95,899
Increase in deferred tax assets	244,000
Decrease in total equity	(755,103)
Consolidated statement of financial position as at 30 June 2008	
Increase in deferred income	(1,169,596)
Decrease in other payables and accruals	109,715
Increase in deferred tax assets	169,000
Decrease in total equity	(890,881)

2. SEGMENT INFORMATION

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

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

(b) the "others" segment which comprises the provision of aircraft engineering, ground 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. Assets, which consist principally of aircraft and ground equipment, supporting the entire worldwide transportation system, are mainly located in Mainland China. An analysis of assets of the Group by geographical distribution has therefore not been included.

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

Operating segments

The following tables present the Group's consolidated revenue and profit information regarding the Group's operating segments in accordance with China Accounting Standards for Business Enterprises (the "CAS") for the six months ended 30 June 2009 and 2008:

For the six months ended 30 June 2009

(Unaudited)	**Airline Operations** *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
REVENUE				
Sales to external customers	**22,362,259**	**42,766**	**–**	**22,405,025**
Intersegment sales	**–**	**222,412**	**(222,412)**	**–**
Total revenue	**22,362,259**	**265,178**	**(222,412)**	**22,405,025**
SEGMENT PROFIT	**2,883,454**	**42,195**	**–**	**2,925,649**

For the six months ended 30 June 2008

(Unaudited and restated)	**Airline Operations** *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
REVENUE				
Sales to external customers	25,609,356	57,169	–	25,666,525
Intersegment sales	–	140,518	(140,518)	–
Total revenue	25,609,356	197,687	(140,518)	25,666,525
SEGMENT PROFIT	846,070	319,400	–	1,165,470

The following tables present the segment assets of the Group's operating segments in accordance with the CAS as at 30 June 2009 and 31 December 2008:

	Airline Operations *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
SEGMENT ASSETS				
At 30 June 2009 (Unaudited)	**99,110,180**	**3,155,656**	**(2,025,275)**	**100,240,561**
At 31 December 2008 (Audited)	97,532,350	3,231,135	(1,865,742)	98,897,743

The following tables present the reconciliations of reportable segment revenue, profit, assets to the Group's interim condensed consolidated amounts:

	For the six months ended 30 June 2009 *RMB'000* **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
REVENUE		
Total revenue for reportable segments	**22,405,025**	25,666,525
Business tax not included in segment revenue	**(543,663)**	(623,957)
Other income not included in segment revenue	**991,644**	180,765
Effects of differences between IFRS and CAS	**256,733**	329,414
Revenue for the period	**23,109,739**	25,552,747
PROFIT		
Total profit for reportable segments	**2,925,649**	1,165,470
Effects of differences between IFRS and CAS	**(47,425)**	(38,244)
Profit for the period	**2,878,224**	1,127,226

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
ASSETS		
Total assets for reportable segments	**100,240,561**	98,897,743
Effects of differences between IFRS and CAS	**1,580,372**	1,503,481
Total assets	**101,820,933**	100,401,224

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the six months ended 30 June 2009 and 2008:

For the six months ended 30 June 2009

(Unaudited)	**Domestic** *RMB'000*	**Hong Kong/ Macau/ Taiwan** *RMB'000*	**Europe** *RMB'000*	**North America** *RMB'000*	**Japan/ Korea** *RMB'000*	**Asia Pacific and others** *RMB'000*	**Total** *RMB'000*
REVENUE							
Sales to external customers and total revenue	**14,472,838**	**1,273,386**	**2,618,340**	**1,791,109**	**1,600,613**	**1,353,453**	**23,109,739**

For the six months ended 30 June 2008

(Unaudited and restated)	**Domestic** *RMB'000*	**Hong Kong/ Macau/ Taiwan** *RMB'000*	**Europe** *RMB'000*	**North America** *RMB'000*	**Japan/ Korea** *RMB'000*	**Asia Pacific and other** *RMB'000*	**Total** *RMB'000*
REVENUE							
Sales to external customers and total revenue	12,955,303	1,827,902	4,411,704	2,766,570	2,047,439	1,543,829	25,552,747

3. AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2009 *RMB'000* **(Unaudited)**	30 June 2008 *RMB'000* (Unaudited and restated)
Passenger	**19,242,976**	20,723,746
Cargo and mail	**1,966,475**	3,655,092
	21,209,451	24,378,838

Business tax incurred and set off against air traffic revenue for the six months ended 30 June 2009 and 30 June 2008 amounted to approximately RMB525 million and RMB606 million, respectively.

4. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Ground service income	**280,271**	297,994
Aircraft engineering income	**317,681**	325,659
Air catering income	**–**	85,962
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	**823,598**	–
Recognition of deferred income	**38,472**	38,472
Others	**109,145**	94,621
Service charges on return of unused flight tickets	**90,074**	91,144
Cargo handling service income	**33,395**	43,091
Training service income	**7,349**	12,797
Import and export service income	**6,696**	12,784
Sales of materials	**10,684**	5,406
Others	**182,923**	165,979
	1,900,288	1,173,909

In January 2009, the Ministry of Finance and Civil Aviation Administration of China ("CAAC") jointly issued "Caijian [2009] No. 4 Document – Implementation Notice from the Ministry of Finance and Civil Aviation Administration of China regarding the refund of the CAAC Infrastructure Development Fund after collection" (the "Refund Document"). According to the Refund Document, the CAAC Infrastructure Development Fund collected during the period from 1 July 2008 to 30 June 2009 would be refunded to the Company.

5. PROFIT/(LOSS) FROM OPERATIONS

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

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment, net	**(3,861)**	(24,361)
Loss on derecognition of property, plant and equipment	**57,091**	26,262
Minimum lease payments under operating leases:		
Aircraft and related equipment	**1,139,662**	1,214,134
Land and buildings	**235,418**	206,622
Amortisation of lease prepayments	**23,149**	12,468
Impairment of aircraft and flight equipment held for sale	**–**	164,697

6. FINANCE REVENUE AND FINANCE COSTS

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance revenue		
Exchange gains, net	**175,879**	1,923,420
Interest income	**13,049**	45,107
Gain on interest rate derivative contracts, net	**71,287**	–
	260,215	1,968,527
Finance costs		
Interest on interest-bearing bank and other borrowings	**605,607**	735,867
Interest on finance leases	**240,338**	325,808
Loss on interest rate derivative contracts, net	**–**	24,639
	845,945	1,086,314
Less: Interest capitalised	**(116,610)**	(164,956)
	729,335	921,358

The interest capitalisation rate represents the cost of capital from raising the related borrowings and is approximately 1% to 5% (six months ended 30 June 2008: 3% to 7%) per annum.

7. TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain preferential treatments available to the Company's subsidiary and a joint venture which are taxed at a preferential rate of 20% (six months ended 30 June 2008: 12.5% to 18%), the PRC entities within the Group are subject to corporate income tax at a rate of 25% (six months ended 30 June 2008: 25%) during the period.

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

The determination of current and deferred income taxes was based on the enacted tax rates. Major components of income tax charge/(credit) are as follows:

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Current income tax – Mainland China:		
Provision for the period	**9,773**	20,406
Overprovision in prior years	**–**	(541,865)
Deferred income tax	**(160,157)**	820,096
Income tax charge/(credit) for the period	**(150,384)**	298,637

The share of tax attributable to associates amounting to RMB63,083,000 (six months ended 30 June 2008: RMB16,666,000) is included in the share of profit and losses of associates on the face of the interim condensed consolidated income statement for the six months ended 30 June 2009.

8. DIVIDEND

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

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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

The calculation of basic earnings per share for the six months ended 30 June 2009 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2009 of approximately RMB2,878,224,000, and the weighted average of approximately 11,863,300,373 ordinary shares in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific Airways Limited ("Cathay") through the reciprocal shareholding arrangement.

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2008 of approximately RMB1,127,226,000 (restated), and the weighted average of 11,865,149,750 ordinary shares in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay through the reciprocal shareholding arrangement.

Diluted earnings per share amounts for the six months ended 30 June 2009 and 30 June 2008 have not been disclosed because no diluting events existed during those periods.

10. OTHER COMPREHENSIVE INCOME

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Share of reserve movements of associates during the period		
Gains arising during the period	**36,106**	106,050
Less: Reclassification adjustment upon disposal of subsidiaries and an associate	**–**	(5,377)
	36,106	100,673

B. Prepared in accordance with China Accounting Standards for Business Enterprises

Unaudited Interim Consolidated Income Statement

	For the six months ended	
	30 June 2009	30 June 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Revenue from operations	**22,405,025**	25,666,525
Less: Cost of operations	**18,975,773**	23,134,131
Business taxes and surcharges	**543,663**	623,796
Selling expenses	**1,640,424**	1,577,527
General and administrative expenses	**684,816**	673,303
Finance costs	**606,798**	(996,332)
Impairment losses in assets	**–**	(880)
Add: Gains from changes in fair value	**1,521,078**	288,308
Investment income	**311,125**	410,348
Including: Investment income/(loss) from associates and joint ventures	**311,125**	(66,458)
Profit from operations	**1,785,754**	1,353,636
Add: Non-operating income	**952,844**	146,399
Less: Non-operating expenses	**8,423**	135,108
Including: Loss on disposal of non-current assets	**4,248**	18,960
Total Profit	**2,730,175**	1,364,927
Less: Tax	**(134,500)**	291,949
Net profit	**2,864,675**	1,072,978
Net profit attributable to equity holders of the Company	**2,925,649**	1,165,470
Minority interests	**(60,974)**	(92,492)

