AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

stock code: 753 HongKong 601111 Shanghai AIRC London

Annual Report 2009

Air China is the only national flag carrier of China and a member of the Star Alliance, the world's largest airline alliance. It is also the only Chinese civil aviation enterprise which is listed among "The World's 500 Most Influential Brands".

Air China is headquartered in Beijing, the capital of China, with Shanghai and Chengdu as its two increasingly important hubs. As at 31 December 2009, through the Star Alliance, the routes network of Air China could cover 175 countries and regions as well as 1,077 destinations. Air China is dedicated to providing passengers with safe, convenient, comfortable and customised services.

The strategic objectives of Air China are to build up international competitive strength, continue to enhance development potentials, offer its customers unique and excellent experience and realise a sustainable growth so as to create value to all the relevant parties.

In addition, Air China also directly or indirectly holds interests in the following airlines: Air China Cargo Co., Ltd., Air Macau Company Limited, Shenzhen Airlines Company Limited, Shandong Airlines Company Limited and Cathay Pacific Airways Limited.

Contents

Corporate Information

REGISTERED CHINESE 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
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China

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WEBSITE ADDRESS
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DIRECTORS
Kong Dong
Wang Yinxiang
Wang Shixiang
Cao Jianxiong
Christopher Dale Pratt
Chen Nan Lok, Philip
Cai Jianjiang
Fan Cheng
Hu Hung Lick, Henry
Zhang Ke
Jia Kang
Fu Yang

SUPERVISORS
Sun Yude
He Chaofan
Zhou Guoyou
Chen Bangmao
Su Zhiyong

LEGAL REPRESENTATIVE OF THE COMPANY
Kong Dong

JOINT COMPANY SECRETARIES
Huang Bin
Tam Shuit Mui

AUTHORISED REPRESENTATIVES
Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISER TO THE COMPANY
Haiwen & Partners (as to PRC Law)
Freshfields Bruckhaus Deringer (as to Hong Kong and English Law)

INTERNATIONAL AUDITORS
Ernst & Young

H SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
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183 Queen's Road East
Wanchai
Hong Kong

LISTING VENUES
Hong Kong, London and Shanghai

Summary of Financial Information

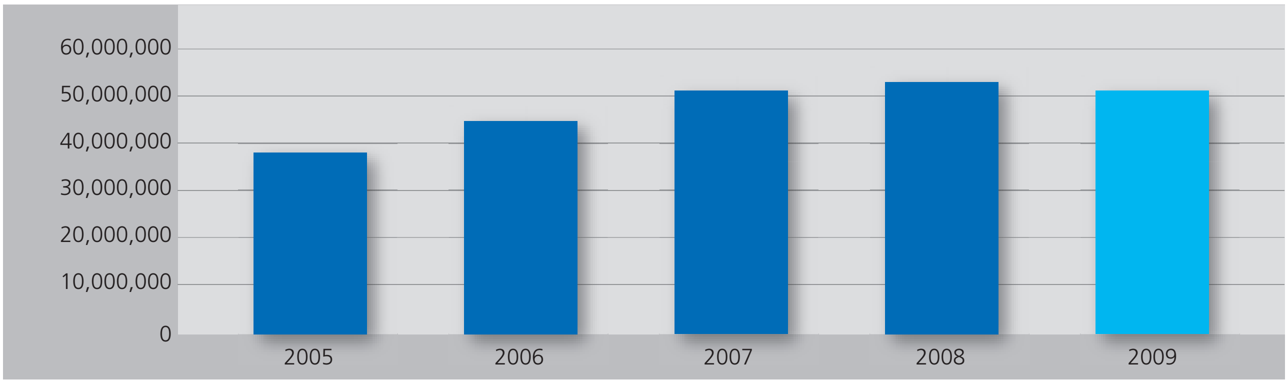
					(RMB'000)
	2009	2008*	2007*	2006*	2005*
Turnover	**51,393,191**	52,908,161	51,081,667	44,936,606	38,290,966
Profit from operations	**5,500,956**	(9,806,971)	3,912,123	2,630,929	3,895,477
Profit before tax	**5,066,285**	(10,977,680)	5,448,165	3,929,221	3,374,254
Profit after tax (including profit attributable to minority shareholders)	**4,803,051**	(9,367,030)	3,935,552	3,305,097	2,470,380
Profit attributable to minority shareholders	**(51,183)**	(111,208)	(110,661)	617,256	64,124
Profit attributable to shareholders of the Company	**4,854,234**	(9,255,822)	4,046,213	2,687,841	2,406,256
EBITDA(1)	**12,552,228**	(3,441,696)	9,466,566	7,926,457	8,408,157
EBITDAR(2)	**15,349,155**	(593,230)	12,017,187	10,319,848	10,150,088
Earnings per share attributable to shareholders of the Company (RMB)	**0.41**	(0.78)	0.34	0.26	0.26
Return on shareholders' equity (%)	**20.30**	(46.41)	13.22	9.04	11.98

(1) EBITDA represents earnings before finance revenue, finance costs, enterprise income taxes, gain on disposal of associates, share of profits and losses of associates, depreciation and amortisation as computed under the International Financial Reporting Standards.

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

* The Group's strategy for managing jet fuel price risk is to provide the Group with protection against sudden and significant increases in prices. In meeting these objectives, the Group allows for the use of approved derivative instruments with counterparties and within approved limits. The Group's management is of the view that it is more appropriate to disclose the realised and unrealised gain or loss of fuel derivative contracts as movements in fair value of fuel derivative contracts on the Group's consolidated income statement to reflect the objective of the transactions and have therefore reclassified the comparative amounts accordingly.

Turnover (RMB'000)

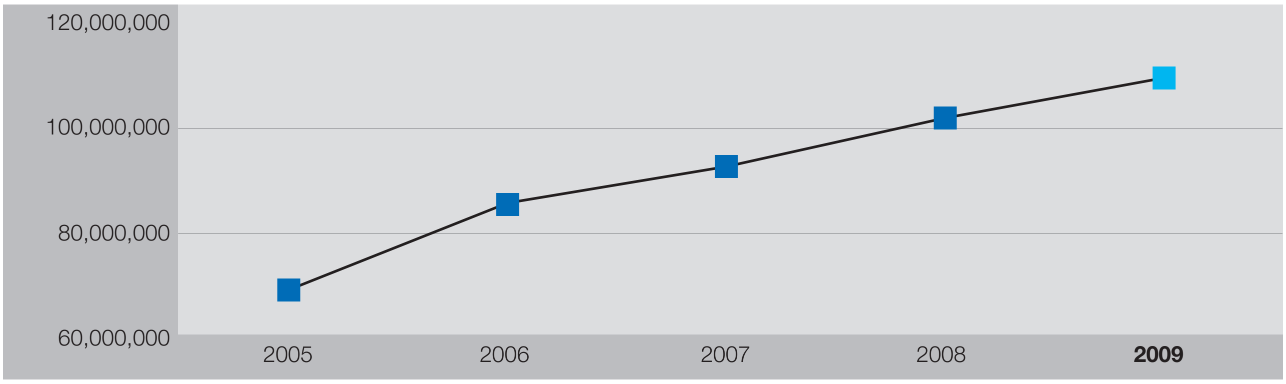


Summary of Financial Information

(RMB'000)

	31 December 2009	31 December 2008	31 December 2007	31 December 2006	31 December 2005
Total assets	**107,919,022**	100,401,224	91,300,277	84,477,536	68,201,943
Total liabilities	**83,964,555**	79,944,718	60,548,027	52,741,843	46,651,337
Minority interests	**38,571**	513,654	138,050	2,011,435	1,458,365
Shareholders' equity (excluding minority interests)	**23,915,896**	19,942,852	30,614,200	29,724,258	20,092,241
Shareholders' equity per share (RMB)	**2.02**	1.68	2.58	2.43	2.13

Total Assets (RMB'000)



Summary of Operating Data

The following summary includes the operating data of the Company, Air China Cargo and Air Macau.

	2009	2008	Increase/(decrease)
Traffic			
RPK (in millions)	**75,473.77**	68,747.06	9.78%
International	**27,543.73**	27,896.54	(1.26%)
Domestic	**44,140.45**	37,013.30	19.26%
Hong Kong, Macau and Taiwan	**3,789.59**	3,837.21	(1.24%)
RFTK (in millions)	**3,528.37**	3,610.56	(2.28%)
International	**2,605.90**	2,697.95	(3.38%)
Domestic	**819.38**	758.80	7.98%
Hong Kong, Macau and Taiwan	**103.09**	154.81	(33.41%)
Passengers (in thousands)	**41,278.71**	36,136.40	14.23%
International	**5,560.08**	5,595.84	(0.64%)
Domestic	**33,369.15**	28,039.00	19.01%
Hong Kong, Macau and Taiwan	**2,349.48**	2,501.66	(6.08%)
Cargo and mail carried (tonnes)	**974,044.97**	980,105.41	(0.62%)
Kilometers flown (in millions)	**558.19**	521.63	7.01%
Block hours (in thousands)	**888.28**	829.26	7.12%
Number of flights	**318,793**	290,887	9.59%
International	**42,086**	43,599	(3.47%)
Domestic	**254,784**	222,726	14.39%
Hong Kong, Macau and Taiwan	**21,923**	24,562	(10.74%)
RTK (in millions)	**10,293.56**	9,787.33	5.17%
Capacity			
ASK (in millions)	**98,624.71**	91,809.88	7.42%
International	**35,706.86**	37,789.48	(5.51%)
Domestic	**57,524.61**	48,560.50	18.46%
Hong Kong, Macau and Taiwan	**5,393.25**	5,459.90	(1.22%)
AFTK (in millions)	**6,506.89**	6,355.89	2.38%
International	**4,267.20**	4,464.40	(4.42%)
Domestic	**2,010.00**	1,640.70	22.51%
Hong Kong, Macau and Taiwan	**229.70**	250.79	(8.41%)
ATK (in millions)	**15,414.72**	14,655.94	5.18%

Summary of Operating Data

	2009	2008	Increase/(decrease)
Load factor			
Passenger load factor (RPK/ASK)	76.53%	74.88%	1.65ppt
International	77.14%	73.82%	3.32ppt
Domestic	76.73%	76.22%	0.51ppt
Hong Kong, Macau and Taiwan	70.27%	70.28%	(0.01ppt)
Cargo and mail load factor (RFTK/AFTK)	54.23%	56.81%	(2.58ppt)
International	61.07%	60.41%	0.66ppt
Domestic	40.77%	46.25%	(5.48ppt)
Hong Kong, Macau and Taiwan	44.88%	61.73%	(16.85ppt)
Yield			
Yield per RPK (RMB)	0.56	0.63	(11.11%)
International	0.48	0.61	(21.31%)
Domestic	0.60	0.63	(4.76%)
Hong Kong, Macau and Taiwan	0.66	0.75	(12.00%)
Yield per RFTK (RMB)	1.53	1.99	(23.12%)
International	1.47	1.89	(22.22%)
Domestic	1.54	1.85	(16.76%)
Hong Kong, Macau and Taiwan	2.93	4.44	(34.01%)
Fleet			
Total number of aircraft in service at year end	274	256	18
Daily utilization (block hours per day per aircraft)	9.65	9.48	0.17 hour
Unit cost			
Operating cost per ASK (RMB)	0.47	0.68	(30.88%)
Operating cost per ATK (RMB)	2.98	4.28	(30.37%)

Note: as the operating cost for 2008 is reclassified, the unit cost of 2008 has been adjusted accordingly for better comparability.

Chairman's Statement

Kong Dong
Chairman of the Board

Dear Shareholders:

In 2009, driven by the rapid recovery of China's economy and the gradual stabilisation of the international economy in the second half of 2009, the demand in China's domestic air passenger market soared. At the same time, both the air cargo market and the international air passenger market bottomed out and then rebounded. In response to the market changes, the Group proactively allocated its resources between the international and domestic markets so as to grasp market opportunities. While continuing to improve its flight safety and service quality, the Group made a turnaround following the loss in 2008, and its operating results hit a record high. In 2009, the Group realised profits attributable to equity holders of RMB4,854 million and earnings per share attributable to equity holders of RMB0.41, or profits before tax (net of the fair value gain or loss of fuel derivative contracts) of RMB2,308 million.

Chairman's Statement

In 2009, to tap the rapidly growing demand in the domestic air passenger market, the Group allocated more resources to its domestic routes in a timely manner, and increased the annual domestic capacity to 57,525 million available seat kilometres and realized 44,140 million revenue passenger kilometres, representing an increase of 18.46% and 19.26%, respectively, as compared with the previous year. Meanwhile, in view of the weak demand in the international and regional markets, the Group's capacity allocations to these markets were reduced accordingly. During 2009, the Group allocated 35,707 million available seat kilometres to the international routes and realised 27,544 million revenue passenger kilometres, representing a decrease of 5.51% and 1.26%, respectively, as compared with the previous year. During 2009, the Group allocated 5,393 million available seat kilometres to the regional routes and realised 3,790 million revenue passenger kilometres, representing a decrease of 1.22% and 1.24%, respectively, as compared with the previous year. In 2009, the Group carried 41.28 million passengers with passenger load factor of 76.53%, representing an increase of 14.23% and 1.65 percentage points, respectively, as compared with the previous year.

During 2009, the Group put 6,507 million available freight tonne kilometres into its air cargo operations and realised 3,530 million revenue tonne kilometres, and carried 974,000 tonnes of cargo and mail with a load factor of 54.23%, representing an increase of 2.38%, a decrease of 2.28%, 0.62% and 2.58 percentage points, respectively, as compared with the previous year, which is primarily attributable to the significant drop in cargo demand at the beginning of the year. During the second half of the year, the Group grasped the opportunity of the cargo market's apparent recovery and enhanced its profitability by the implementation of a range of proactive and effective initiatives such as network optimization, improved products and strengthened yield management, which resulted in the segment achieving a profit in 2009.

The Group recorded a net gain of RMB2,758 million for the year as a result of the sharp decline in fair value loss of the Group's fuel derivative contracts as at 31 December 2009 as compared with the end of 2008 due to the rebound of international oil price. Though the Group's total jet fuel cost dropped by 36% as compared with the previous year due to the decline in annual average oil price, its revenue from fuel surcharge decreased by 56.28% as compared with the previous year. In view of the upward oil price trend, jet fuel cost pressure remains huge for the Group.

While adjusting to the changing market conditions and striving to drive up its revenue, the Group improved its cost efficiency through balancing capacity deployment and market demand. The Group reduced fuel consumption and implemented the energy efficiency and emission reduction plans through a series of measures such as routes optimization and aircraft weight reduction. The Group strengthened its financing and debts restructuring in order to reduce financial costs. In addition, the Group strictly implemented a human resources plan adopted at the beginning of the year to achieve "zero growth in the total number of staff except for pilots and air crew" and controlled the increment in staff costs through productivity improvement. Thus, the Group managed to maintain its cost advantages over its peers.

The Group has maintained a strategy of prudence and steadiness in fleet expansion and has effectively controlled the expansion of fleet in response to the changing market conditions. In 2009, a total of 30 new aircraft were introduced, primarily comprising narrow-body aircraft such as A321/320 and B737-800. At the same time, 12 obsolete aircraft such as B767, B737-300/600 and B747-200F retired from the fleet. The flexibility in optimizing fleet composition and disposing of aircraft has placed the Group in a favorable position to respond to market changes and improve its operational efficiency.

The Group continued to execute its hub strategy and further enhanced its control over the hub markets. The market share of revenue passenger kilometres at Beijing Hub reached 52.2% while the market share at Chengdu Hub rose steadily, with transit passengers of Beijing Hub and Chengdu Hub increased by 34% and 74%, respectively, as compared with the previous year. The market share in Shanghai was stable with transit passengers increasing by 10% as compared with the previous year.

The Group continued to place an emphasis on service innovation by introducing seven express routes, including those from Beijing to Chengdu, from Beijing to Chongqing to provide more convenient services to passengers. The Group also launched new services, including the Business Travel Card, the Star Alliance Mileage Upgrade, Departure Mileage Upgrade and Mobile Phone Service to diversify the choices available to customers, and proceeded with "full-process service improvement plan" to achieve a comprehensive improvement in service quality.

In terms of market resources integration, the Group has set up Hubei branch and brought it into operation in an efficient manner, thereby creating a platform for the Group to expand in Central China and improve its route network. The Group has also set up the Shanghai branch in order to integrate its market resources in Eastern China and improve its competitiveness in that market. The Group increased its shareholding in Cathay Pacific to 29.99%, which reinforced the foundation for strategic collaboration between the Group and Cathay Pacific. The Group completed the acquisition of minority interest in Air China Cargo, making the subsequent launch of cargo joint venture possible.

Chairman's Statement

In June 2009, the Group, with its brand valued at RMB31,723 million, ranked 25th among China's Top 500 Most Valuable Brands published by the World Brand Laboratory. It was selected as one of "the 60 Most Influential Brands on China's League Table of Top 100 Enterprises for the 60th anniversary of the People's Republic of China" in December 2009.

Over the past year, the Group has withstood the severe tests of the market and further improved its abilities to cope with operation risks. Facing the market environment in 2010, we are aware that the rapid growth in domestic traffic capacity may lead to traffic overcapacity, and the growing traffic capacity input in China made by foreign airline companies who are optimistic about the PRC airline market, coupled with the slow recovery of sales the first class and business class sales, have and will put much pressure on the improvement of our operating results. The expansion in the Group's fleet and production scale calls for enhanced management. Furthermore, as compared with passengers' expectations, our service quality still has room for improvement and a fundamental enhancement in which requires us to make painstaking efforts. Looking ahead, we believe that we can deliver satisfactory operating results to our shareholders despite the challenging operating environment by taking advantage of the fast growth of the domestic market, leveraging the collaboration with our strategic partners and gradually strengthening our own operational capabilities in the international market with the concerted and dedicated efforts of all our staff.

Kong Dong
Chairman of the Board

Beijing, PRC
22 April, 2010

Business Overview

BUSINESS REVIEW OF PASSENGER SERVICE OPERATION

In 2009, the Company's ASKs reached 95,465 million, representing an increase of 8.36% from 2008. Its passenger traffic was 73,352 million RPKs, representing an increase of 10.87% from 2008, among which the passenger traffic of Mainland China routes increased by 19.26%, that of international routes decreased by 0.89%, and that of Hong Kong, Macau and Taiwan routes increased by 16.20%. The number of passengers carried by the Company was 39.83 million in 2009, representing an increase of 16.28% from 2008. The Company recorded an average passenger load factor of 76.84%, representing an increase of 1.74 percentage points from 2008.

In 2009, Air Macau's ASKs was 3,160 million, representing a decrease of 14.79% from 2008. Its passenger traffic decreased by 17.96% from 2008 to 2,122 million RPKs. The number of passengers carried decreased by 23.04% from 2008 to 1.4466 million. Its passenger load factor was 67.15%, representing a decrease of 2.60 percentage points from 2008.

BUSINESS REVIEW OF CARGO SERVICE OPERATION

In 2009, the AFTKs of Air China Cargo, including its freighters and the bellyhold space of the Company's passenger aircraft, increased by 3.73% from 2008 to 6,449 million. Its cargo and mail traffic was 3,496 million RFTKs, representing a decrease of 0.47% from 2008, among which Mainland China routes increased by 7.98% from 2008, while international routes decreased by 3.38%, and Hong Kong, Macau and Taiwan routes increased by 23.10%. In 2009, 943,300 tonnes of cargo and mail were carried, representing an increase of 4.84% from 2008, while cargo and mail load factor was 54.21%, representing a decrease of 2.28 percentage points from 2008.

In 2009, Air Macau's AFTKs was 58 million, representing a decrease of 58.26% from 2008. Its cargo and mail traffic decreased by 67.16% from 2008 to 32 million RFTKs. The amount of cargo and mail carried decreased by 61.78% from 2008 to 30,700 tonnes and the freight and mail load factor decreased by 15.06 percentage points from 2008 to 55.60% in 2009.

BUSINESS REVIEW OF ASSOCIATED AIRLINES

Shandong Airlines

The Company holds 22.8% of the share capital of Shandong Airlines and 49.4% of the share capital of Shandong Aviation Group Corporation, which in turn holds 42.0% of the share capital of Shandong Airlines. In 2009, Shandong Airlines' total traffic turnover increased by 21.3% from 2008 to 970 million tonne kilometres. The number of passengers carried increased by 19.2% from 2008 to 7.817 million and the amount of cargo and mail carried also increased by 6.3% from 2008 to 65,000 tonnes.