Unaudited Interim Consolidated Balance Sheet

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
ASSETS		
Current assets:		
Cash and bank balances	**3,902,568**	4,663,792
Financial assets held for trading	**–**	253,406
Bills receivable	**1,287**	1,604
Accounts receivable	**2,175,082**	2,074,178
Other receivables	**1,658,791**	1,110,524
Prepayments	**347,164**	309,945
Inventories	**809,228**	812,941
Total current assets	**8,894,120**	9,226,390
Non-current assets:		
Long term receivables	**247,004**	231,586
Long term equity investments	**7,876,966**	7,323,075
Fixed assets	**67,677,952**	66,244,815
Construction in progress	**10,480,741**	10,887,225
Intangible assets	**2,558,048**	2,563,887
Goodwill	**349,055**	349,055
Long term deferred expenses	**121,408**	141,601
Deferred tax assets	**2,035,267**	1,930,109
Total non-current assets	**91,346,441**	89,671,353
Total assets	**100,240,561**	98,897,743

	30 June 2009 *RMB'000* **(Unaudited)**	31 December 2008 *RMB'000* (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term loans	**6,745,850**	9,379,700
Financial liabilities held for trading	**3,639,602**	7,727,918
Bills payable	**2,616,467**	1,493,815
Accounts payable	**7,674,256**	7,792,638
Domestic air traffic liabilities	**659,709**	744,804
International traffic liabilities	**1,262,788**	1,517,530
Receipts in advance	**49,614**	56,022
Employee compensations	**226,817**	163,918
Taxes payable	**133,277**	300,198
Interest payable	**327,381**	303,066
Other payables	**2,696,242**	3,030,210
Non-current liabilities repayable within one year	**12,256,294**	10,186,078
Total current liabilities	**38,288,297**	42,695,897
Non-current liabilities:		
Long term loans	**10,854,593**	14,109,828
Corporate bonds	**9,000,000**	3,000,000
Long term payables	**1,205,730**	1,307,706
Obligations under finance leases	**16,509,445**	16,480,784
Accrued liabilities	**97,526**	112,754
Deferred income	**916,349**	689,232
Deferred tax liabilities	**180,000**	214,000
Total non-current liabilities	**38,763,643**	35,914,304
Total liabilities	**77,051,940**	78,610,201
Shareholders' equity:		
Share capital	**12,251,362**	12,251,362
Capital reserve	**11,709,845**	11,676,739
Reserve funds	**1,563,914**	1,563,914
Accumulated losses	**(1,181,954)**	(4,107,603)
Foreign exchange translation reserve	**(1,622,126)**	(1,610,522)
Equity attributable to equity holders of the Company	**22,721,041**	19,773,890
Minority interests	**467,580**	513,652
Total shareholders' equity	**23,188,621**	20,287,542
Total liabilities and shareholders' equity	**100,240,561**	98,897,743

Effects of Significant Differences Between IFRS and CAS

The effects of the significant differences between the consolidated financial statements of the Group prepared under CAS and IFRS are as follows:

	For the six months ended 30 June 2009 RMB'000 (Unaudited)	30 June 2008 RMB'000 (Unaudited and restated)
Net profit attributable to the equity holders of the Company under CAS	**2,925,649**	1,165,470
Deferred taxes	**21,000**	4,712
Additional depreciation from restatement of costs of fixed assets	**(71,469)**	(72,493)
Reversal of depreciation and amortisation arising on revaluation	**75,115**	155,695
Government grants	**(8,056)**	17,372
Effect of component accounting	**(61,672)**	(120,281)
Others	**(2,343)**	(23,249)
Net profit attributable to equity holders of the Company under IFRS	**2,878,224**	1,127,226

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Equity attributable to the equity holders of the Company under CAS	**22,721,041**	19,773,890
Deferred taxes	**(65,000)**	(86,000)
Restatement of costs of fixed assets	**495,736**	567,205
Reversal of revaluation surplus	**(258,605)**	(333,720)
Government grants	**(403,282)**	(395,226)
Effect of component accounting	**186,893**	248,565
Others	**165,269**	168,138
Equity attributable to equity holders of the Company under IFRS	**22,842,052**	19,942,852

CHAIRMAN'S STATEMENT

The continuance of global financial crisis and the outbreak of the Influenza A (H1N1) in the first half of 2009 brought enormous difficulties for the aviation industry. Facing market pressure, the Group proactively balanced the relationship between strategic development and risk management and adjusted its operational strategy in a timely manner. While maintaining overall flight safety and the increasingly improved service quality, the Group's operational performance generated results clearly better than the same period of last year. During the first half of the year, the Group realized profits attributable to shareholders of RMB2.878 billion and earnings per share attributable to shareholders of RMB0.243, compared to RMB1.127 billion and RMB0.095 respectively in the same period of last year.

Benefiting from the implementation by the PRC government of its policy of spurring domestic demand and related measures taken by the aviation industry to fight the financial crisis, the domestic air passenger market did better than expected in the first half of the year. The Group seized market opportunities and increased its domestic market capacity to 27.921 billion available seat kilometres, and realized 21.129 billion revenue passenger kilometres and carried 15.846 million passengers, representing an increase of 21.16%, 18.74% and 18.23% respectively as compared with the same period of last year. However, due to the overall huge increment in traffic capacity by the entire aviation industry in general, the passenger load factor of the Group dropped by 1.55 percentage points to 75.68%.