Shenzhen Airlines

The Company holds 25% of the share capital of Shenzhen Airlines. In 2009, Shenzhen Airlines' total traffic turnover increased by 20.2% from 2008 to 2,140 million tonne kilometres. The number of passengers carried increased by 26.4% from 2008 to 15.11 million and the amount of cargo and mail carried increased 20.9% from 2008 to 195,000 tonnes.

Business Overview

FLEET

In 2009, the Company and Air China Cargo introduced 31 aircraft, including 16 A321/320 aircraft, 14 B737-800 aircraft and one business jet. 12 aircraft were retired, including four B737-600 aircraft, four B737-300 aircraft, one B767-300ER aircraft, two B767-200ER aircraft and one B747-200F aircraft.

For the year ended 31 December 2009, the Company and Air China Cargo operated a fleet of 262 aircraft in total, the average age of aircraft being 7.36 years. Details of the fleet are set out in the table below:

	Number of Aircraft			
Type of Aircraft	Owned	Finance leased	Operating leased	Sub-total
Passenger Aircraft	**111**	**77**	**62**	**250**
Including:				
Boeing series	78	32	48	158
Airbus series	33	45	14	92
Freighters	**8**	**0**	**2**	**10**
Business Jet	**0**	**0**	**2**	**2**
Total	**119**	**77**	**66**	**262**

For the year ended 31 December 2009, Air Macau has in its list 12 aircraft, including 10 passenger aircraft and two freighters.

HUB AND NETWORK

During 2009, demands changed dramatically in both domestic and international markets. The Company timely adjusted its carrying capacity allocation and concentrated its carrying capacity resources on markets it had clear advantage in.

In 2009, 150 aircraft served the Beijing Hub, representing an increase of 14 aircraft from 2008, while the number of flights flying to and from Beijing increased by 14.92% and the number of passengers increased by 16.75% from 2008. The Company's percentage share in passenger throughput and RPKs of Beijing Hub accounted for 40.1% and 52.2% respectively, while transit passengers increased 34% from 2008. The number of effective connecting flights (within 2-4 hours) per week increased by 109%, representing a net increase of 6,696 from 2008.

In 2009, 39 aircraft served Chengdu, representing an increase of five aircraft from 2008 and our market share had stabilized and increased. The number of transit passengers increased 74% from 2008. In May 2009, the Company, Chengdu Municipal Government and Sichuan Airport Group entered into a "Strategic Framework Agreement for the Construction of Chengdu Hub", pursuant to which the three parties proposed to build the premier transportation hub in West China.

In 2009, the number of aircraft serving Shanghai was 28, same as 2008 and our market share remained stable. The number of transit passengers increased 10% from 2008. In view of declining demand from international market, the Company properly reduced its capacity to improve efficiency.

In 2009, the Company added 13 new domestic routes (including routes from Beijing to Daqing, Chengdu to Wuxi) and six new international/regional routes (including routes from Beijing to Yekaterinburg, Chengdu to Taibei). Meanwhile, flights from Beijing to Athens, Weihai to Seoul and Dalian to Seoul were suspended.

As at the end of 2009, the Company's scheduled flights reached 32 countries and regions, including 90 domestic cities, 63 international cities and three regions.

MARKETING AND CO-OPERATION

Confronted with market changes, the Company expanded its research on the growing trend of the market and adopted different marketing strategies for various markets. The Company reduced a number of routes to balance supply and demand in order to cope with the weakening demand from the international market. On the other hand, the Company increased routes in domestic market in order to meet the steady growing demand. By doing so, the Company fully exploited its leading advantage in prime markets and secured stable revenue from these routes.

In 2009, the Company added 2.89 million new members to its frequent-flyer programme to bring its total members to 11.47 million, which contributed to a revenue growth of 16.2% from 2008. The Company's revenue from e-business increased by 35.5% from 2008, and key clients increased 15.7%, accounting for a continuously increasing proportion of the air passenger revenue.

In 2009, the volume of fare rates released through the Company's pricing management system increased by 35% from 2008. The volume of Company released agreed fare rates for international market reached 21,000, representing an increase of 150% from 2008.

In 2009, revenue derived from Star Alliance decreased by 7% from 2008. In view of the weak demand from international market, the revenue contributed by Star Alliance relieved some pressure off of the Company's international market operation.

The Company continues to promote the synergistic strategy and business cooperation with Cathay Pacific, which accelerated the progress of the cargo joint venture project.

COST CONTROL

At the beginning of 2009, in response to the operating pressure caused by weak demands in both international and domestic markets, the Company established a market pre-warning mechanism which mainly focused on the effectiveness of emergency management and real-time tracking, thereby reducing the cycle of effectiveness management and enhancing resilience.

The Company adapted to changes in international and domestic market demands by maintaining increased input in the domestic market, cutting back moderately in the international market, which stimulated the allocation of aircraft, markets and routes, and in turn successfully improved the Company's cost efficiency.

In 2009, the Company saved approximately 50,000 tonnes of jet fuel through a number of measures, including optimizing route and reducing aircraft weight, which effectively lowered the cost of jet fuel.

In order to keep the labor cost under control, the Company strictly implemented the "zero growth in total number of staff, balance between personnel recruited and departed (other than crew and maintenance personnel)" objective set in early 2009.

The Company reduced its finance costs by more than 10% by strengthening its financing activities and debt planning, and selecting optimal financing plans and adjusting debt structure.

Business Overview

SERVICES AND PRODUCTS

By the end of 2009, the Company introduced seven domestic and regional express routes linking destinations including Beijing, Shanghai and Hong Kong, in order to provide passengers with greater convenience. The Company also diversified customer choice by launching new services, including the Business Travel Card, the Star Alliance Mileage Upgrade, Departure Mileage Upgrade and Mobile Phone Service. Short Message Service platform was also set up to diversify the channels for customer service. Meanwhile, the Company increased its promotion of self-services by increasing the number of domestic and overseas airports with Common Use Self Service (CUSS) and online check-in facilities. 37 airports offer CUSS service while 62 airports support online check-in (of which 50 are domestic airports and 12 are overseas airports). The Company also launched mobile phone check-in service at Beijing International Airport. The Company's average daily number of passengers using self-service check-in facility in Beijing Terminal 3 amounted to 8,000, consisting of 30% of the average daily departures. Moreover, the Company launched an innovative full-service product for Platinum Card holders designed to improve services for Platinum Card holders through simplifying procedures to take a flight, upgrading cabin at the gate, converting mileage for cabin upgrade and implementing the Customer Manager System.

The Company made its service evaluation system more comprehensive through customer satisfaction survey, internal monitoring and external evaluation. The Company carried out research, internal and external audits on the ISO9001 quality management system to ensure company-wide effective operation of the system. The Company also improved its complaint management processes and enhanced the effectiveness in handling complaints. In order to improve the management of customer relations, the Company launched various IT systems including service management, service information, service monitoring and customer related management.

POST BALANCE SHEET EVENTS

On 10 February 2010, the Board approved an aircraft purchase agreement entered into by the Company, Air China Import and Export Co. Ltd. and Airbus SAS at the 34th meeting of the Second Session of the Board, pursuant to which the Company will acquire from Airbus SAS 20 A320 series aircraft.

On 25 February 2010, the Board approved a related agreement entered into by the Company, Cathay Pacific and other relevant parties at the 35th meeting of the Second Session of the Board, pursuant to which the Company, through arrangements including share capital reorganisation of Air China Cargo, jointly owns and operates a cargo airline which would be registered in China with Cathay Pacific.

On 11 March 2010, the Board approved share subscription agreements entered into between the Company and CNAHC, and between the Company and CNACG at the 36th meeting of the Second Session of the Board. Pursuant to these agreements, the Company intended to issue not more than 585,000,000 A shares to not more than 10 specific subscribers (including CNAHC) and to issue not more than 157,000,000 H shares to CNACG by way of private placement.

On 21 March 2010, the Board approved a capital increase agreement entered into by the Company, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") and Shenzhen Huirun Investment Co., Ltd. at the 37th meeting of the Second Session of the Board. The Company and Total Logistics intended to increase their capital contribution in Shenzhen Airlines by RMB1,030,125,000. As of 19 April 2010, Shenzhen Airlines had completed the relevant change registrations in respect of the aforesaid transactions under the capital increase with the administrative authorities of industry and commerce.

On 8 April 2010, the Board approved the appointment of Mr. Feng Gang and Mr. Ma Chongxian as Vice Presidents at the 38th meeting of the Second Session of the Board.

Management's Discussion and Analysis of Financial Position and Operating Results

The following discussion and analysis are based on the Group's consolidated financial statements and its notes prepared in accordance with International Financial Reporting Standards ("IFRS") and are designed to assist the readers in understanding the information provided in this report further so as to better understand the financial performance of the Group as a whole.

PROFIT ANALYSIS

In 2009, the Group's realised profit from operations was RMB5,501 million and profit attributable to equity holders of the Company was RMB4,854 million with a profit per share of RMB0.41. In 2008, the loss from operations was RMB9,807 million and the loss attributable to equity holders of the Company was RMB9,256 million with loss per share of RMB0.78.

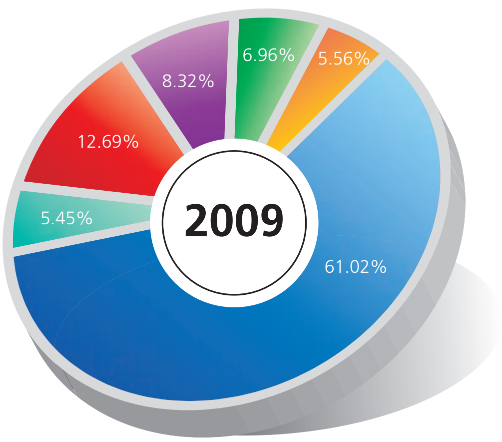
The turnaround from loss to profit this year was mainly attributable to the rapid growth in demand from domestic air passenger market, the implementation of industry relevant responsive measures designed to cope with the financial crisis, the change in international jet fuel prices, and the adoption by the Group of effective operational management and cost control measures.

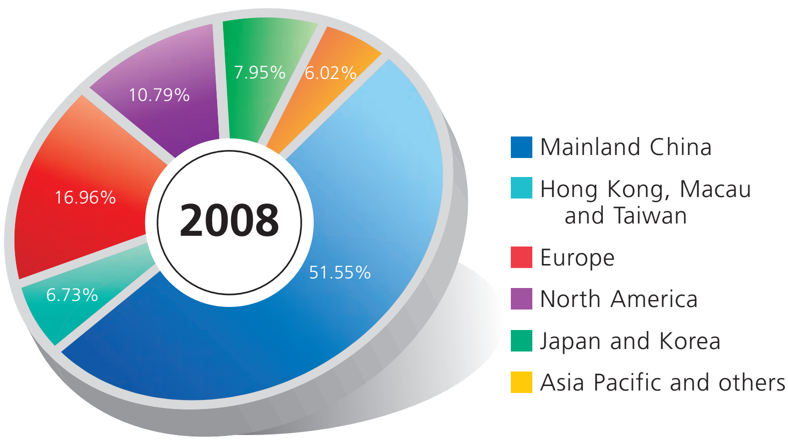
TURNOVER

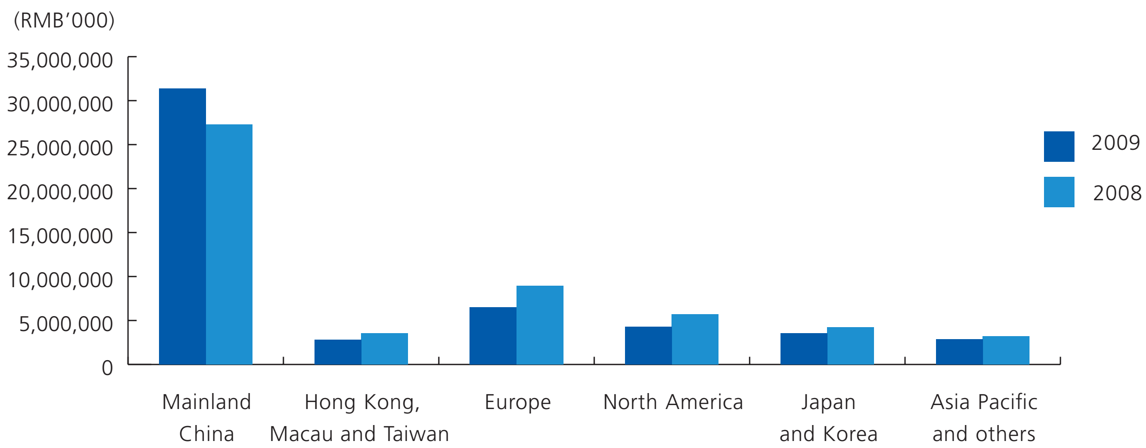
In 2009, the Group's total turnover (net of business taxes and surcharges) was RMB51,393 million, a decrease of RMB1,515 million or 2.86% as compared with the previous year. Among which, air traffic revenue was RMB48,092 million, a decrease of RMB2,445 million or 4.84% from 2008, primarily due to the overall decreased demand from international air passenger and cargo markets caused by the global economic crisis. Other recorded operating revenue was RMB3,301 million, an increase of RMB930 million or 39.22% from last year, primarily attributed to a revenue refund of RMB830 million from CAAC Infrastructure Development Fund in the year.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

	2009		2008		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**31,361,693**	**61.02%**	27,272,415	51.55%	14.99%
Hong Kong, Macau and Taiwan	**2,799,148**	**5.45%**	3,559,564	6.73%	(21.36%)
Europe	**6,521,619**	**12.69%**	8,971,139	16.96%	(27.30%)
North America	**4,276,895**	**8.32%**	5,708,150	10.79%	(25.07%)
Japan and Korea	**3,574,775**	**6.96%**	4,205,811	7.95%	(15.00%)
Asia Pacific and others	**2,859,061**	**5.56%**	3,191,082	6.02%	(10.40%)
Total	**51,393,191**	**100.00%**	52,908,161	100.00%	(2.86%)







AIR PASSENGER REVENUE

In 2009, the Group's realised air passenger revenue was RMB42,695 million, a decrease of RMB657 million from 2008. Among which, increase in traffic capacity and passenger load factor contributed to an increase in revenue of RMB3,218 million and RMB1,024 million respectively, while the decrease in passenger yield caused a RMB4,899 million decrease in revenue. The Group's 2009 traffic capacity, passenger load factor and revenue per seat kilometre are as follows:

	2009	2008	Change
Available seat kilometres *(million)*	**98,625**	91,810	7.42%
Passenger load factor *(%)*	**76.53**	74.88	1.65 ppt
Yield per PRK *(RMB)*	**0.57**	0.63	(9.52%)

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2009		2008		
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**26,796,926**	**62.76%**	23,498,230	54.20%	14.04%
Hong Kong, Macau and Taiwan	**2,497,087**	**5.85%**	2,872,176	6.63%	(13.06%)
Europe	**4,619,598**	**10.82%**	6,450,513	14.88%	(28.38%)
North America	**3,108,237**	**7.28%**	3,934,709	9.08%	(21.00%)
Japan and Korea	**3,170,873**	**7.43%**	3,664,419	8.45%	(13.47%)
Asia Pacific and others	**2,502,711**	**5.86%**	2,931,973	6.76%	(14.64%)
Total	**42,695,432**	**100.00%**	43,352,020	100.00%	(1.51%)

AIR CARGO REVENUE

In 2009, the Group's air cargo and mail revenue was RMB5,396 million, a decrease of RMB1,788 million from the previous year. Among which, increase in traffic capacity contributed to an increase in revenue of RMB171 million, while the decrease in cargo load factor and cargo yield caused a decrease in revenue of RMB334 million and RMB1,625 million respectively. The traffic capacity, cargo load factor and revenue per freight tonne kilometre of the cargo and mail operations in 2009 are as follows:

	2009	2008	Change
Available freight tonne kilometres *(million)*	**6,506.89**	6,355.89	2.38%
Cargo load factor *(%)*	**54.23**	56.81	(2.58 ppt)
Cargo yield per tonne kilometre *(RMB)*	**1.53**	1.99	(23.12%)

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

	2009		2008		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**1,263,219**	**23.41%**	1,402,720	19.52%	(9.95%)
Hong Kong, Macau and Taiwan	**302,061**	**5.60%**	687,388	9.57%	(56.06%)
Europe	**1,902,021**	**35.25%**	2,520,626	35.08%	(24.54%)
North America	**1,168,658**	**21.66%**	1,773,441	24.68%	(34.10%)
Japan and Korea	**403,902**	**7.48%**	541,392	7.54%	(25.40%)
Asia Pacific and others	**356,350**	**6.60%**	259,108	3.61%	37.53%
Total	**5,396,211**	**100.00%**	7,184,675	100.00%	(24.89%)

OPERATING EXPENSES

In 2009, the Group's operating expenses were RMB45,892 million, a decrease of 26.82% from RMB62,715 million of 2008. The breakdown of the operating expenses is set out below:

	2009		2008		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Jet fuel costs	**14,466,065**	**31.52%**	22,613,935	36.06%	(36.03%)
(Gain)/loss on fair value changes of fuel derivative contracts	**(2,758,224)**	**(6.01%)**	7,899,205	12.59%	134.92%
Take-off, landing and depot charges	**5,788,687**	**12.61%**	5,538,092	8.83%	4.52%
Depreciation	**7,051,272**	**15.36%**	6,365,275	10.15%	10.78%
Aircraft maintenance, repair and overhaul costs	**1,767,808**	**3.85%**	1,804,416	2.88%	(2.03%)
Employee compensation costs	**6,627,408**	**14.44%**	5,843,887	9.32%	13.41%
Air catering charges	**1,518,912**	**3.31%**	1,443,855	2.30%	5.2%
Sales expenses	**3,085,184**	**6.72%**	2,602,904	4.15%	18.53%
Administration management expenses	**1,016,051**	**2.21%**	1,089,467	1.74%	(6.74%)
Other	**7,329,072**	**15.99%**	7,514,096	11.98%	(2.46%)
Total	**45,892,235**	**100.00%**	62,715,132	100.00%	(26.82%)

- Jet fuel costs decreased by 36.03% to RMB14,466 million in 2009 as compared with RMB22,614 million in 2008. Jet fuel costs accounted for 31.52% of operating expenses in 2009 as compared with 36.06% in 2008. The sharp decrease in jet fuel costs was mainly attributable to the decrease in average fuel prices in 2009 as compared with the previous year.

- In 2009, gains on fair value changes of fuel derivative contracts amounted to RMB2,758 million, which was RMB2,656 million lower than the recovery amount of RMB5,414 million in fair value due to settlement of fuel derivative contracts.

- In 2009, take-off, landing and depot charges amounted to RMB5,789 million, an increase of RMB251 million or 4.52%, mainly due to the increase in the number of flights in 2009 as compared with 2008.

- In 2009, depreciation expenses increased due to a larger number of planes owned and finance leased.

- Aircraft maintenance, repair and overhaul costs were approximately the same as that incurred in 2008.

- Employee compensation costs also increased in 2009 because of (i) increase in the number of employees in special posts such as pilots and flight crew, (ii) reform of flight crew compensation that started in March 2008 and (iii) expansion of operation scale.

- Air catering charges increased primarily due to an increase in the number of passengers carried.

- Sales expenses increased 18.53% from same time last year mainly because of the increase in commission paid to our ticket agents to cope with the sharp drop in international market demand and increasing competition.

- Administrative management expenses decreased by 6.74% mainly due to strict control of daily administrative expenses.

- Other operating expenses mainly included aircraft and engines operating lease expenses, civil aviation infrastructure construction fund and daily expenses arising from our core air traffic business not included in the aforesaid items.

FINANCIAL REVENUE AND FINANCIAL COSTS

In 2009, the Group recorded an exchange gain of RMB110 million, a decrease of RMB1,377 million or 92.63% from last year primarily due to the US dollar value being more stable as compared to the rapid depreciation in the previous year. Interest expenses for the year amounted to RMB1,412 million, a RMB699 million decrease from last year because most of the Group's interest-bearing debt had floating interest rates and as LIBOR dropped, the interest expenses decreased.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

In 2009, the Group's share of profits of its associates was RMB624 million, compared with a loss of RMB1,184 million in 2008, mainly due to the RMB723 million in revenue from investment in Cathay Pacific recognised by way of equity accounting during this reporting period, whereas the Group recorded a loss in the investment in Cathay Pacific of RMB1,188 million in 2008.

ANALYSIS OF ASSETS STRUCTURE

As at 31 December 2009, the Group's total assets amounted to RMB107,919 million, an increase of 7.49% from last year, of which, current assets accounted for RMB8,551 million, representing 7.92% of total assets, while non-current assets accounted for RMB99,368 million, representing 92.08% of total assets.