In response to the continued downturn of the international air passenger market, depending on the special features of each market, the Group temporarily reduced the number of flights to Japan, South Korea, Europe and North America, postponed the resumption of the Sao Paulo route, suspended the flights from Beijing to Athens and some fights from certain domestic second-tier cities to South Korea. During the first half of the year, the Group allocated 20.147 billion available seat kilometres to the international and regional routes, realised 14.604 billion revenue passenger kilometres and carried 3.679 million passengers with passenger load factor of 72.49%, representing a decrease of 8.95%, 9.4%, 12.42% and 0.36 percentage point respectively compared with the same period last year.

The demand in the air cargo market has been decreasing since the fourth quarter of last year, especially in the international and regional markets, which resulted in the cargo yield of the Group decreasing to the lowest in the Group's history. During the first half of the year, the Group's air cargo operations amounted to 3.073 billion available tonne-kilometres and 1.518 billion revenue tonne kilometres and 423,200 tonnes of cargo and mail were carried with a load factor of 49.39%, representing a decrease of 2.16%, 17.66%, 16.23% and 9.3 percentage points respectively compared with the same period last year.

The Group's jet fuel purchasing cost for the first half of the year dropped by 42.51% compared with the same period of last year due to the plunge in international fuel price. However, the suspension of domestic fuel surcharge and decrease in the number of international passengers and cargo carried caused the fuel surcharge of the Group to drop by 52.37% compared with the same period of last year and jet fuel costs pressure therefore still remains. The international fuel price started to rise from the second quarter, which caused the fair value losses of the Group's fuel hedging contracts as at 30 June 2009 to decrease significantly compared with the fair value losses of RMB7.225 billion as at the end of the last year, and the Group realised a gain of RMB1.45 billion from changes in the fair value of the fuel hedging contracts and increased profits for the current reporting period.

To cope with the general weak demand in the passenger and cargo market, the Group, through numerous cost-saving measures including adjusting its fleet structure, improving the alignment of capacity with market demand, driving energy efficiency comprehensively and optimising its debt structure, continues to explore ways to maximise its cost potential. In addition, the Group adjusted its capital expenditure plans for this year in accordance with the market conditions, cutting planned capital expenditure by nearly 20% compared with 2008. Although the positive results generated from its cost controls were not enough to make up for the impact of the inadequate market demand, the Group still maintained its cost advantages.

The Group has always maintained a prudent strategy of fleet expansion and has effectively controlled its fleet size according to changing market conditions. In the first half of the year, 10 new aircraft were added and most of which were narrow-body aircraft such as A321 and B737-800. At the same time, 11 aircraft of old models such as B767, B737-300/600 and B747-200F were retired. As a result, the Group now operates with a younger and more efficient fleet.

The changes in market conditions has not affected the progress of the Group's hub strategy. The percentage of flights at Beijing Hub increased by 0.56 percentage points to 45.5%, with transit passengers increasing by 41% compared with the same period last year. New progress was made in the construction of the Chengdu Hub, with the number of transit passengers increasing by 80%. The Shanghai subsidiary was established to accelerate the integration of the resources in the market of the east China region so as to strengthen the Group's competitive edge there. The establishment of the Hubei subsidiary has created a new platform for the Group to fully penetrate the central China market and perfect its domestic network.

In the first half of the year, the Group continued to innovate in its services and launched the "Platinum Card Member Travel Package" at some airports to better satisfy the needs of platinum card members. The Group also rolled out the mobile phone check-in project in the Capital International Airport thereby further expanding its self-service product line.

In June 2009, the Group, with its brand valued at RMB31.723 billion, was ranked 25th among the Top 500 China's Most Valuable Brands published by the World Brand Laboratory, evidencing an increase in its brand value.

In the first half of this year, the Group entered into a purchase and sale agreement to acquire a 24% equity interest in Air China Cargo (being the remaining Air China Cargo equity not owned by the Group). The acquisition made the further integration of its air cargo resources and the future development of its air cargo operations possible. By completing its plan of increasing its shareholding in Chengdu Falcon Aircraft Engineering Service Co., Ltd., the Group strengthened its control over its invested aviation maintenance and engineering enterprises.

In the second half of this year, the Group anticipates the impact of the global financial crisis on international air passenger and cargo business will continue. Despite the increase in demand in the domestic air passenger market, the overly rapid increase in traffic capacity by the domestic airlines and the intensified price competition will affect the ability of the Company to improve its yield. Meanwhile, the fluctuation of the exchange rate as well as the rising of fuel price will further increase the difficulty of the Group's operation.

The Group will continue to operate steadily, take good advantage of the relatively rapid growth of the domestic market, bring into play the competitive edges of its hub network, cement its industry-leading cost advantages, continually improve its ability to respond to crisis and to develop sustainably and strive to create greater value for its shareholders and society in this cold winter for the aviation industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis is based on the Group's interim condensed consolidated financial statements and notes thereon prepared in accordance with International Financial Reporting Standards ("IFRS"), and is designed to assist the readers in understanding the data provided in this announcement so as to better comprehend the financial conditions of the Group.