Among the current assets, cash and cash equivalents were RMB2,707 million, a decrease of 9.39% from last year, whereas accounts receivable increased by 11.02% to RMB2,054 million as compared to 2008. Within non-current assets, the net book value of property, plant and equipment was RMB75,045 million, a 4.49% increase from last year.

ASSETS MORTGAGE

As at 31 December 2009, the Group, pursuant to certain bank loans and finance lease agreements, mortgaged: (i) certain aircraft and premises with an aggregate net book value of approximately RMB37,113 million (compared with RMB35,336 million as at 31 December 2008), (ii) a number of shares in its associated companies with market value of approximately RMB5,161 million (compared with approximately RMB3,071 million as at 31 December 2008), and (iii) land use rights with a net book value of approximately RMB35 million (compared with approximately RMB36 million as at 31 December 2008). At the same time, the Group has approximately RMB565 million (compared with approximately RMB1,746 million as at 31 December 2008) in bank deposits pledged as partial security in respect of certain bank loans, operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

In 2009, the Company's capital expenditure amounted to an aggregate of RMB13,838 million, of which the total investment in aircraft and engines was RMB7,045 million, including prepayment of RMB3.2 billion for the purchase of aircraft for 2010 and on.

Other capital expenditure amounted to RMB6,793 million, mainly used for flight simulator purchases and modification, aircraft modification, high-cost parts and components used in aircraft, Air China flight training base, Chengdu Shuangliu Airport environmental upgrade, SOC peripherals and training, Beijing ground service station equipment, equity and capital increase project of Sichuan Snecma Aero-engine Maintenance Co., Ltd., Shanghai ground service joint venture company (上海地服合資公司) project, air cargo joint venture company (航空貨運合資公司) project, and increase in shareholding in Cathay Pacific.

EQUITY INVESTMENT

As at 31 December 2009, the Group's aggregate amount of equity investment in its associates was RMB12,187 million, an increase of 94.33% as compared with the previous year. Among which, the investments in Cathay Pacific and Shandong Airlines were RMB11,246 million and RMB494 million respectively, representing profits of RMB4,286 million and RMB212 million respectively for 2009.

DEBT STRUCTURE ANALYSIS

For the year ended 31 December 2009, the Group's total liabilities was RMB83,965 million, representing an increase of 5.03% from last year, of which current liabilities were RMB37,199 million and non-current liabilities were RMB46,766 million, representing 44.3% and 55.7% of total liabilities respectively.

Of the current liabilities: payable derivative financial instruments were RMB2,275 million, a decrease of RMB5,453 million as compared to 2008; interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB21,378 million, a 2.70% increase from 2008; other advances and payables amounted to RMB13,546 million, a 4.48% decrease from 2008.

Of the non-current liabilities, interests-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) represented RMB42,687 million, a 26.21% increase from 2008.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitment as at 31 December 2009 was RMB62,037 million, representing a significant decrease as compared with RMB70,279 million recorded as at 31 December 2008, 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 RMB14,052 million, representing an increase of 3.5% as compared to 2008, primarily used for leasing aircraft, office premises and related equipments. The Group had investment commitment of RMB51 million, approximately on the same level as at 31 December 2008.

As at 31 December 2009, the Group's contingent liabilities in respect of guarantees to bank loans provided to its associates were RMB131 million. Details of the Group's contingent liabilities are set out in note 50 to the Group's 2009 financial statements.

GEARING RATIO

As at 31 December 2009, the Group's gearing ratio (total liabilities divided by total assets) was 77.8%, a 1.82 percentage point decrease from the recorded 79.63% as at 31 December 2008. This was primarily attributable to the greater profits recorded in the year, which increased shareholders' equity from RMB20,457 million as at 31 December 2008 to RMB23,954 million as at 31 December 2009. Considering that the prevailing gearing ratios of air carriers in the aviation industry were at a relatively high level, the Group continues to maintain the relatively better position in the domestic industry in terms of gearing ratio. The Group's long-term insolvency risks are also within control.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2009, the Group's net current liabilities (current liabilities minus current assets) were RMB28,648 million, a decrease of RMB3,660 million as compared to 2008. The current ratio, which represents current assets divided by current liabilities, was 0.23, representing one percentage point decrease from 0.24 as at 31 December 2008. The decrease in net current liabilities was mainly due to the decrease in the Group's current liabilities.

The Group met its working capital needs mainly through its operating activities and external financing activities. In 2009, the Group's net cash inflow from operating activities was RMB5,465 million, an increase of 9.43% from RMB4,994 million in 2008. This was primarily attributable to a drop in jet fuel costs which led to a decrease in cash outflow on purchase of jet fuel as compared to the previous year. Net cash outflow from investment activities was RMB12,666 million, representing an increase of 75.87% from RMB7,202 million in 2008, primarily due to the RMB6,335 million cash payment for purchase of Cathay Pacific shares in 2009. The Group recorded net cash inflow from financing activities was RMB6,948 million, representing an increase of RMB4,078 million from RMB2,870 million in 2008, primarily due to higher cash inflow from borrowings in 2009 as compared to 2008. In 2009, the Group's balance of cash and cash equivalents was RMB2,676 million, a decrease of approximately RMB273 million from last year. The Group obtained bank facilities with an aggregate maximum amount of RMB84,148 million from a number of banks in the PRC, of which approximately RMB32,692 million was utilised, enough to meet working capital demand and future capital commitments.

OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

The Group is exposed to the risk of 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 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 international fuel prices and its high impact on the Company's cost, the Company will continue to utilise the hedging instruments to manage and control the risk in relation to rising fuel prices.

For the year ended 31 December 2009, the Group's total amount of interest-bearing debt was RMB64,065 million, accounting for 76.30% of the Group's total liabilities, of which most were foreign debt and mainly denominated in US dollars, Hong Kong dollars and Japanese Yen. In addition, the Group also had sales revenue and expense denominated in foreign currencies. The Group endeavoured to minimise any risks related to interest rates and exchange rates by adjusting the structure of interest rates and currency denomination of its debts, and by making use of financial derivatives.

Corporate Governance Report

The Company has been maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency and bring long-term return to its shareholders. The Company has complied in all respects with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") under Appendix 14 of the Listing Rules in 2009. The Company's corporate governance practices in 2009 are summarised and discussed below.

GOVERNANCE STRUCTURE

Board of Directors of the Company

(comprising 2 executive directors, 6 non-executive directors and 4 independent non-executive directors)

Specialised Committees under the Board

- Audit and risk control committee (comprising 2 independent non-executive directors and 1 non-executive director)
- Nomination and remuneration committee (comprising 3 independent non-executive directors and 2 non-executive directors)
- Strategy and investment committee (comprising 3 non-executive directors and 1 executive director)
- Aviation safety committee (comprising 2 non-executive directors and 1 executive director)

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. The Board

The Board must include at least three independent non-executive directors

- As at 31 December 2009, the Board comprised twelve directors, out of which four were independent non-executive directors. The directors of the Company are elected at the shareholders' general meeting for a three-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the independent non-executive directors has confirmed his independence with the Hong Kong Stock Exchange. As at 31 December 2009, the Company had already received from all independent non-executive directors the annual statements concerning their independence in which each of the independent non-executive directors re-confirmed his independence. The Company considers all independent non-executive directors as independent within the meaning of Rule 3.13 of the Listing Rules.

Deviation: Nil

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company

- The directors of the Company have extensive expertise and experience in the fields of aviation, finance and financial management and provide substantial support for the effective performance of the Board.

- The list of the directors and their biographical details and their respective roles in the Board and specialised committees under the Board are set out in this annual report and published on the Company's website.

Deviation: Nil

Distinguished roles of the Chairman and President

- The Chairman, concurrently a non-executive director, is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner.

- The Chairman shall be elected and dismissed by a majority of all directors. The term of office of the Chairman shall be three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term.

- The Company has a President who shall be nominated, appointed or dismissed by the Board.

- The President is authorised to oversee the Group's business and implement its strategies to attain overall commercial goals.

Deviation: Nil

Non-executive directors should be appointed for a specific term, and all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment

- The term of office of the existing non-executive directors is three years upon election at the shareholders' general meeting.

Deviation: Nil

The Board should assume responsibility for the leadership and control of the Company and be collectively responsible for promoting the success of the Company

- The Board is accountable to the shareholders' general meeting and determines the investment proposals of the Company and disposals of the Company's fixed assets according to the authorisation of the shareholders' general meeting. The Company formulates the Rules and Procedures for Shareholders' General Meetings, Rules and Procedures for Board Meetings and Rules and Procedures for Senior Management Meetings. Pursuant to the articles of association of the Company, the main responsibilities of the Board are: to decide on the Company's business policies and investment plans; to formulate the Company's annual budget and final accounts; to formulate the Company's profit distribution proposals and loss recovery proposals; to decide on the establishment of the Company's internal management bodies; to appoint or dismiss the President of the Company, Secretary to the Board, and, with reference to the nomination by the president, the vice president; and to exercise other functions and powers as stipulated in the articles of association and granted by the shareholders' general meeting.

- The President shall be authorised by the Board to implement various strategies and oversee the day-to-day operations of the Company.

- The Board shall have independent access to the senior management personnel for enquiries in relation to the Company's management.

- The Board shall have specialised committees to provide support to the Board in its decision-making.

Deviation: Nil

Besides the working relationships in the Company, there was no financial, business, family relationship or other material relationships among the directors, supervisors and senior management.

Deviation: Nil

The Board should meet regularly to carry out its duties. The Board and its committees shall be provided with adequate information in a timely manner

- Board meetings are held regularly throughout the year and will generally include annual meetings, interim meetings and meetings for the first and third quarters. Board meetings will be convened by the Chairman and a 14-day notice will be served to all directors before each meeting. The meetings may be attended through personal participation or other electronic means of communication.

- The Secretary to the Board shall be responsible for the communications and liaison with all directors from the time the notice is served to the commencement of the meeting, and will provide in a timely manner the necessary information to the directors for facilitating their decision-making on matters set out in the agenda.

- For the purpose of considering resolutions or matters during Board meetings, the directors may require the presence of the persons-in-charge of the relevant departments at the Board meetings to answer queries, so that the directors can have a thorough understanding of the key issues and the general situation.

- All directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to acquaint himself with the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation.

- Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any director at any time.

- All directors have actively participated in the business operations of the Company. Attendance of all directors at the Board meetings in 2009 is as follows:

No. of meetings	**10**	
Non-Executive Directors		
Kong Dong *(Chairman)*	10/10	100%
Wang Yinxiang	10/10	100%
Wang Shixiang	10/10	100%
Cao Jianxiong	8/8	100%
Christopher Dale Pratt	10/10	100%
Chen Nan Lok Philip	10/10	100%
Executive Directors		
Cai Jianjiang *(President)*	10/10	100%
Fan Cheng	10/10	100%
Independent Non-Executive Directors		
Hu Hung Lick, Henry	10/10	100%
Wu Zhipan	2/2	100%
Zhang Ke	10/10	100%
Jia Kang	10/10	100%
Fu Yang	8/8	100%
Average attendance rate:		**100%**

For the year ended 31 December 2009, the number of Board meetings held and the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions. It can be shown from the attendance rate that all directors of the Company have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

Each director is required to keep abreast of his responsibilities as a director of the Company and of the operating manner, business activities and developments of the Company

- The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate their discharge of duties.

- Newly appointed directors shall be given introduction in relation to the Company to ensure that they have a sufficient understanding of the management, business and governance practices of the Company.

- The Company also encourages its directors to participate in seminars and courses conducted by recognised institutions so as to ensure that they continually upgrade their skills and are aware of the latest changes or developments in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

Deviation: Nil

The Company should arrange appropriate insurance in respect of potential legal actions against its directors

- The Company has purchased liability insurance for its directors, supervisors and senior management.

Deviation: Nil

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

- After making specific enquiries, the Company confirmed that each director and each supervisor have complied with the required standards of the Model Code as set out in Appendix 10 of the Listing Rules throughout 2009.

- The Model Code contained in Appendix 10 of the Listing Rules requires the Board to adopt written guidelines regarding transactions of securities of the issuer by its employees on terms no less exacting than the required standard of the Model Code. On 5 September 2005, the Company adopted and formulated a code of conduct which was revised on 19 March 2007 and 4 December 2009, regarding securities transactions by directors on terms no less exacting than the required standards of the Model Code. The code of conduct of the Company also applies to supervisors and the relevant employees.

Deviation: Nil

B. Remuneration of Directors and Senior Management

Issuers should establish a remuneration committee with certain authorities and obligations under specific written terms. A majority of the members of the remuneration committee should be independent non-executive directors

- The Company has established a nomination and remuneration committee to recommend to our Board regarding the compensation of the directors as well as candidates to fill vacancies on our Board. In addition, the nomination and remuneration committee reviews the performance and determines the compensation structure of the senior management.

- The majority of the members of the nomination and remuneration committee are independent non-executive directors. As at 31 December 2009, the members of the nomination and remuneration committee were Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Hu Hung Lick, Henry, Mr. Zhang Ke and Mr. Fu Yang, with Mr. Fu Yang acting as the chairman of such committee.

- Attendance at the meetings of the nomination and remuneration committee in 2009 is as follows:

No. of meetings	**4**	
Wu Zhipan	2/2	100%
Fu Yang	2/2	100%
Hu Hung Lick, Henry	4/4	100%
Zhang Ke	4/4	100%
Kong Dong	4/4	100%
Wang Yinxiang	4/4	100%
Average attendance rate		**100%**

- The articles of association of the Company provides that a shareholder holding 5% or more of the total shares of the Company is entitled to nominate a director through the nomination and remuneration committee, which will evaluate the candidates for directorship and senior management according to the standards set out in the articles of association of the Company and report to the Board.

- At the first meeting of the nomination and remuneration committee under the Board of 2009 held on 13 January 2009, it was proposed that Mr. Cao Jianxiong be nominated as the candidate for non-executive director of the second session of the Board and Mr. Xu Chuanyu would assume the position of Chief Pilot of the Company and agreed the same be submitted to the twenty-fourth meeting of the second session of the Board for consideration.

- At the second meeting of the nomination and remuneration committee under the Board of 2009 held on 14 April 2009, it was proposed that Mr. Fu Yang be nominated as the candidate for independent non-executive director of the second session of the Board and agreed the same be submitted to the twenty-fifth meeting of the second session of the Board for consideration.

  At the third meeting of the nomination and remuneration committee under the Board of 2009 held on 13 July 2009, it was proposed that the Company would establish the position of chief economist and proposed that Mr. Xu Jianqiang be retained as the Company's chief economist. It was agreed the same be submitted to the twenty-seventy meeting of the second session of the Board for consideration.

  At the fourth meeting of the nomination and remuneration committee of 2009 under the Board held on 25 August 2009, it was proposed that the First Phase Stock Appreciation Rights Scheme of the Company be suspended (terminated) and relevant proposals relating to share appreciation rights of the Company be revised in accordance with the relevant provisions prior to submission to the shareholders' general meeting for approval and implementation after being adopted by the Board upon consideration. It was agreed the same be submitted to the twenty-ninth meeting of the second session of the Board for consideration and approval.

- Remuneration payable to directors shall be determined according to the terms of their respective employment contracts, if any, and the recommendation of the nomination and remuneration committee. Details of the remuneration of the directors are set out in note 9 to the financial statements set out in this annual report.

Deviation: Nil

C. Accountability and Audit

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects

- The Company has established an audit and risk control committee to review the financial information of the Company and the relevant disclosure, and review the internal control systems of the Company.

- The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant laws and regulations, in a timely manner within four months and two months respectively after the end of the relevant periods.

- The Company has set up an investor relation webpage, on which figures of operating results are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

- The Company has good environment for the implementation of internal controls. The Company has set up an effective electronic information system to support business development. The electronic information system comprises various operation systems, settlement system and a core accounting and audit platform, i.e. the Oracle financial information system. For treasury management, the Company implemented a global online banking management system. An effective accounting information system was also established.

Deviation: Nil

The Board should ensure that the Company maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets

- The Board takes ultimate responsibility for the internal controls of the Company. Every year, the Company conducts self-assessment of the comprehensiveness and the effectiveness in implementation, of the internal control system. The Board will publicly announce the self-assessment report on the internal control for the year following the audit and risk control committee reporting to the Board.

Deviation: Nil

The Board should establish formal and transparent arrangements in relation to the application of financial reporting and internal control principles and the maintenance of an appropriate relationship with the Company's auditors

- Through the audit and risk control committee, the Board reviews and supervises the Company's financial reporting process and communicates with the auditors, reviews periodic financial reports so as to make sure the financial reporting and internal control principles are formal and transparent.

- As at 31 December 2009, the audit and risk control committee comprised two independent non-executive directors, Mr. Zhang Ke and Mr. Fu Yang and one non-executive director, Mr. Cao Jianxiong. Mr. Wu Zhipan, a previous member on the audit and risk control committee and an independent non-executive director, resigned with effect from 10 June 2009 and Mr. Fu Yang, an independent non-executive director, has filled the vacancy as a member on the audit and risk control committee. Mr. Zhang Ke acts as chairman of the audit and risk control committee.

- Attendance at the meetings of the audit and risk control committee in 2009 is set out as follows:

No. of meetings	**5**	
Zhang Ke	5/5	100%
Wu Zhipan	2/2	100%
Fu Yang	3/3	100%
Cao Jianxiong	3/3	100%
Average attendance rate:		**100%**

- At the eighth meeting of the second session of the audit and risk control committee under the Board held on 15 January 2009, the 2009 financial plan and capital expenditure plan of the Company and the 2009 cash flow and fund-raising and financing plan of the Company were considered and approved.

- At the ninth meeting of the second session of the audit and risk control committee under the Board held on 15 April 2009, the following were considered and approved: the audited financial report and annual report of the Company for the year 2008, the status of implementation of connected transactions for the year 2008 and the special explanation on receivables from controlling shareholders and connected parties of the Company for the year 2008; the first quarterly report of 2009; the profit distribution proposal of the Company for the year 2008; the adjustments to certain items under the balance sheet at the beginning of 2008; the self-assessment report of the Board concerning the internal control of the Company; the 2008 summary report on audit work by Ernst & Young and Ernst & Young Hua Ming; the revised Rules and Procedure for the Audit and Risk Control Committee of the Company; the work report of the audit and risk control committee under the Board for the year 2008.

- At the tenth meeting of the second session of the audit and risk control committee under the Board held on 25 August 2009, the interim report and interim financial report for the year 2009 were considered and approved. The medium-term adjustment to the 2009 financial plan and capital expenditure plan of the Company were also considered and approved during the meeting.

- At the eleventh meeting of the second session of the audit and risk control committee under the Board held on 27 October 2009, the following were considered and approved: the third quarterly report of the Company for the year 2009 (including the third quarterly financial report); the guarantee provided to Sichuan SNECMA Aeroengine Maintenance Co., Ltd.; matters regarding the connected transactions from 2010 to 2012 of the Company.

- At the twelfth meeting of the second session of the audit and risk control committee under the Board held on 22 December 2009, the 2010 financial plan and capital expenditure plan of the Company, and the 2010 cash flow and fund-raising and financing plan were considered and approved.

- The annual report as of 31 December 2009 of the Company was reviewed by the audit and risk control committee.

Deviation: Nil

The responsibility of the directors in relation to the financial statements

The Company prepares and publishes annual reports, interim reports and quarterly reports each year. The responsibilities of the directors in relation to the financial statements are set out below and shall be read together with the Independent Auditors' Report set out in this annual report.

- *Annual reports and accounts*

  The directors acknowledged that they are responsible for preparing the financial statements for each financial year so as to present a true and fair view of the financial position of the Company and the Group, and of the financial performance and cash flow of the Group.

- *Accounting policy*

  When preparing the financial statements of the Company and the Group, the directors have consistently applied appropriate accounting policies under the relevant accounting standards.

- *Accounting records*

  The directors are responsible for keeping accounting records of the Company, which will reflect the financial position of the Company with reasonable accuracy, enabling the Group to prepare the financial statements in accordance with the requirements of the Listing Rules, Hong Kong Companies Ordinance and the relevant accounting standards.

- *Ongoing operation*

  After making appropriate enquiries, the directors believe that the Group has sufficient resources for operation in the foreseeable future. Accordingly, the Group's financial statements should be prepared on a going concern basis.

The statement of reporting responsibility of the auditors is set out in the Independent Auditors' Report set out in this annual report.

Auditors' remuneration

The international and domestic auditors of the Company are Ernst & Young and Ernst & Young Hua Ming respectively. Breakdown of the remuneration to the Company's external auditors for audit service provided and non-audit service assignments for the year ended 31 December 2009 is as follows:

- *Audit Services*

  An aggregate amount of approximately RMB11,934,000 was mainly charged for the review of the Group's consolidated financial statements for the six months ended 30 June 2009, the audit of the Group's consolidated financial statements for the year ended 31 December 2009 and the audits of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2009.