ANALYSIS OF THE PROFITABILITY

For the six months ended 30 June 2009, the Group recorded a profit before tax of RMB2.667 billion, and the profit attributable to shareholders of the Company was RMB2.878 billion with earnings per share of RMB0.243. The restated profit before tax for the same period of 2008 was RMB1.346 billion and the profit attributable to shareholders of the Company was RMB1.127 billion with earnings per share of RMB0.095.

The profit recorded in the first half of 2009 was primarily due to the Chinese government's policy of boosting China's domestic demand, the implementation of relevant measures by the civil aviation industry to cope with the financial crisis, the drop in international fuel prices and the Group's effective cost control. These factors partially offset the adverse impact of the global economic crisis, pandemic Influenza A (H1N1), and decrease of net gains from foreign exchange etc.

TURNOVER

For the six months ended 30 June 2009, the Group's total turnover (net of business taxes and surcharges) was RMB23.11 billion, representing a decrease of RMB2.443 billion or 9.56% as compared with the same period of 2008, among which, due to the global economic crisis and the pandemic Influenza A (H1N1), the demand for international air passenger and air cargo services fell and as a result the traffic revenue decreased by RMB3.169 billion or 13% compared with the same period of 2008. Other operating revenue increased by RMB726 million or 61.88% mainly due to the recognised revenue of RMB824 million from the refund of CAAC Infrastructure Development Fund during the current reporting period.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008 (Restated)		**Change**
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**14,472,838**	**62.63%**	12,955,303	50.70%	11.71
Hong Kong, Macau and Taiwan	**1,273,386**	**5.51%**	1,827,902	7.15%	(30.34)
Europe	**2,618,340**	**11.33%**	4,411,704	17.27%	(40.65)
North America	**1,791,109**	**7.75%**	2,766,570	10.83%	(35.26)
Japan and Korea	**1,600,613**	**6.92%**	2,047,439	8.01%	(21.82)
Asia Pacific and others	**1,353,453**	**5.86%**	1,543,829	6.04%	(12.33)
Total	**23,109,739**	**100.00%**	25,552,747	100.00%	(9.56)

AIR PASSENGER REVENUE

For the six months ended 30 June 2009, the Group recorded an air passenger revenue of RMB19.243 billion, representing a decrease of RMB1.481 billion compared with the same period of 2008. The increase in traffic capacity resulted in an increase in air passenger revenue of RMB1.329 billion while the decrease in passenger load factor caused a decrease in revenue of RMB218 million and the decrease in yield per revenue passenger kilometre resulted in a decrease in revenue of RMB2.592 billion. The traffic capacity, passenger load factor and revenue per seat kilometre for the six months ended 30 June 2009 were as follows:

	For the six months ended 30 June		**Change**
	2009	2008 (Restated)	(%)
Available seat kilometres *(million)*	**48,067.77**	45,170.58	6.41
Passenger load factor *(%)*	**74.34**	75.08	(0.74 percentage points)
Yield per revenue passenger kilometre *(RMB)*	**0.5385**	0.6111	(11.87)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008 (Restated)		**Change**
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**12,004,816**	**62.38%**	11,093,356	53.53%	8.22
Hong Kong, Macau and Taiwan	**1,140,616**	**5.93%**	1,420,613	6.86%	(19.71)
Europe	**1,985,145**	**10.32%**	3,182,098	15.35%	(37.62)
North America	**1,392,267**	**7.23%**	1,839,042	8.87%	(24.29)
Japan and Korea	**1,452,529**	**7.55%**	1,771,382	8.55%	(18.00)
Asia Pacific and others	**1,267,603**	**6.59%**	1,417,255	6.84%	(10.56)
Total	**19,242,976**	**100.00%**	20,723,746	100.00%	(7.15)

AIR CARGO REVENUE

For the six months ended 30 June 2009, the Group's air cargo and mail revenue was RMB1.966 billion, representing a decrease of RMB1.689 billion as compared with the same period of 2008, among which the decrease in traffic capacity, overall load factor and yield per revenue freight tonne kilometre caused a decrease in the air cargo revenue of RMB79 million, RMB567 million and RMB1.043 billion respectively. The traffic capacity, cargo load factor and revenue per freight tonne-kilometre of the cargo and mail operations for the six months ended 30 June 2009 were as follows:

	For the six months ended 30 June		**Change**
	2009	2008	(%)
Available freight tonne kilometres *(million)*	**3,072.60**	3,140.54	(2.16)
Load factor *(%)*	**49.39**	58.69	(9.29 percentage points)
Cargo yield per revenue freight tonne kilometre *(RMB)*	**1.2958**	1.9831	(34.66)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	For the six months ended 30 June				
	2009		2008		**Change**
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Mainland China	**567,735**	**28.87%**	687,918	18.82%	(17.47)
Hong Kong, Macau and Taiwan	**132,770**	**6.75%**	404,359	11.06%	(67.17)
Europe	**633,195**	**32.20%**	1,229,399	33.64%	(48.50)
North America	**398,842**	**20.28%**	927,440	25.37%	(57.00)
Japan and Korea	**148,085**	**7.53%**	277,932	7.61%	(46.72)
Asia Pacific and others	**85,848**	**4.37%**	128,044	3.50%	(32.95)
Total	**1,966,475**	**100.00%**	3,655,092	100.00%	(46.20)

OPERATING EXPENSES

For the six months ended 30 June 2009, the Group's operating expenses amounted to RMB20.289 billion, representing a decrease of 20.86% as compared with RMB25.636 billion for the same period of 2008. The breakdown of the operating expenses is set out below:

	For the six months ended 30 June				
	2009		2008 (Restated)		**Change**
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	(%)
Jet fuel costs	**6,098,289**	**30.06%**	10,608,221	41.38%	(42.51)
Movements in fair value of fuel derivative contracts	**(1,449,791)**	**(7.15)%**	(312,947)	(1.22)%	363.27
Take-off, landing and depot charges	**2,706,284**	**13.34%**	2,785,661	10.87%	(2.85)
Depreciation	**3,405,580**	**16.78%**	2,907,421	11.34%	17.13
Aircraft maintenance, repair and overhaul costs	**879,252**	**4.33%**	984,264	3.84%	(10.67)
Employee compensation costs	**2,936,752**	**14.47%**	2,555,265	9.97%	14.93
Air catering charges	**694,285**	**3.42%**	739,434	2.88%	(6.11)
Selling expenses	**1,322,048**	**6.52%**	1,283,874	5.01%	2.97
General and administrative expenses	**362,105**	**1.79%**	494,589	1.93%	(26.79)
Others	**3,334,670**	**16.44%**	3,590,680	14.00%	(7.13)
Total	**20,289,474**	**100.00%**	25,636,462	100.00%	(20.86)

- Jet fuel costs decreased by 42.51% to RMB6.098 billion for the six months ended 30 June 2009 as compared with RMB10.608 billion for the six months ended 30 June 2008, which accounted for 30.06% of total operating expenses as compared with 41.38% for the same period of 2008. The decrease in the Group's jet fuel costs was mainly due to the rapid drop in jet fuel price in the first half of 2009 as compared with the same period of 2008.

- The movements in the fair value of fuel derivative contracts for the six months ended 30 June 2009 was RMB1.450 billion (the recovery in fair value of RMB4,003 billion and the decrease in fair value of RMB2.553 billion resulted from the settlement of fuel derivative contracts).

- Take-off, landing and depot charges for the six months ended 30 June 2009 were approximately the same as those for the same period of 2008, and the percentage of which to the operating expenses increased from 10.87% for the same period of 2008 to 13.34%.

- Compared with the same period of 2008, the depreciation expenses increased in 2009 due to an increase in the number of the self-owned aircraft and those under finance leases.

- The aircraft maintenance, repair and overhaul costs decreased by RMB105 million as compared with the same period of 2008. The decrease was mainly due to a decrease in the demand for aircraft maintenance and repair as compared with the same period of 2008 and the effective cost control while ensuring flight safety.

- Employee compensation costs increased due to the increase in flight hours and the number of employees.

- The decrease in the air catering charges was primarily due to effective cost control. On the precondition of ensuring adequate supplies, the supply standards were strictly controlled and expenses were reduced. The purchasing cost was also reduced at the same time.

- Other operating expenses mainly included the aircraft and engines operating lease expenses, CAAC Infrastructure Development Fund and the daily expenses arising from core air traffic business not included in the aforesaid items.

FINANCE REVENUE AND FINANCE COSTS

For the six months ended 30 June 2009, the Group recorded RMB176 million of gains from foreign exchange, representing a decrease of RMB1.748 billion or 90.86% as compared with the same period of 2008, which was mainly due to the slowdown of US dollars depreciation in the first half of this year. For the current reporting period, the Group recorded fair value gains on interest rate derivative contracts of RMB71 million and interest expenses of RMB846 million which represented a decrease in interest expenses of RMB216 million compared with interest expenses for the same period in 2008 mainly due to the fact that most of the Group's interest-bearing debt has floating interest rates and the decrease of LIBOR.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

For the six months ended 30 June 2009, the Group's share of profits of its associates was RMB316 million, compared with its share of losses of RMB95 million for the same period in 2008, which was mainly due to the RMB213 million of profits from the investment in Cathay Pacific Airways Limited ("Cathay Pacific") recognised by way of equity accounting, whereas the Group recorded RMB155 million of losses in the investment in Cathay Pacific for the same period in 2008.

ANALYSIS OF ASSETS STRUCTURE

As of 30 June 2009, the total assets of the Group amounted to RMB101.821 billion, representing an increase of 1.41% as compared with 31 December 2008, among which the current assets were RMB10.064 billion and accounted for 9.88% of the total assets, while non-current assets were RMB91.757 billion and accounted for 90.12% of the total assets.