- *Non-audit Service Assignments*

  An aggregate amount of approximately RMB3,330,000 was charged for the provision of internal control, tax and other non-audit services.

D. Delegation by the Board

The Company should formalise the functions reserved to the Board and those delegated to management. There shall be division of responsibility between the Board committees, and each committee should be formed with certain authorities under specific terms

- The articles of association of the Company has provided for the authorities and authorisations of the Board and the president, details of which are set out in the Rules and Procedure for Board Meetings and Rules and Procedures for Senior Management Meetings.

- The primary duties of the audit and risk control committee are to be in charge of proposing the engagement or change of external auditors, conduct appropriate review and evaluation, as well as giving opinion in writing to the Board, in connection with the appointment of new accounting firms or reappointment of the existing accounting firms for carrying out annual audits; review and supervise our internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and the appointment or dismissal of the responsible person of the audit department; be responsible for the communication between the internal auditors and external auditors; review and verify the Company's financial information and its disclosure; review the Company's internal control system and risk control system, evaluate the effectiveness of the detailed management and control rules and the operational standards relating to risk investments (including but not limited to financial derivatives instruments), to consider the strategies and proposals of the Company's risk investment; to listen to the work report given by the responsible audit personnel of the Company and any report relating to the fraudulent acts of the Company and the report on the related discovery and complaints; and other duties authorized by the Board.

- The primary duties of the nomination and remuneration committee are to nominate candidates to the Board for director vacancies, recommend to our Board regarding the compensation of directors. In addition, the nomination and remuneration committee reviews the performance and determines the compensation structure of the senior management.

- The primary duties of the strategy and investment committee are to analyse and identify our development strategy and to decide on matters related to our investment as authorised by the Board. As at 31 December 2009, the members of the strategy and investment committee were Mr. Kong Dong, Mr. Wang Shixiang, Mr. Cao Jianxiong and Mr. Cai Jianjiang, with Mr. Cai Jianjiang as the chairman of such committee.

- The Company has established an aviation safety committee with Mr. Wang Shixiang, Mr. Cao Jianxiong and Mr. Cai Jianjiang as its members and Mr. Wang Shixiang as the chairman of such committee as at 31 December 2009.

The supervisory committee is responsible for monitoring our financial matters and supervising the conduct of our Board and the management. The functions and authority of the supervisory committee include: reviewing the financial reports and other financial information prepared by the Board and proposed to be tabled before the shareholders' general meeting, as well as supervising the work of the directors, President, Vice President and other senior personnel so as to prevent the abuse of power or conduct detrimental to the Company's interests. The current members of the supervisory committee are Mr. Sun Yude, Mr. He Chaofan, Mr. Zhou Guoyou, Mr. Chen Bangmao and Mr. Su Zhiyong, with Mr. Sun Yude acting as the chairman. In the event that any director has conflict of interests with the Company, a supervisor may negotiate with the director concerned or bring the case to court on behalf of the Company. Resolution of meetings of the supervisory committee will be passed by at least two-thirds of all supervisors.

Deviation: Nil

E. Communications of the Company

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use general meetings to communicate with shareholders

- The Company has established and maintains various communication channels with its shareholders such as the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the Company's website. The Company has also implemented the Investors Relation Management System.

- The annual general meetings represent an effective means for the shareholders to exchange views with the Board. The Chairman of the Board, as well as the respective chairman of the audit and risk control committee, nomination and remuneration committee, strategy and investment committee and aviation safety committee will answer queries raised by shareholders at the general meetings.

- At the annual general meeting, the Board will report to the shareholders, and announce, in respect of the progress of the implementation by the Board of the matters set out in the resolutions which were passed at the previous annual general meeting and were for the Board's implementation.

- Resolutions in respect of independent matters, including the election and replacement of the directors of the Company, shall be separately tabled as separate resolutions before the annual general meeting.

Deviation: Nil

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2009 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 57 to 157 of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The summary of the Group's results, assets, liabilities and interest under International Financial Reporting Standards for the five years ended 31 December 2009 are set out under the section headed "Summary of Financial Information" on page 3 of this annual report.

SHARE CAPITAL

As at 31 December 2009, the total share capital of the Company was RMB12,251,362,273, divided into 12,251,362,273 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2009:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	7,845,678,909	64.04%
H shares	4,405,683,364	35.96%
Total	12,251,362,273	100%

SIGNIFICANT INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2009, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the Securities and Futures Ordinance (the "SFO"), or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group are as follows:

Name	Type of interests	Type and number of shares of the Company concerned	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
CNAHC	Beneficial owner	4,949,066,567 A shares	40.40%	63.08%	–	–
CNAHC[1]	Attributable interests	1,332,482,920 A shares	10.88%	16.98%	–	–
CNAHC[1]	Attributable interests	66,852,000 H shares	0.55%	–	1.52%	–
CNACG	Beneficial owner	1,332,482,920 A shares	10.88%	16.98%	–	–
CNACG	Beneficial owner	66,852,000 H shares	0.55%	–	1.52%	–
Cathay Pacific	Beneficial owner	2,217,617,455 H shares	18.10%	–	50.34%	–
Swire Pacific Limited[2]	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
John Swire & Sons Limited[2]	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	2,217,617,455 H shares	18.10%	–	50.34%	–
Blackrock, Inc.[3]	Attributable interests	287,426,000 H shares	2.35%	–	6.52%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2009:

(1). By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A Shares and 66,852,000 H shares of the Company directly held by CNACG.

(2). By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 38.99% equity interest and 56.84% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 41.97% equity interest in Cathay Pacific as at 31 December 2009, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,217,617,455 H shares of the Company directly held by Cathay Pacific.

(3) By virtue of BlackRock, Inc.'s 100% interest (indirectly through subsidiaries) of BlackRock Investment Management, LLC., BlackRock Institutional Trust Company N.A., BlackRock Fund Advisors, BlackRock Asset Management Japan Co. Ltd, BlackRock International Ltd. and BlackRock Advisors (UK) who hold 1,360,000 H shares, 255,122,000 H shares, 230,142,000 H shares, 104,000 H shares, 612,000 H shares and 30,228,000 H shares respectively of the Company, BlackRock, Inc. was interested in 287,426,000 H shares of the Company.

Save as disclosed above, as at 31 December 2009, to the knowledge of the Directors, the Supervisors and chief executive 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, underlying shares and debentures 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 the Company.

PUBLIC FLOAT

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

DIVIDEND

Although the Group recorded retained profits in the consolidated financial statements of 2009, the Company still recorded accumulated losses in its financial statements. Therefore, in accordance with the relevant PRC laws and regulations, the Company does not have profits to distribute to its shareholders for year 2009. For that reason, the Board does not recommend the payment of final dividend for the year ended 31 December 2009. The relevant resolution will be submitted to the Company for consideration at the 2009 annual general meeting.

PURCHASES, SALES AND REDEMPTION OF SHARES

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities. For this purpose, the term "securities" has the meaning ascribed to it under the Listing Rules.

PRE-EMPTIVE RIGHTS

The articles of association of the Company does not provide for any pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their existing shareholdings.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Director
Kong Dong	61	Chairman and non-executive director	Appointed on 30 October 2007
Wang Yinxiang	54	Vice chairman and non-executive director	Appointed on 9 October 2008
Wang Shixiang	60	Vice chairman and non-executive director	Appointed on 30 October 2007
Cao Jianxiong	50	Non-executive director	Appointed on 10 June 2009
Christopher Dale Pratt	53	Non-executive director	Appointed on 30 October 2007
Chen Nan Lok, Philip	54	Non-executive director	Appointed on 30 October 2007
Cai Jianjiang	46	Executive director and president	Appointed on 30 October 2007
Fan Cheng	54	Executive director and vice president	Appointed on 30 October 2007
Hu Hung Lick, Henry	89	Independent non-executive director	Appointed on 30 October 2007
Wu Zhipan	53	Independent non-executive director	Appointed on 30 October 2007 Resigned on 10 June 2009
Zhang Ke	56	Independent non-executive director	Appointed on 30 October 2007
Jia Kang	55	Independent non-executive director	Appointed on 30 October 2007
Fu Yang	60	Independent non-executive director	Appointed on 10 June 2009

Supervisors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Supervisor
Sun Yude	55	Chairman of Supervisory Committee	Appointed on 30 October 2007
He Chaofan	47	Supervisor	Appointed on 22 December 2008
Zhou Guoyou	57	Supervisor	Appointed on 30 October 2007
Liu Feng	51	Supervisor	Appointed on 30 October 2007 Resigned on 18 August 2009
Liu Guoqing	47	Supervisor	Appointed on 30 October 2007 Resigned on 18 August 2009
Chen Bangmao	59	Supervisor	Appointed on 18 August 2009
Su Zhiyong	47	Supervisor	Appointed on 18 August 2009

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has confirmed its receipt of, from each of the independent non-executive directors of the Company, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

BOARD COMMITTEES

The Board committees include strategy and investment committee, the audit and risk control committee, nomination and remuneration committee and aviation safety committee. The composition of each committee is set out in the "Corporate Governance Report" in this annual report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

At no time during the year ended 31 December 2009 had the Company authorized its Directors, Supervisors or their respective spouses or children under the age of 18 to benefit by means of the acquisition of shares or debentures of the Company or any of its other associated corporations, and no such rights for the acquisition of shares or debentures were exercised by them.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2009, none of the Directors or Supervisors of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be taken under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in note 9 to the financial statements of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. All Directors of the Company shall serve a term of three years only.

None of the Directors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting as at 31 December 2009 and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Chen Nan Lok, Philip is a non-executive Director of the Company and concurrently the deputy chairman and non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,217,617,455 H shares in the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and it wholly owns Hong Kong Dragon Airlines Limited ("Dragonair"). Mr. Kong Dong, who is the chairman and a non-executive Director of the Company, Mr. Cai Jianjiang and Mr. Fan Cheng, who are both executive Directors of the Company, are concurrently non-executive directors 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 or Supervisors of the Company and their respective associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

CONVENTION OF BOARD MEETINGS AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company held 10 Board meetings during the year 2009. The Company has been improving its corporate governance structure since listing. The Board is committed to conducting normative operations to protect the interests of the Company and its shareholders. The Directors of the Company are of the opinion that as of 31 December 2009 the Company has refined its internal corporate governance structure in compliance with the requirements set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules then in effect.

EMPLOYEES

As at 31 December 2009, the Company had 23,807 employees and its subsidiaries and joint ventures had 16,177 employees. The categories of employees of the Company are as follows:

Professional Categories	As of the end of December 2008	As of the end of December 2009	Net increase
Management	5,386	5,673	287
Marketing and Sales	2,400	1,903	(497)
Operation	1,118	1,257	139
Ground Handling	4,300	4,218	(82)
Cabin Service	2,209	1,981	(228)
Logistics and Support	1,773	1,466	(307)
Flight Crew	2,614	2,933	319
Engineering and Maintenance	2,610	2,708	98
Information Technology	273	287	14
Others	823	1,381	558
Total	23,506	23,807	301

Note: due to the change of the statistics calibre in respect of staff cost, 2,778 secondees from intermediaries were included in the employees of the Company for 2009, and the number of employees of the Company for 2008 was also adjusted accordingly to include 3,012 more persons.

COMPENSATION POLICY

In order to implement the Company's strategies and to incentivise its employees, the Board approved, upon consideration, the proposal relating to the welfare reform on the remuneration of the ground crew, flight attendants, safety officers and air police officers and the proposal to revise the welfare system applicable to flight crew. Accordingly, the welfare reform on the remuneration of the ground crew, flight attendants, safety officers and air police officers was implemented from 1 July 2007 and the welfare system applicable to flight crew (as revised) came into force on 1 March 2008.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

402 employees of the Company retired in 2009. These retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local government. Details of the staff pension scheme and other welfare are set out in note 10 to the audited financial statements of this annual report.

SHARE APPRECIATION RIGHTS

The Directors and Senior Management Stock Appreciation Rights Handbook of the Company was considered and approved at the general meeting held on 28 December 2006. The First Phase Stock Appreciation Rights Scheme was implemented by the Company on 15 June 2007 under which a total of 14.94 million shares were granted. Details of the Share Appreciation Rights Scheme are set out in note 46 to the audited financial statements of this annual report.

On 25 August 2009, it was resolved at the twenty-ninth meeting of the second session at the Board to suspend the above scheme and require the Company to amend the original scheme in accordance with the relevant regulations, and after the Board considers and approves the amended scheme, it will be submitted to a general meeting for approval and then implemented.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associates of the Company as at 31 December 2009 are set out respectively in notes 20 and 22 to the audited financial statements of this annual report.

BANK AND OTHER BORROWINGS

Details of the bank loans and corporate bonds of the Company and the Group are set out in note 38 to the audited financial statements of this annual report.

FIXED ASSETS

Change in the fixed assets of the Group for the year ended 31 December 2009 are set out in note 16 to the audited financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2009 are set out in note 8 to the audited financial statements of this annual report.

RESERVES

Change in the reserves of the Company and the Group during the year are set out in note 45 to the audited financial statements of this annual report.

DONATIONS

For the year ended 31 December 2009, the Company made donations for charitable and other purposes amounting to RMB4.15 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the purchases from the largest supplier accounted for 21.54% of the total purchases of the Group, while purchases from the five largest suppliers accounted for 41.36%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors own 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

For the year ended 31 December 2009, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected changes of titles of assets e.g. land use rights, buildings and vehicles, in accordance with its undertakings as disclosed in the Company's prospectus. The title transfer procedures for the motor vehicles of the Company's headquarters and branches have been completed. Except for certain regions, the title transfer procedures for the land use rights and buildings of the Company's headquarters and branches have been substantially completed. The Company is in the process of completing the outstanding formalities in this respect, which should not have any material adverse effect on the operation of the Company.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2009, save as disclosed in note 50 to the audited financial statements of this annual report, the Company was not involved in any significant litigation or arbitration. To the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into a number of transactions on a continuing basis with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this section "Report of the Directors", "CNAHC Group") and other connected persons of the Group. Description of the agreements is set out in the Company's circular dated 1 December 2006, the Company's announcement on 26 June 2008 and the Company's announcement on 26 August 2008. The Company expects the transactions set out in the Company's circular dated 1 December 2006 will continue to be conducted after 31 December 2009 and as such have entered into new agreements for the continuing connected transactions in accordance with the Listing Rules. Description of the agreements for the continuing connected transactions, which are not exempt under Rule 14A.33 of the Listing Rules, is set out in the Company's circular dated 6 November 2009 and the extraordinary general meeting of the Company held on 22 December 2009 have approved the entry into the agreements. Details of those continuing connected transactions conducted in 2009, which are not exempt under Rule 14A.33 of the Listing Rules, are as follows:

I. Continuing Connected Transactions Between the Group and CNAHC Group

Construction Project Management Services

The Company entered into a construction project management agreement (the "Construction Project Management Agreement") and a supplemental agreement thereto with China National Aviation Construction and Development Company ("CNACD"), a wholly-owned subsidiary of CNAHC, on 1 November 2004 and on 10 November 2006, respectively.

Pursuant to these agreement:

- CNACD provided the Company project management services on projects involving the construction of any property or industrial plant/facility with budgeted costs of RMB20.0 million or above;

- in return for its project management services, the Company paid CNACD a fee of up to 2% of the construction budget if the total budget of the project was RMB1 billion or more, and up to 2.5% if the total amount of the project was below RMB1 billion;

- if the actual settlement price of the project managed by CNACD was higher than the total budget of the project agreed upon in the contract, CNACD paid the Company the difference between the actual settlement price and the total budget of the project agreed upon in the contract, unless the difference was caused by (i) a change of government policies; (ii) factors attributed to the Company; or (iii) force majeure; and

- if CNACD acquired land relating to a project on the Company's behalf, the Company paid CNACD an agency fee of up to 2% of all the fees and expenses in relation to the land acquisition (including, among other things, land acquisition fee, formality fee, labour expenses and travelling expenses, but excluding land premium).

The Construction Project Management Agreement expired on 31 December 2006. As provided in its supplemental agreement, among others, its term was extended to 31 December 2009.

The Company expects the transaction under the Construction Project Management Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNACD on 27 October 2009 (the "new Construction Project Management Agreement") with a term from 1 January 2010 to 31 December 2012. The transaction under the new Construction Project Management Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Properties Leasing

The Company entered into a properties leasing framework agreement (the "Properties Leasing Framework Agreement") and two supplemental agreements thereto with CNAHC on 1 November 2004, 10 November 2006, and 26 August 2008 respectively.

Pursuant to these agreements, the Company leased from CNAHC 16 properties with an aggregate gross floor area of approximately 59,318.88 sq.m. for various uses including as business premises, offices and storage facilities. The Company also leased to CNAHC Group 6 properties covering an aggregate gross floor area of approximately 7,996.55 sq.m. for various uses including as business premises and offices. The rent payable under these agreements was determined in accordance with the relevant PRC laws and regulations or market rates. In principle, the annual increment of the rent would not exceed 5%.

The Properties Leasing Framework Agreement expired on 31 December 2006. As provided in its supplemental agreement dated 10 November 2006, among others, its term was extended to 31 December 2009.

In the supplemental agreement dated 26 August 2008, the annual caps for continuing connected transactions under the Properties Leasing Framework Agreement for the years ended 31 December 2008 and 2009 were revised. For reasons for revising the annual caps, please refer to the Company's announcement dated 26 August 2008.

The Company expects the transactions under the Properties Leasing Framework Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAHC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Tourism Co-operation Services

The Company entered into a tourism services cooperation agreement (the "Tourism Cooperation Agreement") and a supplemental agreement thereto with China National Aviation Tourism Company ("CNATC") on 1 November 2004 and on 10 November 2006 respectively.

Pursuant to these agreement, the Company agreed to provide the following services to CNATC:

- Commercial charter flight services: the Company provided charter (including charter flight route) services to customers procured by CNATC at market rates.

- Package tours co-operation services: the Company and CNATC sold package tours combining (i) the Company's airline tickets with (ii) accommodation at hotels owned and operated by CNATC. For the airline tickets in such packages sold by CNATC, CNATC paid the Company in accordance with the pricing principle under the "Sales Agency Framework Agreement" while the Company paid CNATC for the hotel fee portion of the packages.

- Reciprocal frequent-flyer programme ("FFP") co-operation services: CNATC joined the Company's FFP under which our Companion Card members are encouraged to stay at CNATC's hotels by receiving mileage credits for such stay. As consideration, CNATC paid us the equivalent value represented by those mileage credits.

Pursuant to the Tourism Cooperation Agreement, CNATC agreed to provide the following services to the Company:

- FFP co-operation services: Under the FFP, if our Companion Card members redeem their mileage credits for free, discounted or upgraded stay at CNATC's hotels, the Company reimbursed CNATC for such redemption at a price similar to our arrangements with other FFP partners.

- Hotel accommodation services: CNATC provided hotel accommodation services to the Company's employees on duty and passengers affected by our flight delays or cancellations, for which services the Company paid relevant fees to CNATC at group rates.

- Aviation tourist services with special features including but not limited to a newly launched service of ground transportation for passengers of two classes.

The Tourism Cooperation Agreement expired on 31 December 2006. As provided in its supplemental agreement, among others, its term was extended to 31 December 2009.

The Company expects the transactions under the Tourism Cooperation Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNATC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Comprehensive Services

The Company entered into a comprehensive services agreement (the "Comprehensive Services Agreement") and two supplemental agreements thereto with CNAHC on 1 November 2004, 10 November 2006 and 26 August 2008 respectively.

Pursuant to the Comprehensive Services Agreement and its supplemental agreement:

- CNAHC provided the Company with various ancillary services, including but not limited to:

  (i) catering service;

  (ii) supply of various items for in-flight services;

  (iii) manufacturing and repair of airline-related ground equipment and vehicles;

  (iv) cabin decoration and equipment;

  (v) passenger cabin and cargo cabin ancillary parts (including seats);

  (vi) warehousing services;

  (vii) in-flight articles cleaning services; and

  (viii) printing of air tickets and other documents.

- The Company provided certain welfare-logistics services to the retired employees of CNAHC and its subsidiaries.

The charges payable by the Company to CNAHC for the comprehensive services above were based on prevailing market rate or, if no prevailing market rate was available, fair and reasonable price determined after arm's length negotiation. The management charges payable by CNAHC to the Company for the welfare logistics services provided to its retired employees were settled at a rate of 4%. Such charges relating to retired employees were appropriated to the Company before the quarter for making such payment.