For the current assets, cash and cash equivalents amounted to RMB3.193 billion, representing an increase of 6.89% as compared with 31 December 2008, while accounts receivable increased by 5.89% to RMB1.959 billion as compared with 31 December 2008. For the non-current assets, the net book value of property, plant and equipment as of 30 June 2009 was RMB73.473 billion, representing an increase of 2.3% as compared with 31 December 2008.

ASSETS MORTGAGE

As of 30 June 2009, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB39.073 billion (compared with RMB35.336 billion as of 31 December 2008), a number of shares in its associated companies with an aggregate market value of approximately RMB3.759 billion (compared with approximately RMB3.071 billion as of 31 December 2008), and land use rights with an aggregate net book value of approximately RMB35 million (compared with approximately RMB36 million as of 31 December 2008) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group of approximately RMB779 million (compared with approximately RMB1.75 billion as of 31 December 2008) were pledged as security in respect of certain operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

For the six months ended 30 June 2009, the capital expenditure of the Company amounted to RMB3.051 billion in total, of which the total investment in aircraft and engines for the first half of the year was RMB2.077 billion, including prepayment of RMB624 million for the purchases of aircraft for 2009 and for later years. The total investment and purchase in aircraft modifications, aircraft additions, flight simulators and valuable parts and components was RMB214 million.

Other capital expenditure amounted to RMB760 million, which was mainly applied towards the construction of infrastructure and IT systems as well as the ground facilities deployment and cash components for long-term investment projects.

EQUITY INVESTMENT

As of 30 June 2009, the aggregate amount of equity investment in the Group's associates was RMB6.8 billion, representing an increase of 8.42% as compared with 31 December 2008, of which the equity investments in Cathay Pacific, Shandong Airlines and Shenzhen Airlines were approximately RMB5.813 billion, RMB116 million and RMB184 million respectively, representing profits of RMB812 million, RMB100 million and RMB50 million respectively for the six months ended 30 June 2009.

The Group plans to further consolidate and optimise the businesses of the companies it has invested in and improve these companies' financial status and business results.

DEBT STRUCTURE ANALYSIS

As of 30 June 2009, the total liabilities of the Group amounted to RMB78.511 billion, representing an decrease of 1.79% as compared with 31 December 2008, of which current liabilities were RMB38.662 billion, which accounted for 49.24% of the total liabilities and non-current liabilities were RMB39.849 billion, which accounted for 50.76% of the total liabilities.

For the current liabilities, the liabilities under derivative financial instruments amounted to RMB3.64 billion, representing an decrease of 52.9% as compared with 31 December 2008. The interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB21.883 billion, representing an increase of 5.13% as compared with 31 December 2008. Other advances and payables amounted to RMB13.139 billion, representing a decrease of 7.37% as compared with 31 December 2008.

For the non-current liabilities, the interests-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB36.454 billion, representing an increase of 7.78% as compared with 31 December 2008 mainly due to the issue of RMB6 billion medium term notes.

COMMITMENTS AND CONTINGENT LIABILITIES

The capital commitment of the Group as of 30 June 2009 was RMB69.027 billion, representing a slight decrease as compared with RMB70.279 billion recorded as of 30 June 2008, which was primarily used for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years and for the construction of certain properties. The Group had operating lease commitments of RMB12.667 billion, representing an decrease of 6.72% as compared with 31 December 2008, which was primarily used for leasing aircraft, office premises and related equipments. The Group had investment commitment of RMB51 million which was approximately on the same level as that of 31 December 2008.

As of 30 June 2009, the Group's contingent liabilities in respect of guarantees to bank loans provided to its associates were RMB105 million. Details of contingent liabilities of the Group are set out in note 25 to the Group's interim condensed consolidated financial statements for 2009.

GEARING RATIO

As of 30 June 2009, the Group's gearing ratio (total liabilities divided by total assets) was 77.11%, representing a decrease of 2.52 percentage points as compared with 79.63% recorded as of 31 December 2008. This was primarily due to the decrease in the number of aircraft introduced and the liabilities pursuant to financial derivatives. Meanwhile, the Group recorded profits in the current reporting period which increased the equity interests of the Group attributable to its shareholders from RMB20.457 billion as at 31 December 2008 to RMB23.31 billion as at 30 June 2009. Considering that the prevailing gearing ratios of other air carriers in the aviation industry were at a relatively high level, the Group continues to maintain the leading position within the domestic industry in terms of its gearing ratio and its long-term insolvency risks are also within its control.

WORKING CAPITAL AND ITS SOURCES

As of 30 June 2009, the net current liabilities of the Group (i.e. the current liabilities minus the current assets) were RMB28.598 billion, representing a decrease of RMB3.709 billion as compared with 31 December 2008. The Group's current ratio, which represents current assets divided by current liabilities, was 0.26, representing a slight increase from 0.24 as at 31 December 2008. The decrease of the net current liabilities was mainly due to the significant decrease in the Group's financial liabilities.

The Group meets its working capital needs mainly through its operating activities and external financing activities. For the first half of 2009, the Group's net cash inflow from operating activities was RMB1.188 billion, representing a decrease of 49.67% from RMB2.361 billion for the same period in 2008. This was primarily due to a decrease of RMB2.443 billion in turnover in the current reporting period compared with the same period in 2008. Net cash outflow from investment activities was RMB1.958 billion, representing a decrease of 20.02% from RMB2.448 billion for the same period in 2008, primarily due to the decrease in the Group's outlay for fixed assets. The Group recorded a net cash inflow from financing activities of RMB1.004 billion, representing an decrease of RMB1.188 billion from RMB2.192 billion for the same period of 2008, primarily due to relatively more debt repayments made by the Group in the current reporting period. The Group's net amount of increase in cash and cash equivalents was RMB235 million in the first half of 2009, representing a decrease of approximately RMB1.871 billion compared with the same period in 2008. The Group has obtained bank facilities with an aggregate maximum amount of up to RMB109.019 billion from a number of banks in the PRC, of which approximately RMB46.033 billion was utilised with the balance fully capable of meeting the Group's working capital demand and its future capital commitments.

OBJECTIVES AND POLICIES OF FINANCIAL RISKS MANAGEMENT

The Group is exposed to fluctuations in jet fuel prices in its daily operation. International jet fuel prices have historically, and will continue to be, subject to market volatility and fluctuations in supply and demand. The Group's strategy for managing its jet fuel price risk aims to protect itself against sudden and significant price increases. The Group has been engaging in fuel hedging transactions since March 2001. The hedging instruments used were mainly derivatives of Singapore Kerosene together with Brent crude oil and New York crude oil, which are closely linked to the price of jet fuel. Considering the high volatility of the international fuel prices and the Company's high cost sensitivity, the Company will continue to utilise the hedging instruments to manage and control the risk in relation to rising fuel prices.

As of 30 June 2009, the total amount of interest-bearing debts of the Group were RMB58.337 billion, accounting for 74.3% of the Group's total liabilities, of which many were foreign debts and mainly denominated in US dollars, Hong Kong dollars and Japanese Yen. In addition, the Group also has sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimise any risks relating to foreign exchange rates and interest rates by adjusting the structure of the interest rates and currency denomination of its debts and by making use of financial derivatives.

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 the 2009.

INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2009.

POST BALANCE SHEET EVENTS

The Company, its subsidiary Total Transform Group Limited and CITIC Pacific Limited ("CITIC Pacific") entered into a share purchase agreement on 17 August 2009, pursuant to which the Company will indirectly acquire 491,864,724 shares in Cathay Pacific held by CITIC Pacific at a price of HK$12.88 per share and the total consideration is approximately HK$6.335 billion. Upon the completion of the acquisition, the Company's shareholding in Cathay Pacific will increase from the current percentage of approximately 17.49% to approximately 29.99%.

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 2009.

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 contained in Appendix 10 to the Listing Rules except the amendments to the Model Code which came into effect from 1 April 2009 (the "Amendments"). After making specific enquiries, the Company confirms that all of its directors and supervisors have complied with the required standard set out in the Model Code including the Amendments throughout the first half of 2009. The Company will amend its code of conduct regarding directors' securities transactions to reflect the Amendments in due course.

The Company's own code of conduct mentioned above also applies to its supervisors and relevant employees.

DISCLOSURE REQUIRED BY HONG KONG STOCK EXCHANGE LISTING RULES

In compliance with paragraph 46 of Appendix 16 to the Listing Rules, the Company confirms that in relation to those matters set out in paragraph 46(3) of Appendix 16 to the Listing Rules, save as disclosed herein, there has been no material change in the Company's existing information from the relevant disclosure in the 2008 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2009, the Company's interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

SUSPENSION OF STOCK APPRECIATION RIGHTS PROGRAM

The general meeting of the Company dated 28 December 2006 approved the Directors and Senior Management Stock Appreciation Rights Administrative Handbook. The Company granted the first issue of stock appreciation rights on 15 June 2007 with an exercise price of HK$2.98 per unit and such rights could be exercised as of 15 June 2009. None of the stock appreciation rights has been exercised as of the date of this announcement. Pursuant to the Notice on Several Issues on Regulating the Stock Incentive Program of the Sate-owned and Controlled Listed Companies issued by State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance of the People's Republic of China in October 2008 (the "Notice"), state-owned and controlled listed companies are required to amend their stock incentive programs and implement the amended incentive programs after they have been approved by their shareholders in a general meeting or by the board of directors. The Board has resolved in the board meeting dated 25 August 2009 that the implementation of the Company's first issue of stock appreciation rights program be suspended, amended in accordance with the Notice and the relevant regulations and submitted to the general meeting of the Company for approval.

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

Beijing, the PRC, 25 August 2009

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

* *Independent non-executive Directors of the Company*