The Comprehensive Services Agreement expired on 31 December 2006. As provided in its supplemental agreement dated 10 November 2006, among others, its term was extended to 31 December 2009.

In the supplemental agreement dated 26 August 2008, the annual cap for continuing connected transactions under the Comprehensive Services Agreement for the years ended 31 December 2008 and 2009 were revised. For reasons for revising the annual caps, please refer to the Company's announcement dated 26 August 2008.

The Company expects the transactions under the Comprehensive Services Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAHC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Line Maintenance and Other Ground Services

The Company entered into a standard ground handling agreement (the "Standard Ground Handling Agreement") with China Aircraft Services Limited ("CASL"), a 40%-owned subsidiary of CNACG, on 17 April 2004, pursuant to which CASL provided line maintenance and other ground services to the Company at the Hong Kong International Airport. The services were charged at market rates.

The Standard Ground Handling Agreement was renewed in January 2006. All charges set out in the agreement shall remain unchanged for 12 months and shall continue thereafter unless both parties agree in writing to adjust the same.

The Company will cease to treat the Standard Ground Handling Agreement as a separate continuing connected transaction after 31 December 2009, but to include it in the CNACG Framework Agreement entered into by the Company and CNACG Group on 26 August 2008 in respect of the relevant agreements between the Company and CNACG Group. Details of the CNACG Framework Agreement are set out under the section "Continuing Connected Transactions Between the Group and CNACG" on page 42 of this annual report.

Sales Agency Services for Airline Tickets and Cargo Space

The Company entered into a sales agency framework agreement (the "Sales Agency Services Framework Agreement") and a supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006, respectively.

Pursuant to these agreement, certain associates of CNAHC acting as the Company's sales agents:

- purchased air tickets and cargo spaces from the Company at wholesale prices and resold such air tickets and cargo spaces to end-purchasers; or
- procured purchasers for the Company's air tickets and cargo spaces on a commission basis.

The Company paid the relevant agency commission based on relevant PRC regulations or, where the regulations did not provide a specific commission, based on market rates. The commissions prescribed for sales of air tickets were as follows:

- for domestic routes, 3% of the ticket price;
- for Hong Kong, Macau and Taiwan routes, 7% of the ticket price; and
- for international routes, 9% of the ticket price.

In accordance with industry practice, and subject to applicable regulations, the Company may also offer incentives to sales agents for reaching certain ticket sale targets.

The Sales Agency Services Framework Agreement expired on 31 December 2006. As provided in its supplemental agreement, among others, its term was extended to 31 December 2009.

The Company expects the transactions under the Sales Agency Services Framework Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAHC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Financial Services

The Company entered into a financial services agreement (the "Financial Services Agreement") and a supplemental agreement thereto with China National Aviation Finance Co., Ltd. ("CNAF"), which is owned as to 74.89% by CNAHC and 19.31% by the Company, on 1 November 2004 and on 10 November 2006, respectively.

Pursuant to these agreement, CNAF agreed to provide the Group with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for debt issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;
- internet banking services; and
- any other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

The fees and charges payable by the Group to CNAF under the Financial Services Agreement and its supplemental agreement were determined with reference to the applicable fees and charges specified by the People's Bank of China (the "PBOC") and the CBRC for the relevant services from time to time, and if neither the PBOC nor the CBRC had specified a fee or charge for a particular service, then the service were provided by CNAF on terms no less favourable than terms available from commercial banks in China and than those offered by CNAF to other members of CNAHC Group.

The Financial Services Agreement expired on 31 December 2006. As provided in its supplemental agreement, among others, its term was extended to 31 December 2009.

The Company expects the transactions under the Financial Services Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAF on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Subcontracting of Charter Flight Services

The Company entered into a charter flight service framework agreement (the "Charter Flight Service Framework Agreement") and a supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006, respectively.

Pursuant to these agreement, CNAHC subcontracted to the Company its obligation of government charter flight that it undertook from the PRC government. The Company's hourly rate of the charter flight service fee were calculated on the basis of the following formula that includes total cost and reasonable margins:

Hourly rate = Total cost per flight hour x (1 + 6.5%)

Total cost included all direct costs and indirect costs.

The Charter Flight Service Framework Agreement expired on 31 December 2006. As provided in its supplemental agreement, among others, its term were extended to 31 December 2009.

The Company expects the transactions under the Charter Flight Service Framework Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAHC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

Media and Advertising Services

Reference is made to the section headed "DE MINIMIS CONTINUING CONNECTED TRANSACTIONS – 3.1 Media and Advertising Services" in the Company's circular dated 1 December 2006 relating to the Advertising Services Framework Agreement, under which, among others, China National Aviation Media and Advertisement Co., Ltd., a wholly-owned subsidiary of CNAHC, ("CNAMC") provides the Company with in-flight entertainment programmes it produces and bids for advertisement agency and design services to the Company (the "Advertising Services Framework Agreement"). The maximum annual amounts to be paid by the Company to CNAMC under the Advertising Services Framework Agreement for each of the three years ended 31 December 2007, 2008 and 2009 were expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules, therefore such transaction were exempted from the announcement and independent shareholders' approval requirement for connected transactions.

In the supplemental agreement dated 26 August 2008, the annual caps for continuing connected transactions under the Advertising Services Framework Agreement for the years ended 31 December 2008 and 2009 were revised. For reasons for revising the annual caps, please refer to the Company's announcement dated 26 August 2008. As each of the percentage ratios (other than the profits ratio) of the continuing connected transactions under the Advertising Services Framework Agreement with the annual caps revised as set out below is higher than 0.1% and less than 2.5%, such continuing connected transactions therefore fall under Rule 14A.34 of the Listing Rules. Accordingly, these continuing connected transactions are subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Listing Rules, but are exempted from the requirements of independent shareholders' approval under Chapter 14A of the Listing Rules.

The Company expects the transactions under the Advertising Services Framework Agreement will continue to be conducted after 31 December 2009 and have entered into a new agreement with CNAMC on 27 October 2009 with a term from 1 January 2010 to 31 December 2012.

II. Continuing Connected Transactions Between the Group and CNACG

Reference is made to the announcement dated 10 June 2008 issued by the Company in respect of a share transfer agreement entered into by China National Aviation Company Limited ("CNAC"), a wholly-owned subsidiary of the Company, and CNACG on 10 June 2008, by which CNAC, among others, transferred its 50% shareholding in Jardine Airport Services Limited ("JASL") to CNACG (please refer to the Company's announcement dated 10 June 2008 for details). As CNACG is both a substantial shareholder of the Company and a wholly-owned subsidiary of CNAHC, the Company's controlling shareholder, upon the completion of the share transfer, JASL became an associate of CNACG and therefore a connected person of the Company under the Listing Rules. JASL has been providing the Company with ground handling services and engineering services. Such transactions will constitute continuing connected transactions of the Company under the Listing Rules.

Other than the ground handling services, the Group and CNACG Group have cooperated in other aspects, including but not limited to the provision of catering services, management services, properties leasing service by CNACG Group to the Group. Since CNACG is the wholly-owned subsidiary of CNAHC, some continuing connected transactions such as catering and properties leasing shall be covered by the CNAHC Framework Agreements between the Company and CNAHC.

In part as a reflection of the abovementioned transactions and the expected increased cooperation between the Group and CNACG Group, the Company and CNACG entered into a Framework Agreement on 26 August 2008 in respect of relevant agreements between the Group and CNACG Group. The Framework Agreement applies to Transactions under relevant agreements in the three years ended on 31 December 2010.

The Transactions are transactions between members of the Group on the one hand and members of CNACG Group on the other hand relating to ground handling and engineering services, management services and other services and transactions as may be agreed by parties to be undertaken under the Framework Agreement *excluding* those which have been contemplated by the related CNAHC Framework Agreements.

The Framework Agreement applies to transactions undertaken pursuant to relevant agreements during the three years ended on 31 December 2010 and shall expire on that date. However, the Framework Agreement is renewable for successive periods of three years thereafter.

III. Continuing Connected Transactions Between the Group and Cathay Pacific

Reference is made to the joint announcement dated 8 June 2006 issued by the Company and Cathay Pacific in respect of the operating agreement entered into between the Company and Cathay Pacific on 8 June 2006 (the "Operating Agreement"). The Operating Agreement provides for the parties to it to cooperate in various operational areas. That cooperation has developed since entry into the Operating Agreement. As a reflection of that cooperation, the Company and Cathay Pacific entered into a framework agreement (the "Framework Agreement") on 26 June 2008 in respect of relevant agreements ("Relevant Agreements") between the Group and Cathay Pacific and its subsidiary, including Dragonair ("Cathay Pacific Group").

As Cathay Pacific is a substantial shareholder and therefore a connected person of the Company, the Transactions constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the reporting and announcement requirements under Rule 14A.35.

The Framework Agreement provides the framework under which Relevant Agreements between members of the Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. Relevant Agreements comprise the agreement dated 19 October 2007 between the Company, Cathay Pacific and Dragonair for the joint venture operation of passenger air transportation services between Hong Kong on the one hand and Beijing and certain other Mainland China destinations on the other hand, (the "Joint Operating Services Agreement") and any other agreements between members of the Group on one hand and members of the Cathay Pacific Group on the other hand in respect of the Transactions.

The Transactions are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Framework Agreement.

The Framework Agreement applies to Transactions undertaken under Relevant Agreements during the three years ended on 31 December 2010 and shall expire on that date. However, the Framework Agreement shall be renewed for successive periods of three years thereafter unless either party to such agreement gives to the other notice of termination of not less than three months expiring on any 31 December.

IV. Continuing Connected Transactions between the Group and the Lufthansa Group

Deutsche Lufthansa AG ("Lufthansa") holds 40% equity interest in, and is a substantial shareholder of, Aircraft Maintenance and Engineering Corporation, a joint venture of the Company, and is therefore a connected person of the Company under the Listing Rules.

The Company has entered into various transactions with Lufthansa and its associates (collectively, the "Lufthansa Group") in the ordinary course of its business, including, among others:

- Aircraft maintenance, repair and overhaul services ("MRO") provided by the Company to the Lufthansa Group;
- mutual provision of catering services;
- mutual provision of ground handling services in China and Germany;
- mutual provision of ticket sales agency services;
- airline codeshare arrangement under which the actual carrier's flights can be marketed under the airline designator code of the partner carrier and revenues earned from these arrangements are allocated between the parties based on negotiated terms according to airline industry standards;
- special prorate arrangement under which a carrier agrees to accept passengers from another carrier and receive payment directly from that carrier; and
- other airline co-operation arrangements between the Lufthansa Group and the Company.

The above transactions have been entered into on normal commercial terms based on arm's length negotiations.

V. Continuing Connected Transactions between the Group and the Beijing Capital Airports Group

Before 16 November 2009, Capital Airports Holding Company holds 24% equity interest in and is a substantial shareholder of Air China Cargo, and therefore is a connected person of the Company under the Listing Rules. The Company has entered into various transactions under various agreements with Beijing Capital Airports Group in the ordinary course of business. On 10 November 2006, the Company entered into a service framework agreement ("Service Framework Agreement") with Beijing Capital Airports Group for, including, among others:

- provision of taking-off/landing/parking services of the Company's aircraft at airports owned by the Beijing Capital Airports Group;
- provision of passengers' waiting lounge, check-in counters and office buildings to the Company by airports owned by the Beijing Capital Airports Group;
- provision of utilities (including water, gas and electricity) to the Company at Beijing Capital International Airport by the Beijing Capital Airports Group; and
- provision of ground handling services to the Company by the Beijing Capital Airports Group.

All the services provided by the Beijing Capital Airports Group to the Company were charged on the pricing terms which are prescribed, approved or recommended by PRC governmental authorities, and if there is no state-prescribed price, according to the relevant market prices.

The Service Framework Agreement was valid for three years from 1 January 2007 to 31 December 2009.

Reference is made to the Company's circular dated 14 April 2009 in respect of the Company's purchase of equity interest in Air China Cargo from the Beijing Capital Airport Group, which has been completed on 16 November 2009, and since then the Beijing Capital Airports Group is no longer a connected person of the Company as defined under the Listing Rules.

VI. Transaction Caps and Actual Transaction Amounts in 2009

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2009 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2009 Cap *(in millions)*	Actual Amount *(in millions)*
Transactions with the CNAHC Group			
Construction project management services	RMB	30.00	0.51
Properties leasing	RMB	95.00	67.03
Tourism co-operation services	RMB	80.84	–
Media and Advertising Services	RMB	60.00	29.05
Comprehensive services	RMB	750.00	609.27
Line maintenance and other ground services	RMB	55.00	19.07
Sales agency services			
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	459.00	148.19
Aggregate amount of commissions and incentives paid to CNAHC Group	RMB	90.72	4.75
Financial services			
Maximum daily outstanding deposits with CNAF	RMB	2,500.00	2,304.53
Maximum daily outstanding loans from CNAF	RMB	2,500.00	1,211.07
Subcontracting of Charter Flight Services	RMB	917.00	568.65
Transactions with the CNACG Group			
Ground handling, engineering, management and other services	RMB	300.00	126.02
Transactions with the Lufthansa Group			
Aggregate amount paid by the Company to the Lufthansa Group	RMB	1,017.00	793.56
Aggregate amount paid by the Lufthansa Group to the Company	RMB	777.00	479.46
Transactions with the Beijing Capital Airports Group			
Aggregate amount paid by the Company to the Beijing Capital Airports Group	RMB	1,350.00	1,193.09
Transactions with Cathay Pacific Group			
Aggregate amount paid by the Company to Cathay Pacific Group	HK$	900.00	163.51
Aggregate amount paid by Cathay Pacific Group to the Company	HK$	900.00	305.05

VII. Confirmation from Independent Non-executive Directors

The Independent Non-Executive Directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2009 to which the Company was a party have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either:

   (i) on normal commercial terms; or

   (ii) where there was no comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties, where applicable; and

3. in accordance with terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

VIII. Confirmation from the Auditors

Ernst & Young, the auditors of the Company, has confirmed by a letter to the Board that the above continuing connected transactions:

1. have been approved by the Board;

2. were conducted in accordance with the pricing policies as stated in the relevant agreements;

3. were entered into in accordance with the relevant agreements governing such transactions; and

4. have not exceeded the cap amounts disclosed in the Company's circular dated 1 December 2006 and the Company's announcements dated 26 June 2008 and 26 August 2008.

CONTRACT OF SIGNIFICANCE

Save as disclosed in "Connected Transactions" of this report of Directors, none of the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, and there is no contract of significance in relation to provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries. None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as its international auditors and domestic auditors respectively for the year ended 31 December 2009. Ernst & Young has audited the attached financial statements prepared in accordance with International Financial Reporting Standards. The Company has retained Ernst & Young and Ernst & Young Hua Ming since the date of its listing. A resolution in respect of the reappointment of Ernst & Young and Ernst & Young Hua Ming as the Company's international and domestic auditors respectively for the year ended 31 December 2010 will be proposed at the forthcoming 2009 annual general meeting of the Company.

Report of the Supervisory Committee

To all Shareholders,

In 2009, in strict accordance with the relevant requirements of the Company Law of the PRC, the Company's articles of association and the Rules of Procedure for Supervisory Committee's Meetings, the supervisory committee of the Company (the "Supervisory Committee") earnestly performed the duties conferred on it by laws and regulations. Members of the Supervisory Committee convened and attended relevant meetings, and conducted special inspection and research, thereby overseeing the substantial decision-making processes of the Company; supervising the Board, its members and the management; and preventing any abuse of power on their part and any violation of the legitimate rights and interests of the shareholders, the Company and its employees.

(I) MEETINGS HELD BY THE SUPERVISORY COMMITTEE

At the seventh meeting of the second session of the Supervisory Committee held on 15 April 2009, the resolutions regarding the report of the Supervisory Committee for the year 2008, the annual report and the audited financial statements for the year 2008, the first quarterly report of 2009, the profit distribution plan for 2008, the adjustments to certain items under the balance sheet at the beginning of 2008, the self-assessment report on internal control of the Company for 2008 and amendments to the Rules of Procedure for Supervisory Committee's Meetings of Air China Limited were considered and approved.

At the eighth meeting of the second session of the Supervisory Committee held on 25 August 2009, the resolutions regarding the interim report and interim financial report for the year 2009, and the medium-term adjustments to the financial plan and capital expenditure plan of the Company for the year 2009 were considered and approved.

At the ninth meeting of the second session of the Supervisory Committee held on 27 October 2009, the resolution regarding the third quarterly report of 2009 (including the third quarterly financial report) was considered and approved. The resolutions approving the execution of continuing connected transaction agreements for the years 2010-2012 by the Company and the relevant annual caps were also considered and approved at the meeting.

At the tenth meeting of the second session of the Supervisory Committee held on 22 December 2009, the resolutions regarding the Company's financial plan and capital expenditure plan for the year 2010 and cash flow and fund raising plan for the year 2010 were considered and approved.

(II) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S COMPLIANCE IN OPERATIONS

During the year, in accordance with the relevant PRC laws and regulations and requirements of the Company's articles of association, the Supervisory Committee performed its supervision and inspection functions to monitor whether the convening of shareholders' general meetings and Board meetings complied with the required procedures and whether the significant decision-making processes were legal. The thoroughness of the Board's implementation of the resolutions passed at the general meetings and the senior management's duty performance were also supervised and inspected.

The Supervisory Committee is of the opinion that the Company has basically formed an inter-linking governance structure of check and balance among its authority body, decision-making body, operational body and supervisory body, and the Company observes the relevant PRC laws and regulations, and its decision-making processes are legitimate and its internal control system is sound. None of the directors or senior management of the Company were found to have committed any act in discharging his or her duties that was in violation of laws, regulations and the Company's articles of association and detrimental to the interests of the Company and shareholders. The information disclosed by the Company is true, accurate, complete and prompt. No misleading or false information was released.

(III) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S FINANCIAL POSITION

During the year, the Supervisory Committee focused its review on the quarterly, interim and annual financial reports and the documentary information submitted by the Board to the general meetings. The Supervisory Committee is of the opinion that the standard unqualified opinion expressed in the auditors' report for the year 2009 issued by Ernst & Young reflects a true and fair view of the financial position and financial performance of the Company.

(IV) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S ACQUISITIONS AND DISPOSALS OF ASSETS

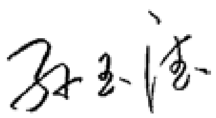
During the year, the prices of the asset acquisition and disposal transactions made by the Company were reasonable and no insider dealing, impairment of the interests of the Company's shareholders and asset drain were discovered.

(V) INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S CONNECTED TRANSACTIONS

The connected transactions of the Company were conducted at fair prices, being compliant with procedures and prompt in disclosure, and in conformity to PRC laws and regulations as well as the requirements of the Company's articles of association and the Listing Rules, and were not detrimental to the interests of the Company and shareholders.

In 2009, the Company overcame the serious impact of the international financial crisis on the civil aviation industry, embraced various challenges, captured opportunities, reversed the operating losses in 2008 and recorded a historic high in its operating results. In 2010, confronting a constantly changing domestic and foreign macroeconomic environment and internal and external situation of the Company, the Company's operations will be exposed to huge pressure and challenges in all respects. In order to safeguard the legal rights and interests of the shareholders and the Company, the Supervisory Committee will, as always, perform its duties diligently, strengthen its inspection and supervision and bring its function into full play, so as to contribute to corporate governance improvements and the Company's healthy development.

By Order of the Supervisory Committee



Sun Yude
Chairman of the Supervisory Committee

Beijing, PRC
22 April, 2010

Profile of Directors, Supervisors and Senior Management

As at the date of this Annual Report:

DIRECTORS

Mr. Kong Dong, aged 61, graduated from Jiangxi Technology University majoring in mechanical engineering and is a senior economist. Mr. Kong was Deputy General Manager of China Ocean Helicopter Company, General Manager and Secretary of the Communist Party Committee of Shenzhen Airport Group, Deputy Secretary of the Communist Party Committee of the Beijing Capital International Airport, Director-General in charge of the expansion project of the Beijing Capital International Airport, General Manager of China National Aviation Corporation and Chairman and Secretary of the Communist Party Committee of CNAC, and Vice Chairman and President of CNACG. In October 2002, he joined CNAHC as Deputy General Manager, and served as Secretary of the Communist Party Group and Deputy General Manager of CNAHC in August 2004. Mr. Kong was appointed as the acting Chairman in January 2008 and has served as General Manager and Deputy Secretary of the Communist Party Group of CNAHC, and Chairman of the Company since April 2008.

Ms. Wang Yinxiang, aged 54, graduated from Party School of the Central Committee of the Communist Party of China majoring in economics and management. Ms. Wang is a senior engineer of political work and a senior flight attendant. Ms. Wang served several positions in Air China International Corporation, including Vice Captain of the in-flight service team of the Chief Flight Team, Deputy Manager of the in-flight service division, Deputy Manager of the passenger cabin service division and Deputy Secretary of the Communist Party Committee, etc. In October 2002, Ms. Wang served several positions in CNAHC, including Deputy General Manager, Head of the Disciplinary and Supervisory Committee of the Communist Party Group and Secretary of the Communist Party Committee of CNAHC. Since March 2008, Ms. Wang has been serving as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee of CNAHC, and was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009. Ms. Wang has been serving as Vice-Chairman of the Company since October 2008.

Mr. Wang Shixiang, aged 60, graduated from the China Civil Aviation Advanced School majoring in aviation and is a qualified First-Class Pilot. Mr. Wang was appointed as President of the Civil Aviation Flight Academy of China in 1995, and Secretary of the Communist Party Committee and General Manager of China Southwest Airlines in 1999. From October 2002 to November 2009, he was appointed as Deputy General Manager and Member of the Party Communist Group of CNAHC. Mr. Wang has been serving as Vice-Chairman of the Company since September 2004.

Mr. Cao Jianxiong, aged 50, graduated from the Civil Aviation Management Institute with a major in labor economics. Mr. Cao also received a master degree in global economics from Eastern China Normal University's Department of International Finance. Mr. Cao holds the title of Senior Economist. He started his career in China's civil aviation industry in 1982 and was appointed as the deputy general manager and chief financial officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the vice president of CEA Group. Commencing from October 2002, he served as vice president and party group member of Eastern Airlines Group Corporation and was also the party secretary of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the president and the deputy party secretary of China Eastern Airlines Corporation. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and Party Group Member of CNAHC.

Mr. Christopher Dale Pratt, aged 53, has an honours degree in modern history from Oxford University. He joined John Swire & Sons Limited in 1978 and has worked with the Swire group in its offices in Hong Kong, Australia and Papua New Guinea. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific Airways Limited, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a director of The Hongkong and Shanghai Banking Corporation Limited. Since June 2006, he has been serving as the Non-executive Director of the Company.

Mr. Chen Nan Lok, Philip, aged 54, holds an honours degree in political science and history from the University of Hong Kong. He joined the Swire group in 1977 and in addition to Hong Kong, has worked with the Swire group in its offices in Mainland China and the Asia Pacific region. He is currently Chairman of John Swire & Sons (China) Limited, Deputy Chairman of Cathay Pacific Airways Limited, and a director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Swire Properties Limited. Since June 2007, he has been serving as the Non-executive Director of the Company.

Profile of Directors, Supervisors and Senior Management

Mr. Cai Jianjiang, aged 46, graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines Company Limited in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the Marketing Department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently was appointed as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He has been serving as the President and Deputy Secretary of the Communist Party Committee of the Company and Member of the Communist Party Group of CNAHC since February 2007.

Mr. Fan Cheng, aged 54, graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company in September 2004. Since October 2006, he has been serving as the Vice President and Chief Financial Officer of the Company. Since December 2009, he has been serving as Secretary of the Communist Party Committee of Shenzhen Airlines Company Limited.

Dr. Hu Hung Lick, Henry, aged 89, graduated from the University of Paris with a Docteur-en-Droit degree. Dr. Hu was a member of Preparatory Committee and Selection Committee for the First Government of the Hong Kong Special Administrative Region, China, and was a member of the Standing Committee of the 8th and 9th sessions of the Chinese People's Political Consultative Conference. He is currently the president of Shue Yan University in Hong Kong.

Mr. Zhang Ke, aged 56, graduated from the Investment Economics Department, Renmin University of China with a Bachelor's degree in economics. He is a certified public accountant and senior accountant. Mr. Zhang is currently chief partner and Chairman of Shine Wing Certified Public Accountants. Mr. Zhang is also the Vice Chairman of the Standing Council of CICPA, the Vice Chairman of Beijing Association of Forensic Science and a member of CPA Examination Committee of the Ministry of Finance.

Mr. Jia Kang, aged 55, holds a Doctor's degree in Economics, and is a renowned economist and a member of CPPCC National Committee. He is a researcher, a tutor to doctorate students and the head of Financial Science Research Institute of Ministry of Finance, and also the vice chairman and general-secretary of China Financial Association. Mr. Jia is also a specially engaged professor of Renmin University of China, State Administration Institute, Xiamen University, Southwest University of Finance and Economics, Guangdong University of Business Studies and other Universities. Mr. Jia is also the winner of Sun Yefang Economics Prize.

Mr. Fu Yang, aged 60, previously served as the Deputy Director of the Economic Law Office of the National People's Congress Law Committee, Vice-President of the third, fourth and fifth sessions of the All China Lawyers Association, specially-engaged professor of China University of Political Science and Law, associate tutor to masters students of School of Law of Tsinghua University and specially-engaged professor of School of Law of Nankai University. He is a partner and director of Kang Da Law Firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission.

SUPERVISORS

Mr. Sun Yude, aged 55, graduated from China Civil Aviation Institute majoring in economic management. He started his career in China's civil aviation industry in 1972 and served various positions as Deputy Head of CAAC Taiyuan Terminal and Head of Ningbo Terminal, as well as General Manager of CNAC Zhejiang Airlines. In October 2002, Mr. Sun was appointed Vice President of Air China International Corporation, and concurrently took up the position of General Manager of its Zhejiang branch, and was appointed as Vice President of the Company in September 2004. Mr. Sun was appointed as Chairman in November 2004, and President and Deputy Secretary of the Communist Party Committee in December 2005, of Shandong Aviation Group Company Limited, and has also been serving as Director and President of CNACG since March 2007. Mr. Sun served as the Secretary of the Communist Party Committee of CNACG from April 2007 to December 2009. Since May 2009, he has been serving as Deputy General Manager and member of the Communist Party Group of CNAHC.

Mr. He Chaofan, aged 47, graduated from the Civil Aviation University of China majoring in planning and finance, and is a senior accountant. Mr. He served as an accountant at the Finance Department of Beijing Administrative Bureau of Civil Aviation Administration of China, and served various positions in Air China International Corporation, including the accountant, section chief, deputy head and head of the finance department and director and general manager of the revenue accounting department of Air China International Corporation. From March 2003 to October 2008, he served as the general manager and deputy secretary of the Communist Party Committee of China National Aviation Finance Co., Ltd. He has been serving as the general manager of the finance department of CNAHC since October 2008.

Mr. Zhou Guoyou, aged 57, graduated from Civil Aviation Management Institute of China majoring in civil aviation and transport and the Party School of the Central Committee of C.P.C. majoring in economics and management, and is a senior economist. Mr. Zhou started his career in China's civil aviation industry in 1970 and served various positions in Air China International Corporation such as Deputy Director of Beijing ticketing department, Deputy Director of quality standard department, Manager of the Shanghai business division, General Manager of the Beijing business division of the marketing and sales department, and Deputy Director of the economic efficiency office. Mr. Zhou was appointed as Deputy General Manager of the corporate supervision division of CNAHC in February 2004. He has been serving as Deputy General Manager of the legal supervision division of CNAHC since October 2008.

Mr. Chen Bangmao, aged 59, graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management and is a senior engineer of political work. Mr. Chen started his career in China's civil aviation industry in 1970 and served various positions such as deputy instructor and instructor of the Chief Flight Team of Beijing Administrative Bureau of Civil Aviation, as well as director of the propaganda section of Chief Flight Team of Air China International Corporation, secretary of the Team Communist Party Committee and director of the labor and human resources department of Air China International Corporation. Commencing from September 2000, Mr. Chen served as deputy general manager and Secretary of the Communist Party Committee of the cabin service division of Air China International Corporation. Since March 2008, Mr. Chen has been serving as the Deputy Chairman of the Labor Union of the Company.

Mr. Su Zhiyong, aged 47, graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. Mr. Su started his career in China's civil aviation industry in 1983 and served as officer and personnel clerk of the Communist Party Committee of the equipment management division, secretary of the vehicle maintenance office (team II) of ground services department, and, starting from September 2006, deputy manager and manager of the vehicle maintenance centre of ground services department of the Company. Since August 2007, he has been serving as senior manager of the station operation centre of ground services department of the Company.

Profile of Directors, Supervisors and Senior Management

OTHER SENIOR MANAGEMENT PERSONNEL

Mr. Tan Zhihong, aged 59, graduated from Sichuan International Studies University majoring in English, and is a senior economist. Mr. Tan started his career in China's civil aviation industry in August 1975. He worked at the London office of CAAC as the commercial clerk and the Deputy Director of the passengers transportation department of the transportation business division of the Beijing Administrative Bureau of CAAC. The Deputy Manager and Manager of the transportation services company of Air China International Corporation, the General Manager of the ground services department, the General Manager of the Inner Mongolia Branch and Tianjin Branch of Air China International Corporation respectively. He was appointed as Standing Member of Communist Party Committee and General Manager of Southwest Branch of the Company in September 2004. Mr. Tan has been serving as Party Secretary of Communist Party Committee and Vice President of the Company since February 2007.

Mr. Song Zhiyong, aged 44, graduated from the Second Flying Academy of China Air Force majoring in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot of the Third Group of the Chief Flight Team, Deputy Captain of the Chief Flight Team and Director of the Training Department of Air China International Corporation. In September 2004, Mr. Song was appointed as the Assistant to President and Chief Captain of the Chief Flight Team of the Company, and was appointed as Vice President and concurrently Chief Captain of the Chief Flight Team of the Company in October 2006. Mr. Song ceases serving as the Chief Captain of the Chief Flight Team commencing from June 2008.

Mr. He Li, aged 58, graduated from Northwestern Polytechnical University majoring in Aero Engine Control and obtained a Master degree in Business Administration from China-Euro Management Institute. He is a senior engineer. Mr. He started his career in the China's civil aviation industry in 1973 and was previously an engineer of Beijing Administrative Bureau of CAAC and General Manager of Aircraft Maintenance and Engineering Corporation. In November 2005, Mr. He was appointed as General Manager of the Engineering Technology Branch of the Company. In October 2006, Mr. He was appointed as Vice President of the Company and concurrently continued his position as General Manager of Engineering Technology Branch of the Company. Mr. He ceased acting as General Manager of Engineering Technology Branch since March 2009.

Mr. Li Huxiao, aged 59, graduated from Beijing Communist Party School and is a senior engineer of political work. He previously served various positions, such as General Manager and Secretary of the Communist Party Committee of the Inner Mongolia Branch of Air China International Corporation, Secretary of the Communist Party Committee and Deputy General Manager of the Cargo Branch of Air China International Corporation and Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. In September 2004, Mr. Li was appointed as the Deputy Secretary of the Communist Party Committee, Secretary of the Discipline Inspection Committee and Chairman of the Labour Union of the Company, and also took up the position of Chairman of Air China Cargo since June 2006. He has been serving as Vice President of the Company since July 2007.

Ms. Zhang Lan, aged 54, graduated from Beijing Foreign Studies University majoring in English. She started her career in China's civil aviation industry in 1977. Ms. Zhang was previously Head of the International Department and General Manager and Secretary of the Communist Party Committee of the marketing and sales department of Air China International Corporation. In September 2004, Ms. Zhang was appointed as the Assistant to President and General Manager of Sales and Marketing Division of the Company. In October 2006, Ms. Zhang was appointed as Vice President of the Company and Director of the Commercial Committee of the Company. Ms. Zhang ceases serving as the Director of the Commercial Committee commencing from July 2008.

Profile of Directors, Supervisors and Senior Management

Mr. Liu Peizhi, aged 59, graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. Mr. Liu is a senior engineer of political work. He served various positions in Air China International Corporation, including the Deputy Director of the office of Party Committee, Deputy Director and Director of the Organization Department of Party Committee, the First Deputy Manager and Secretary of the Communist Party Committee of the passenger transport department, Director of the Organization Department of the Communist Party Committee and Director of labour and human resources department. In 2001, he was appointed as the Secretary of the Communist Party Committee and Deputy General Manager of Inner Mongolia Branch of Air China International Corporation, and served as Secretary of the Communist Party Committee and Deputy Captain of Chief Flight Team of Air China International Corporation in 2002. He was the Standing Member of Party Committee as well as Secretary of the Communist Party Committee and Deputy Captain of the Chief Flight Team of the Company in September 2004. He has been serving as the Deputy Party Secretary, Discipline Inspection Committee and the Chairman of Labor Union of the Company since July 2007.

Mr. Feng Gang, aged 46, graduated from the Department of Physics of Sichuan University majoring in Semiconductor. He started his career in July 1984 and served various positions including cadre of the political department and dispatcher of the scheduling office in Chengdu Civil Aviation Authority, manager of Guangzhou Sales Department, deputy manager of Operating Department, manager of Development and Service Department, deputy manager of Marketing Department, manager of the Cargo Logistics Company of China Southwest Airlines, deputy general manager of China Southwest Airlines, assistant to the president of Air China International Corporation, general manager and Party Secretary of China National Aviation Holding Assets Management Company. He served as the chairman, president and deputy secretary of party committee of Shandong Aviation Group Co., Ltd. and vice-chairman of Shandong Airlines from May 2007 to April 2010. Mr. Feng has been serving as Vice President of the Company since April 2010.

Mr. Ma Chongxian, aged 44, graduated from the Department of Economics of Inner Mongolia University majoring in Planning and Statistics. Mr. Ma started his career in July 1988 and served various positions in Air China, including deputy chief and secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia, general manager of the Bluesky Customer Service Department, deputy general manager of Inner Mongolia Branch, deputy general manger, party secretary and general manager of Zhejiang Branch. He served as the general manager and deputy party secretary of Hubei Branch of Air China Limited from June 2006 to April 2010. Mr. Ma has been serving as the Vice President of the Company since April 2010. Since April 2010, he has been serving as the chairman, president and deputy secretary of the party committee of Shandong Aviation Group Co., Ltd..

Mr. Xu Chuanyu, aged 45, graduated from China Civil Aviation Institution with a major in aviation and is a Second-Class Pilot. Mr. Xu previously served various positions in Air China International Corporation, including pilot, Deputy Captain of the Third Group of the Chief Flight Team and an inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and deputy secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu has been serving as the Chief Pilot of the Company since January 2009.

Mr. Xu Jianqiang, aged 56, graduated from Party School of the Central Committee of C.P.C. majoring in economics and management. Mr. Xu is a senior engineer of political work. He started his career in April 1969. He was the navigation director and the deputy political director of communication team of air force at Yingshanchang Station, deputy chief of cadre at political department of the 44th airborne division, party secretary of the First Group of the Chief Flight Team, deputy party secretary of training department, party secretary of cabin services department, party secretary of marketing department of Air China. He was appointed as Party Secretary and Deputy Director of Commercial Committee of the Company in June 2005. He has been serving as Chief Economist of the Company since July 2009.

Mr. Huang Bin, aged 46, graduated from China Civil Aviation Institution with a major in financial planning. From 1998 to 2000, he studied Management and Engineering in Nanjing University of Aeronautics and Astronautics. He is a senior accountant. Mr. Huang started his career in the civil aviation industry in 1983 and served various positions, including Section Chief, Deputy Director, Director and General Manager of the Finance Department of Air China International Corporation. In October 2002, Mr. Huang was appointed as Deputy General Manager and Chief Accountant of the Southwest branch of Air China International Corporation. After the establishment of the Company in September 2004, he was appointed as Deputy General Manager and Chief Accountant of Southwest branch of the Company. He has been serving as the Secretary to the Board since June 2007.

JOINT COMPANY SECRETARIES

Mr. Huang Bin, Mr. Huang's biography is set out in the section headed "Other Senior Management Personnel" above.

Ms. Tam Shuit Mui, aged 39, studied Year 1 and Year 2 of Higher Certificate in Accountancy at the Hong Kong Polytechnic University from 1993 to 1995 and graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in Accounting and Financial Analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountants (AICPA), USA. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of Chaoyue Group Limited (formerly known as Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as the Joint Company Secretary of the Company since October 2008.

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

We have audited the accompanying financial statements of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively the "Group") set out on pages 57 to 157, which comprise the consolidated and company statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2009, and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 April 2010

Consolidated Income Statement

Year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
TURNOVER			
Air traffic revenue	4	**48,091,643**	50,536,695
Other operating revenue	5	**3,301,548**	2,371,466
		51,393,191	52,908,161
OPERATING EXPENSES			
Jet fuel costs		**(14,466,065)**	(22,613,935)
Movements in fair value of fuel derivative contracts		**2,758,224**	(7,899,205)
Take-off, landing and depot charges		**(5,788,687)**	(5,538,092)
Depreciation		**(7,051,272)**	(6,365,275)
Aircraft maintenance, repair and overhaul costs		**(1,767,808)**	(1,804,416)
Employee compensation costs	6	**(6,627,408)**	(5,843,887)
Air catering charges		**(1,518,912)**	(1,443,855)
Aircraft and engine operating lease expenses		**(2,319,211)**	(2,400,060)
Other operating lease expenses		**(477,716)**	(448,406)
Other flight operation expenses		**(4,532,145)**	(4,665,630)
Selling and marketing expenses		**(3,085,184)**	(2,602,904)
General and administrative expenses		**(1,016,051)**	(1,089,467)
		(45,892,235)	(62,715,132)
PROFIT/(LOSS) FROM OPERATIONS	7	**5,500,956**	(9,806,971)
Finance revenue	8	**139,620**	1,584,437
Finance costs	8	**(1,198,283)**	(2,049,313)
Share of profits and losses of associates		**623,992**	(1,183,513)
Gain on disposal of subsidiaries and an associate		**–**	477,680
PROFIT/(LOSS) BEFORE TAX		**5,066,285**	(10,977,680)
Tax	11	**(263,234)**	1,610,650
PROFIT/(LOSS) FOR THE YEAR		**4,803,051**	(9,367,030)
Attributable to:			
Owners of the parent		**4,854,234**	(9,255,822)
Minority interests		**(51,183)**	(111,208)
		4,803,051	(9,367,030)
Earnings/(loss) per share attributable to equity holders of the parent:	14		
Basic		**41.01 cents**	(78.01 cents)
Diluted		**N/A**	N/A

Details of the dividend payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
PROFIT/(LOSS) FOR THE YEAR		**4,803,051**	(9,367,030)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Share of other comprehensive income/(loss) of associates	*15*	**347,437**	(233,207)
Exchange realignment		**(28,324)**	(610,972)
Others		**(3,000)**	61,420
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**316,113**	(782,759)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**5,119,164**	(10,149,789)
Attributable to:			
Owners of the parent		**5,170,315**	(10,035,641)
Minority interests		**(51,151)**	(114,148)

Consolidated Statement of Financial Position

31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**75,044,870**	71,821,000
Lease prepayments	17	**1,954,819**	1,945,258
Intangible asset	18	**49,267**	60,147
Goodwill	19	**346,845**	346,845
Interests in associates	22	**12,187,230**	6,271,533
Advance payments for aircraft and related equipment		**7,715,409**	7,052,508
Deposits for aircraft under operating leases		**253,815**	229,899
Long term receivable from ultimate holding company	23	**131,813**	231,813
Available-for-sale investments	24	**1,997**	1,997
Deferred tax assets	25	**1,682,203**	2,022,652
		99,368,268	89,983,652
CURRENT ASSETS			
Aircraft held for sale	26	**130,814**	350,896
Inventories	27	**1,384,706**	1,242,597
Accounts receivable	28	**2,054,265**	1,850,289
Bills receivable		**2,489**	1,604
Prepayments, deposits and other receivables	29	**1,230,794**	1,555,908
Derivative financial instruments	30	**–**	253,406
Due from ultimate holding company	31	**461,147**	361,892
Due from related companies	32	**10,194**	7,537
Tax recoverable		**4,840**	55,625
Pledged deposits	33	**564,747**	1,750,460
Cash and cash equivalents	33	**2,706,758**	2,987,358
		8,550,754	10,417,572
TOTAL ASSETS		**107,919,022**	100,401,224
CURRENT LIABILITIES			
Air traffic liabilities		**(2,434,353)**	(2,262,338)
Accounts payable	34	**(6,045,733)**	(6,923,895)
Bills payable	35	**(763,255)**	(1,420,438)
Other payables and accruals	36	**(4,645,406)**	(4,689,649)
Derivative financial instruments	30	**(2,274,627)**	(7,727,918)
Due to related companies	32	**(113,024)**	(62,924)
Tax payable		**(39,073)**	(10,332)
Obligations under finance leases	37	**(3,454,233)**	(4,064,038)
Interest-bearing bank and other borrowings	38	**(17,160,442)**	(15,330,837)
Provision for major overhauls	39	**(268,418)**	(232,926)
		(37,198,564)	(42,725,295)
NET CURRENT LIABILITIES		**(28,647,810)**	(32,307,723)
TOTAL ASSETS LESS CURRENT LIABILITIES		**70,720,458**	57,675,929

Consolidated Statement of Financial Position

31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	37	**(15,366,475)**	(16,480,784)
Interest-bearing bank and other borrowings	38	**(27,321,078)**	(17,342,868)
Provision for major overhauls	39	**(1,318,708)**	(1,262,921)
Provision for early retirement benefit obligations		**(210,006)**	(211,209)
Long term payables	40	**(180,420)**	(44,785)
Deferred income related to frequent-flyer programme	41	**(790,883)**	(689,233)
Deferred income related to government grant	42	**(1,314,671)**	(795,080)
Deferred tax liabilities	25	**(263,750)**	(392,543)
		(46,765,991)	(37,219,423)
NET ASSETS		**23,954,467**	20,456,506
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	43	**12,251,362**	12,251,362
Treasury shares	44	**(2,319,879)**	(1,353,714)
Reserves	45	**13,984,413**	9,045,204
		23,915,896	19,942,852
MINORITY INTERESTS		**38,571**	513,654
TOTAL EQUITY		**23,954,467**	20,456,506

Cai Jianjiang
Director

Fan Cheng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Attributable to owners of the parent									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2008	12,251,362	(1,283,492)	12,328,280	1,351,000	(988,020)	6,117,083	837,987	30,614,200	138,050	30,752,250
Total comprehensive loss for the year	–	–	(171,787)	–	(608,032)	(9,255,822)	–	(10,035,641)	(114,148)	(10,149,789)
Final 2007 dividend declared	–	–	–	–	–	–	(837,987)	(837,987)	–	(837,987)
Transfer to reserve funds *(note 13(b))*	–	–	–	264,700	–	(264,700)	–	–	–	–
Acquisition of minority interest of a subsidiary	–	–	272,502	–	–	–	–	272,502	489,752	762,254
Elimination for reciprocal shareholding *(note 44)*	–	(70,222)	–	–	–	–	–	(70,222)	–	(70,222)
As at 31 December 2008 and 1 January 2009	12,251,362	(1,353,714)	12,428,995*	1,615,700*	(1,596,052)*	(3,403,439)*	–	19,942,852	513,654	20,456,506
As at 1 January 2009	**12,251,362**	**(1,353,714)**	**12,428,995**	**1,615,700**	**(1,596,052)**	**(3,403,439)**	**–**	**19,942,852**	**513,654**	**20,456,506**
Total comprehensive income/(loss) for the year	**–**	**–**	**344,437**	**–**	**(28,356)**	**4,854,234**	**–**	**5,170,315**	**(51,151)**	**5,119,164**
Acquisition of minority interest of a subsidiary	**–**	**–**	**(231,106)**	**–**	**–**	**–**	**–**	**(231,106)**	**(487,515)**	**(718,621)**
Acquisition of additional interest in an associate *(note 49)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,940**	**15,940**
Capital contribution from minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,643**	**47,643**
Elimination for reciprocal shareholding *(note 44)*	**–**	**(966,165)**	**–**	**–**	**–**	**–**	**–**	**(966,165)**	**–**	**(966,165)**
As at 31 December 2009	**12,251,362**	**(2,319,879)**	**12,542,326***	**1,615,700***	**(1,624,408)***	**1,450,795***	**–**	**23,915,896**	**38,571**	**23,954,467**

* These reserve accounts comprise the consolidated reserves of RMB13,984,413,000 (2008: RMB9,045,204,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**5,066,285**	(10,977,680)
Adjustments for:			
Share of profits and losses of associates		**(623,992)**	1,183,513
Gain on disposal of subsidiaries and an associate		**–**	(477,680)
Exchange gains, net	8	**(109,642)**	(1,486,746)
Dividend income from available-for-sale investments	8	**(4,212)**	(302)
Loss/(gain) on derivative financial instruments, net		**(5,415,699)**	7,727,221
Depreciation	16	**7,051,272**	6,365,275
Impairment loss on property, plant and equipment	16	**220,703**	74,835
Gain on disposal of property, plant and equipment	5	**(36,149)**	(29,624)
Loss on derecognition of property, plant and equipment	7	**103,773**	26,300
Gain on acquisition of additional interest in an associate		**(129)**	–
Amortisation of lease prepayments	17	**40,045**	28,656
Impairment of aircraft held for sale	26	**–**	206,566
Impairment of inventories		**18,360**	36,135
Impairment of accounts receivable	28	**15,758**	653
Interest income	8	**(24,410)**	(97,389)
Interest expense, net of interest capitalised	8	**1,198,283**	1,793,683
Increase in capital reserve		**–**	61,420
		7,500,246	4,434,836
Decrease in deposits for aircraft under operating leases		**7,549**	29,790
Increase in inventories		**(151,983)**	(136,733)
Decrease/(increase) in accounts receivable		**(199,657)**	860,291
Increase in bills receivable		**(885)**	(5)
Decrease/(increase) in prepayments, deposits and other receivables		**137,258**	(273,560)
Decrease in an amount due from ultimate holding company		**745**	73,237
Decrease/(increase) in amounts due from related companies		**(2,657)**	15,344
Increase/(decrease) in air traffic liabilities		**172,015**	(324,064)
Increase/(decrease) in accounts payable		**(851,013)**	1,108,202
Increase/(decrease) in bills payable		**(657,183)**	1,420,438
Increase in other payables and accruals		**140,699**	457,074
Increase in amounts due to related companies		**50,100**	17,782
Increase in provision for major overhauls		**91,279**	176,733
Increase/(decrease) in provision for early retirement benefit obligations		**(1,203)**	46,372
Increase/(decrease) in deferred income		**621,241**	(168,605)
Cash generated from operations		**6,856,551**	7,737,132
Interest paid		**(1,419,409)**	(2,093,441)
Corporate income tax received/(paid) in Mainland China		**27,948**	(650,051)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**5,465,090**	4,993,640

Consolidated Statement of Cash Flows

Year ended 31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(7,253,907)	(8,151,769)
Proceeds from disposal of property, plant and equipment		485,948	90,515
Increase in lease prepayments		(43,308)	(625,836)
Acquisition of intangible asset		(1,489)	(21,476)
Decrease/(Increase) in advance payments for aircraft and related equipment		(662,901)	599,857
Realised loss on interest rate derivative contracts		(24,901)	(20,325)
Decrease in amounts due from associates		132,454	22,005
Increase/(decrease) in amounts due to associates		(359,471)	349,766
Decrease/(Increase) in pledged deposits		1,185,713	(1,631,836)
Decrease in non-pledged deposits with original maturity of more than three months when acquired		7,847	1,390,883
Interest received		24,410	97,389
Proceeds from disposal of subsidiaries and an associate		475	802,201
Acquisition of additional interest in an associate		(3,290)	–
Acquisition of additional interest in a joint venture		–	(711,750)
Acquisition of minority interest of a subsidiary		(646,819)	–
Capital contributions to an associate		(5,591,107)	–
Contribution from minority interests		47,643	–
Dividends received from available-for- sale investments		4,212	302
Dividends received from associates		31,668	608,207
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(12,665,823)	(7,201,867)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, other loans and corporate bonds		34,163,054	17,404,349
Repayment of bank and other loans		(22,378,763)	(11,306,135)
Repayment of principals amounts under finance lease obligations		(4,971,457)	(2,232,655)
Increase/(decrease) in long term payables		135,636	(157,234)
Dividends paid		–	(837,987)
NET CASH FLOWS FROM FINANCING ACTIVITIES		6,948,470	2,870,338
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(252,263)	662,111
Cash and cash equivalents at beginning of year		2,949,062	2,477,341
Effect of exchange rate changes on cash and cash equivalents		(20,490)	(190,390)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,676,309	2,949,062
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	33	2,109,799	2,668,728
Non-pledged time with original maturity of less than three months when acquired	33	566,510	280,334
		2,676,309	2,949,062

Statement of Financial Position

31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**69,587,190**	66,570,539
Lease prepayments	17	**1,584,437**	1,572,711
Intangible asset	18	**49,267**	60,147
Interests in subsidiaries	20	**15,886,768**	10,707,219
Interests in joint ventures	21	**568,487**	303,287
Interests in associates	22	**787,539**	833,203
Advance payments for aircraft and related equipment		**7,501,738**	7,052,508
Deposits for aircraft under operating leases		**182,406**	166,689
Long term receivable from ultimate holding company	23	**131,813**	231,813
Available-for-sale investments	24	**3,366**	3,516
Deferred tax assets	25	**1,626,750**	1,974,543
		97,909,761	89,476,175
CURRENT ASSETS			
Aircraft held for sale	26	**131,702**	307,598
Inventories	27	**850,518**	741,916
Accounts receivable	28	**1,229,420**	1,210,055
Bills receivable		**2,268**	965
Prepayments, deposits and other receivables	29	**806,642**	1,411,527
Derivative financial instruments	30	**–**	253,406
Due from ultimate holding company	31	**468,447**	376,894
Tax recoverable		**4,012**	55,625
Pledged deposits	33	**–**	2,274
Cash and cash equivalents	33	**1,089,515**	1,508,947
		4,582,524	5,869,207
TOTAL ASSETS		**102,492,285**	95,345,382
CURRENT LIABILITIES			
Air traffic liabilities		**(2,344,522)**	(2,150,322)
Accounts payable	34	**(5,045,817)**	(5,572,222)
Bills payable	35	**(160,000)**	(1,493,815)
Other payables and accruals	36	**(3,761,517)**	(3,989,851)
Derivative financial instruments	30	**(2,274,627)**	(7,727,918)
Due to related companies	32	**(26,363)**	(24,878)
Tax payable		**–**	(202)
Obligations under finance leases	37	**(3,454,233)**	(4,064,038)
Interest-bearing bank and other borrowings	38	**(15,914,985)**	(14,636,854)
Provision for major overhauls	39	**(168,548)**	(232,926)
		(33,150,612)	(39,893,026)
NET CURRENT LIABILITIES		**(28,568,088)**	(34,023,819)
TOTAL ASSETS LESS CURRENT LIABILITIES		**69,341,673**	55,452,356

Statement of Financial Position

31 December 2009
(Prepared under International Financial Reporting Standards)

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	37	**(15,366,475)**	(16,480,784)
Interest-bearing bank and other borrowings	38	**(26,125,849)**	(15,855,636)
Provision for major overhauls	39	**(1,064,181)**	(973,006)
Provision for early retirement benefit obligations		**(94,438)**	(112,754)
Long term payables	40	**(9,449)**	(44,785)
Deferred income related to frequent-flyer programme	41	**(785,027)**	(681,000)
Deferred income related to government grant	42	**(1,310,591)**	(795,080)
Deferred tax liabilities	25	**(263,750)**	(392,543)
		(45,019,760)	(35,335,588)
NET ASSETS		**24,321,913**	20,116,768
EQUITY			
Issued capital	43	**12,251,362**	12,251,362
Reserves	45	**12,070,551**	7,865,406
TOTAL EQUITY		**24,321,913**	20,116,768

Cai Jianjiang
Director

Fan Cheng
Director

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 while the Company's A shares 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 26 February 2009, the Company issued its first tranche of medium-term notes (the "Notes") with a total offering size of RMB3,000 million. The first tranche will mature in three years with a coupon rate of 3.32%. The second tranche of the Notes was issued on 19 March 2009 with a total offering size of RMB3,000 million. The second tranche of the Notes will mature in five years with a coupon rate of 3.48%. The proceeds of both tranches of the Notes were received by the Company on 27 February 2009 and 20 March 2009, respectively.

On 2 April 2009, the Company and Capital Airports Holding Company ("Capital Airports") entered into an agreement, pursuant to which the Company agreed to purchase from Capital Airports its 24% equity interest in the issued capital of Air China Cargo Co., Ltd. ("Air China Cargo") for an aggregate consideration of approximately RMB718 million. The transaction was completed on 16 November 2009 and upon completion of the transaction the Company's interest in Air China Cargo increased from 76% to 100%.

On 17 August 2009, the Company and CITIC Pacific Limited ("CITIC Pacific") entered into an agreement, pursuant to which the Company agreed to purchase from CITIC Pacific 491,864,724 shares in Cathay Pacific Airways Limited ("Cathay Pacific") for an aggregate consideration of approximately HK$6,335 million. The transaction was completed on November 27 2009 and upon completion of the transaction the Company's equity interest in Cathay Pacific increased from 17.5% to 29.99%.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) and the disclosure requirements of the Hong Kong Companies Ordinance.

As at 31 December 2009, the Group's net current liabilities amounted to approximately RMB28,648 million, which comprised current assets of approximately RMB8,551 million and current liabilities of approximately RMB37,199 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value, and aircraft held for sale, which have been stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

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 – Improving Disclosure about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
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*
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers*
Improvements to IFRSs (May 2008)	*Amendments to a number of IFRSs*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) 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*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. IAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised IFRSs (Continued)

(b) Amendments to IFRS 2 *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 amendment has had no impact on the financial position or results of operation of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 54 to the financial statements while the revised liquidity risk disclosures are presented in note 55 to the financial statements.

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces 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. These revised disclosures, including the related revised comparative information, are shown in note 3 to the 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 elected to present two statements.

(f) *Amendment to Appendix to IAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised IFRSs (Continued)

(g) 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 is unlikely to have any financial impact on the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements – 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. The 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 are unlikely to have any financial impact on the Group.

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

The amendment to IFRIC 9 requires 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. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with IAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

(k) 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 is unlikely to have any financial impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised IFRSs (Continued)

(l) IFRIC 18 *Transfers of Assets from Customers*

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognise such assets. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) The IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

- IAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

- IAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- IAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial* Reporting Standards – Additional Exemptions for First-time Adopters[2]
IFRS 1 Amendments	Amendments to IFRS *1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

(a) IFRS 1 *(Revised) First-time Adoption of IFRSs*

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

(b) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

(c) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The IFRS 1 Amendments provide receive relief from providing comparative period disclosures required by the IFRS 7 Amendments as the current IFRS preparers. Consistent with their Basis for Conclusions on the IFRS 7 Amendments, the Board reasoned that to avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current IFRS preparers, first-time adopters should be permitted to use the same transitional provisions as current IFRS preparers, i.e. relief from providing comparative information for the disclosures required by the IFRS 7 Amendments. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

(d) Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

(e) IFRS 3 (Revised) *Business Combinations*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

(f) IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

(g) IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The Group expects to adopt IFRS 9 from 1 January 2013. In accordance with the transitional provisions of IFRS 9, the Group is not required to restate prior period amounts.

(h) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

(i) Amendment to IAS 32 Financial Instruments: *Presentation – Classification of Rights Issues*

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the Amendment to IAS 32 from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

(j) Amendment to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items*

The IAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the IAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

(k) Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

(l) IFRIC 17 *Distributions of Non-cash Assets to Owners*

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

(m) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

(n) Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*

The amendments to IFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

(o) *Improvements to IFRSs 2009* issued in May 2009 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and joint ventures for the year ended 31 December 2009. The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the Company. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Joint ventures are proportionally consolidated from the date on which joint control is transferred to the Group and cease to be proportionally consolidated from the date on which joint control is transferred out of the Group. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

Foreign currencies

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

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the rates of exchange ruling at the end of the reporting period and their income statements are translated into RMB at the average exchange rates for the period of the translations. The exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve within equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign entity is recognised in the income statement.

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

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in joint ventures

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

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

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

Interests in associates

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

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

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

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

Goodwill

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

	Estimated useful life	Residual value
Aircraft and flight equipment	2 to 25 years	Nil – 5%
Buildings	15 to 35 years	5%
Machinery, transportation equipment and office equipment	3 to 20 years	5%

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

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

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

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

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

Non-current assets and disposal groups held for sale

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

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

Lease prepayments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

Leases

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

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

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

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

Advance payments for aircraft and related equipment

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

Impairment of non-financial assets other than goodwill

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill (Continued)

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classifications as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance revenue in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or has assumed obligations to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

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

Available-for-sale financial investments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at banks and on hand and short term deposits, which are not restricted as to use.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at banks and on hand and short term deposits with an original maturity of three months or less, which are not restricted as to use.

Manufacturers' credits

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

Provisions

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) *Pension obligations*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. In addition to these plans, the Company and Air China Cargo also implements an additional defined contribution retirement scheme for voluntary employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement in accordance with the rules of the scheme.

(b) *Termination and early retirement benefits*

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

(c) *Housing benefits*

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(d) Share-based payment transactions

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

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

Maintenance and overhaul costs

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

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

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

Frequent-flyer programme

The Group operates a frequent-flyer programme which allows customers to earn miles when they purchase air tickets from the Group. The miles can then be redeemed for free services or products, subject to a minimum number of points to be obtained. The consideration received or receivable from the tickets sold is allocated between the miles earned by the frequent-flyer programme members and the other components of the sales transactions. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

(a) *Provision of airline and airline-related services*

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

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

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

Revenue is stated net of business tax.

(b) *Sale of goods*

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

(c) *Interest income*

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

(d) *Dividend income*

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

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

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

Government grants

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax (continued)

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

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 0.8% and 7.0% (2008: ranging between 2.3% and 7.0%) has been applied to the expenditure on the individual asset.

All other borrowing costs are recognised as expenses when incurred.

Dividends

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

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

Significant accounting judgements and estimates

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

Judgements

In the process of applying the Group's accounting policies, management has made judgements regarding revenue recognition, classification of leases, classification of financial instruments, impairment indication of financial assets, classification of assets held for sale, derecognition of financial instruments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty

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

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was RMB347 million (2008: RMB347 million). More details are given in note 19 to the financial statements.

(b) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2009 was RMB188 million (2008: RMB453 million). The amount of unrecognised tax losses as at 31 December 2009 was RMB47 million (2008: RMB42 million). Further details are contained in note 25 to the financial statements.

(d) Overhaul cost

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty (Continued)

(e) Deferred income

The amount of revenue attributable to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the fair value of the miles awarded and the expected redemption rate. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed.

(f) Early retirement benefits

Early retirement benefits are occurred and charged to the income statement when the conditions for early retirement are realised. The estimated liabilities were affected by the uncertainty the changes in salary standards, life expectancy of early retired employees and discount rate.

(g) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived directly from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(h) Share-based payment

The Group measures the cost of cash-settled transactions with employees by reference to the instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model and making assumptions about them. The assumptions and models used for estimating fair value for SARs are disclosed in note 46 to the financial statements.

3 OPERATING 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; and

(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. 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 years ended 31 December 2009 and 2008:

Year ended 31 December 2009

	Airline Operations *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
REVENUE				
Sales to external customers	**50,974,898**	**120,471**	**–**	**51,095,369**
Intersegment sales	**–**	**527,504**	**(527,504)**	**–**
Total revenue	**50,974,898**	**647,975**	**(527,504)**	**51,095,369**
SEGMENT PROFIT	**4,962,617**	**66,834**	**–**	**5,029,451**

Year ended 31 December 2008

	Airline Operations *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	52,890,066	79,932	–	52,969,998
Intersegment sales	–	488,629	(488,629)	–
Total revenue	52,890,066	568,561	(488,629)	52,969,998
SEGMENT PROFIT/(LOSS)	(9,293,673)	144,593	–	(9,149,080)

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

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

	Airline Operations RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
SEGMENT ASSETS				
As at 31 December 2009	**105,239,001**	**2,367,196**	**(1,442,990)**	**106,163,207**
As at 31 December 2008	97,533,686	3,231,135	(1,865,742)	98,899,079

	Airline Operations RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
SEGMENT LIABILITIES				
As at 31 December 2009	**82,653,223**	**991,531**	**(1,442,990)**	**82,201,764**
As at 31 December 2008	79,220,600	1,256,679	(1,865,742)	78,611,537

	Airline Operations RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
OTHER SEGMENT INFORMATION				
Year ended 31 December 2009				
Share of profits of associates and joint ventures	**566,866**	**39,739**	**–**	**606,605**
Gains from changes in fair value	**2,759,580**	**–**	**–**	**2,759,580**
Impairment losses in assets recognised in the income statement	**161,161**	**86**	**–**	**161,247**
Non-operating income	**1,161,942**	**6,577**	**–**	**1,168,519**
Non-operating expenses	**66,595**	**462**	**–**	**67,057**
Tax	**328,945**	**7,468**	**–**	**336,413**
Investments in associates and joint ventures	**11,804,145**	**1,427,390**	**–**	**13,231,535**
Capital expenditure	**11,254,926**	**4,963**	**–**	**11,259,889**
Depreciation and amortisation	**6,900,911**	**12,576**	**–**	**6,913,487**

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Airline Operations *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Year ended 31 December 2008				
Share of profits and losses of associates and joint ventures	(1,273,306)	91,165	–	(1,182,141)
Loss from changes in fair value	(8,154,835)	–	–	(8,154,835)
Impairment losses in assets recognised in the income statement	258,860	28	–	258,888
Non-operating income	357,312	6,687	–	363,999
Non-operating expenses	144,964	52	–	145,016
Tax	(1,606,739)	14,841	–	(1,591,898)
Investments in associates and joint ventures	6,126,152	1,196,331	–	7,322,483
Capital expenditure	15,494,464	6,682	–	15,501,146
Depreciation and amortisation	6,259,190	8,201	–	6,267,391

The following tables present the reconciliations of reportable segment revenue, profit/(loss), assets and liabilities to the Group's consolidated amounts under IFRS:

	2009 ***RMB'000***	2008 *RMB'000*
REVENUE		
Total revenue for reportable segments	**51,095,369**	52,969,998
Business tax not included in segment revenue	**(1,505,061)**	(1,085,137)
Other income not included in segment revenue	**1,168,656**	442,604
Effects of differences between IFRS and CAS	**634,227**	580,696
Revenue for the year	**51,393,191**	52,908,161
PROFIT/(LOSS)		
Total profit/(loss) for reportable segments	**5,029,451**	(9,149,080)
Effects of differences between IFRS and CAS	**(175,217)**	(106,742)
Profit/(loss) for the year	**4,854,234**	(9,255,822)

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	2009 *RMB'000*	2008 *RMB'000*
ASSETS		
Total assets for reportable segments	**106,163,207**	98,899,079
Effects of differences between IFRS and CAS	**1,755,815**	1,502,145
Total assets	**107,919,022**	100,401,224

	2009 *RMB'000*	2008 *RMB'000*
LIABILITIES		
Total liabilities for reportable segments	**82,201,764**	78,611,537
Effects of differences between IFRS and CAS	**1,762,791**	1,333,181
Total liabilities	**83,964,555**	79,944,718

Geographical information

The following tables present the Group's consolidated revenue by geographical distribution for the years ended 31 December 2009 and 2008:

Year ended 31 December 2009

	Mainland China *RMB'000*	**Hong Kong, Macau and Taiwan** *RMB'000*	**Europe** *RMB'000*	**North America** *RMB'000*	**Japan and Korea** *RMB'000*	**Asia Pacific and others** *RMB'000*	**Total** *RMB'000*
Sales to external customers and total revenue	**31,361,693**	**2,799,148**	**6,521,619**	**4,276,895**	**3,574,775**	**2,859,061**	**51,393,191**

Year ended 31 December 2008

	Mainland China *RMB'000*	Hong Kong, Macau and Taiwan *RMB'000*	Europe *RMB'000*	North America *RMB'000*	Japan and Korea *RMB'000*	Asia Pacific and others *RMB'000*	Total *RMB'000*
Sales to external customers and total revenue	27,272,415	3,559,564	8,971,139	5,708,150	4,205,811	3,191,082	52,908,161

Information about a major customer

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue.

4 AIR TRAFFIC REVENUE

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Passenger	**42,695,432**	43,352,020
Cargo and mail	**5,396,211**	7,184,675
	48,091,643	50,536,695

Pursuant to the relevant business tax rules and regulations in Mainland China, the air traffic revenue for all domestic and international flights is subject to business tax at a rate of 3% during the year ended 31 December 2009 (all inbound international, Hong Kong and Macau regional flights are exempted from business tax during the year ended 31 December 2008). Business tax incurred and set off against air traffic revenue for the year ended 31 December 2009 amounted to approximately RMB1,467 million (2008: RMB1,047 million).

5 OTHER OPERATING REVENUE

	Group	
	2009	2008
	RMB'000	*RMB'000*
Aircraft engineering income	**611,158**	613,784
Ground service income	**594,102**	547,571
Air catering income	**–**	86,234
Government grants and subsidies:		
Refund of CAAC Infrastructure Development Fund	**830,418**	–
Recognition of deferred income related to government grant *(note 42)*	**76,943**	76,943
Others	**319,991**	331,358
Service charges on return of unused flight tickets	**198,103**	186,002
Cargo handling service income	**122,921**	129,167
Sale of materials	**22,611**	20,415
Import and export service income	**16,058**	8,784
Training service income	**15,775**	23,955
Rental income:		
Aircraft related equipment	**23,535**	14,952
Others	**26,237**	24,974
Gain on disposal of property, plant and equipment, net	**36,149**	29,624
Others	**407,547**	277,703
	3,301,548	2,371,466

6 EMPLOYEE COMPENSATION COSTS

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Wages, salaries and social security costs	**5,992,568**	5,424,748
Retirement benefit costs *(note 10)*	**629,189**	439,733
Share-based benefits *(note 46)*	**5,651**	(20,594)
	6,627,408	5,843,887

7 PROFIT/(LOSS) FROM OPERATIONS

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Auditors' remuneration	**11,934**	13,789
Depreciation *(note 16)*	**7,051,272**	6,365,275
Impairment of property, plant and equipment *(note 16)*	**220,703**	74,835
Loss on derecognition of property, plant and equipment	**103,773**	26,300
Amortisation of lease prepayments *(note 17)*	**40,045**	28,656
Minimum lease payments under operating leases:		
Aircraft and related equipment	**2,319,211**	2,400,060
Land and buildings	**477,716**	444,483
Impairment of aircraft held for sale *(note 26)*	**–**	206,566
Impairment of inventories	**18,360**	36,135
Impairment of accounts receivable *(note 28)*	**15,758**	653

8 FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	Group	
	2009	2008
	RMB'000	*RMB'000*
Exchange gains, net	**109,642**	1,486,746
Interest income	**24,410**	97,389
Dividend income from available-for-sale investments	**4,212**	302
Gain on interest rate derivative contracts, net	**1,356**	–
	139,620	1,584,437

Finance costs

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest on interest-bearing bank and other borrowings	**1,074,544**	1,531,015
Interest on finance leases	**337,380**	580,447
Loss on interest rate derivative contracts, net	**–**	255,630
	1,411,924	2,367,092
Less: Interest capitalised	**(213,641)**	(317,779)
	1,198,283	2,049,313

The interest capitalisation rates ranging from 0.8% to 7.0% (2008: 2.3% to 7.0%) per annum represented the cost of related borrowings during the year.

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Fees	**240**	240
Basic salaries, housing benefits, other allowances and benefits in kind	**923**	766
Discretionary bonuses	**824**	1,178
Retirement benefits	**97**	87
	2,084	2,271

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009					
Directors					
Kong Dong	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–
Wang Shixiang	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Chen Nan Lok Philip	–	–	–	–	–
Cai Jianjiang	–	260	357	26	643
Fan Cheng	–	238	315	26	579
Hu Hung Lick, Henry	60	–	–	–	60
Zhang Ke	60	–	–	–	60
Jia Kang	60	–	–	–	60
Fu Yang	30	–	–	–	30
Wu Zhipan	30	–	–	–	30
	240	498	672	52	1,462
Supervisors					
Sun Yude	–	–	–	–	–
He Chaofan	–	–	–	–	–
Zhou Guoyou	–	–	–	–	–
Chen Bangmao	–	101	36	9	146
Su Zhiyong	–	56	25	4	85
Liu Feng	–	186	77	18	281
Liu Guoqing	–	82	14	14	110
	–	425	152	45	622
	240	923	824	97	2,084

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Year ended 31 December 2008					
Directors					
Kong Dong	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–
Wang Shixiang	–	–	–	–	–
Yao Weiting	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–
Chen Nan Lok Philip	–	–	–	–	–
Ma Xulun	–	–	–	–	–
Cai Jianjiang	–	259	514	23	796
Fan Cheng	–	236	462	23	721
Hu Hung Lick, Henry	60	–	–	–	60
Wu Zhipan	60	–	–	–	60
Zhang Ke	60	–	–	–	60
Jia Kang	60	–	–	–	60
	240	495	976	46	1,757
Supervisors					
Sun Yude	–	–	–	–	–
Liao Wei	–	–	–	–	–
He Chaofan	–	–	–	–	–
Zhou Guoyou	–	–	–	–	–
Liu Feng	–	173	170	23	366
Liu Guoqing	–	98	32	18	148
	–	271	202	41	514
	240	766	1,178	87	2,271

Fees of RMB240,000 (2008: RMB240,000) were paid or payable to the Company's Independent Non-Executive Directors during the year. There were no other emoluments payable to the Independent Non-Executive Directors during the year (2008: Nil).

The discretionary bonuses disclosed above were determined based on the Group's operating result of the prior year and were approved in the current year. The discretionary bonuses for the current year would be determined based on the Group's operating results for 2009 and will be approved by the Board meeting in 2010.

9 REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

In addition to the above, certain Directors and Supervisors have been granted SARs in respect of their services to the Group, further details of which are set out in note 46 to the financial statements.

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

	Group	
	2009	2008
	Number of individuals	*Number of individuals*
Directors	**1**	1
Employees	**4**	4

The emoluments paid to the four (2008: four) non-director and non-supervisor highest paid employees are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**3,581**	3,704
Retirement benefits	**52**	47
	3,633	3,751

The number of these four (2008: four) non-director and non-supervisor highest paid employees whose remuneration for the year fell within the following bands:

	Group	
	2009	2008
	Number of individuals	*Number of individuals*
Nil to HK$1,000,000 (equivalent to Nil to RMB880,480; 2008: Nil to RMB909,144)	**2**	3
HK$1,000,001 to HK$1,500,000 (equivalent to RMB880,481 to RMB1,320,720; 2008: RMB909,145 to RMB1,363,718)	**2**	1
	4	4

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year (2008: Nil).

10 RETIREMENT BENEFIT COSTS

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Contributions to defined contribution retirement scheme	**606,955**	367,938
Early retirement benefits	**22,234**	71,795
Total retirement benefit costs *(note 6)*	**629,189**	439,733

As at 31 December 2009, no forfeited contributions were available to reduce the Group's contributions to the defined contribution retirement schemes operated by the Group in future years (2008: Nil).

11 TAX

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain of the Company's subsidiaries and joint ventures, which are taxed at the preferential rates ranging from 15% to 20% (2008: 12.5% to 18%), the PRC entities within the Group are subject to corporate income tax at a rate of 25% (2008: 25%) during the year.

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. 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:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Current income tax – Mainland China:		
Provision for the year	**51,578**	38,121
Overprovision in prior year	**–**	(541,865)
	51,578	(503,744)
Deferred income tax *(note 25)*	**211,656**	(1,106,906)
Income tax charge/(credit) for the year	**263,234**	(1,610,650)

The Group's share of tax credit attributable to associates amounting to RMB118,890,000 (2008: share of tax charge of RMB239,425,000) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement.

11 TAX (Continued)

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rate for Mainland China in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2009		2008	
	RMB'000	**%**	*RMB'000*	%
Profit/(loss) before tax	**5,066,285**		(10,977,680)	
Tax at the statutory tax rate	**1,266,571**	**25.0**	(2,744,420)	25.0
Tax effect of share of profits and losses of associates, net	**(155,998)**	**(3.1)**	295,815	(2.7)
Lower income tax rates enacted by other territories	**29,159**	**0.6**	28,038	(0.3)
Adjustment in respect of current income tax of previous periods	**–**	**–**	(142,802)	1.3
Income not subject to tax	**(20,005)**	**(0.4)**	(134,807)	1.3
Expenses not deductible for tax	**30,270**	**0.6**	35,333	(0.3)
Tax losses recognised from previous periods	**–**	**–**	(19,511)	0.2
Deductible temporary differences and tax losses not recognised	**60,467**	**1.2**	1,071,704	(9.8)
Utilisation of deductible temporary differences not recognised in previous periods	**(947,230)**	**(18.7)**	–	–
At the Group's effective income tax rate	**263,234**	**5.2**	(1,610,650)	14.7

As at 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures as the Directors of the Company have no intention to request remittance of any significant amount of earnings to the Company in the foreseeable future.

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

12 PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of approximately RMB4,204 million (2008: a loss of RMB8,375 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB4 million (2008: RMB159 million) from the Company's total comprehensive income of approximately RMB4,208 million (2008: total comprehensive loss of RMB8,216 million) that has been dealt with in the financial statements of the Company (note 45).

13 APPROPRIATIONS

	Company	
	2009	2008
	RMB'000	*RMB'000*
Interim dividend – Nil (2008: Nil)	–	–
Proposed final dividend – Nil (2008: Nil)	–	–
	–	–

(a) No proposed final dividend has been proposed for 2009 (2008: Nil).

(b) Under the PRC Company Law and the Company's articles of association, profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances has been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under CAS. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company;

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

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

14 EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of approximately RMB4,854 million, and the weighted average number of ordinary shares of 11,836,742,055 in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding.

The calculation of basic loss per share for the year ended 31 December 2008 was based on the loss attributable to equity holders of the Company for the year ended 31 December 2008 of approximately RMB9,256 million, and the weighted average number of ordinary shares of 11,864,209,374 in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

15. NOTE TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 ***RMB'000***	2008 *RMB'000*
Share of reserve movements of associates during the year:		
Gains arising during the year	**347,437**	(227,830)
Less: Reclassification adjustment upon disposal of subsidiaries and an associate	**–**	(5,377)
	347,437	(233,207)

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2008, net of accumulated depreciation	53,751,163	2,699,680	958,028	586,469	149,855	3,546,478	61,691,673
Additions	11,427,465	13,896	107,164	63,007	111,967	3,984,503	15,708,002
Acquisition of additional interest in a joint venture	1,220,474	125,334	64,960	34,374	–	53,487	1,498,629
Disposals	(120,986)	(16,459)	(3,808)	(3,255)	(753)	–	(145,261)
Disposal of subsidiaries	–	(69,769)	(22,254)	(46,987)	(2,205)	(139,474)	(280,689)
Transfer from construction in progress	1,719,070	1,030,774	400,200	337,868	14,393	(3,502,305)	–
Reclassification to aircraft held for sale under current assets *(note 26)*	(195,249)	–	–	–	–	–	(195,249)
Impairment	(74,835)	–	–	–	–	–	(74,835)
Depreciation charge for the year	(5,776,824)	(149,402)	(211,868)	(159,503)	(67,678)	–	(6,365,275)
Exchange realignment	(10,143)	(3,910)	–	(1,942)	–	–	(15,995)
As at 31 December 2008 and 1 January 2009, net of accumulated depreciation	61,940,135	3,630,144	1,292,422	810,031	205,579	3,942,689	71,821,000
Additions	7,576,858	42,679	100,507	70,346	95,883	2,925,343	10,811,616
Acquisition of additional interest in an associate *(note 49)*	–	9,760	8,013	1,029	1,146	–	19,948
Disposals	(214,138)	(100,969)	(5,529)	(2,830)	(1,710)	–	(325,176)
Transfer from construction in progress	2,324,048	265,495	104,268	18,505	2,418	(2,714,734)	–
Reclassification to aircraft held for sale under current assets *(note 26)*	(8,316)	–	–	–	–	–	(8,316)
Impairment	(216,997)	(3,706)	–	–	–	–	(220,703)
Depreciation charge for the year	(6,392,518)	(166,586)	(235,136)	(176,726)	(80,306)	–	(7,051,272)
Exchange realignment	(1,632)	(423)	–	(172)	–	–	(2,227)
As at 31 December 2009, net of accumulated depreciation and impairment	**65,007,440**	**3,676,394**	**1,264,545**	**720,183**	**223,010**	**4,153,298**	**75,044,870**
As at 31 December 2008 and 1 January 2009							
Cost	103,087,583	5,082,355	3,012,386	1,863,624	487,525	3,942,689	117,476,162
Accumulated depreciation and impairment	(41,147,448)	(1,452,211)	(1,719,964)	(1,053,593)	(281,946)	–	(45,655,162)
Net book value	61,940,135	3,630,144	1,292,422	810,031	205,579	3,942,689	71,821,000
As at 31 December 2009							
Cost	**111,477,725**	**5,261,192**	**3,195,779**	**1,916,792**	**582,542**	**4,153,298**	**126,587,328**
Accumulated depreciation and impairment	**(46,470,285)**	**(1,584,798)**	**(1,931,234)**	**(1,196,609)**	**(359,532)**	**–**	**(51,542,458)**
Net book value	**65,007,440**	**3,676,394**	**1,264,545**	**720,183**	**223,010**	**4,153,298**	**75,044,870**

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2008, net of accumulated depreciation	52,600,076	2,146,679	744,200	459,609	116,692	3,191,663	59,258,919
Additions	11,142,616	11,167	44,766	42,969	84,785	2,803,240	14,129,543
Disposals	(379,211)	(16,081)	(1,595)	(1,142)	(313)	–	(398,342)
Transfer from construction in progress	1,588,429	689,991	344,026	330,990	–	(2,953,436)	–
Reclassification to aircraft held for sale under current assets *(note 26)*	(349,107)	–	–	–	–	–	(349,107)
Depreciation charge for the year	(5,623,127)	(111,444)	(163,460)	(126,375)	(46,068)	–	(6,070,474)
As at 31 December 2008 and 1 January 2009, net of accumulated depreciation	58,979,676	2,720,312	967,937	706,051	155,096	3,041,467	66,570,539
Additions	7,475,705	26,564	71,930	45,094	75,941	2,420,704	10,115,938
Disposals	(185,403)	(97,513)	(4,090)	(980)	(360)	–	(288,346)
Transfer from construction in progress	1,635,780	93,308	83,521	11,085	84	(1,823,778)	–
Impairment	(216,997)	–	–	–	–	–	(216,997)
Depreciation charge for the year	(6,110,136)	(121,800)	(180,955)	(133,062)	(47,991)	–	(6,593,944)
As at 31 December 2009, net of accumulated depreciation	**61,578,625**	**2,620,871**	**938,343**	**628,188**	**182,770**	**3,638,393**	**69,587,190**
As at 31 December 2008 and 1 January 2009							
Cost	98,613,433	3,856,636	2,257,951	1,545,942	331,008	3,041,467	109,646,437
Accumulated depreciation	(39,633,757)	(1,136,324)	(1,290,014)	(839,891)	(175,912)	–	(43,075,898)
Net book value	58,979,676	2,720,312	967,937	706,051	155,096	3,041,467	66,570,539
As at 31 December 2009							
Cost	**106,222,993**	**3,840,598**	**2,387,192**	**1,573,560**	**405,146**	**3,638,393**	**118,067,882**
Accumulated depreciation and impairment	**(44,644,368)**	**(1,219,727)**	**(1,448,849)**	**(945,372)**	**(222,376)**	**–**	**(48,480,692)**
Net book value	**61,578,625**	**2,620,871**	**938,343**	**628,188**	**182,770**	**3,638,393**	**69,587,190**

As at 31 December 2009, the Group's aircraft and buildings with an aggregate net book value of approximately RMB9,688 million (2008: RMB12,057 million) were pledged to secure certain bank loans of the Group (note 38).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to RMB27,425 million (2008: RMB23,279 million) (note 37 (a)).

As at 31 December 2009, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB92 million (2008: RMB101 million) which were transferred from Air China International Corporation, the predecessor of the Company. The Group was also in the process of applying for the title certificates of certain buildings acquired by the Group with an aggregate net book value of approximately RMB1,284 million (2008: RMB1,197 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2009.

17 LEASE PREPAYMENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at 1 January	**2,039,004**	1,111,225	**1,655,483**	1,032,079
Additions	**43,308**	625,836	**43,308**	625,836
Acquisition of additional interest in a joint venture	**–**	306,636	**–**	–
Acquisition of additional interest in an associate *(note 49)*	**6,298**	–	**–**	–
Disposal	**–**	(4,693)	**–**	(2,432)
As at 31 December	**2,088,610**	2,039,004	**1,698,791**	1,655,483
Accumulated amortisation				
As at 1 January	**(93,746)**	(65,183)	**(82,772)**	(62,354)
Amortisation for the year	**(40,045)**	(28,656)	**(31,582)**	(20,511)
Disposal	**–**	93	**–**	93
As at 31 December	**(133,791)**	(93,746)	**(114,354)**	(82,772)
Net book value				
As at 31 December	**1,954,819**	1,945,258	**1,584,437**	1,572,711

The Group's lease prepayments comprise land use rights which are held under long term leases and are located in Mainland China.

As at 31 December 2009, the Group's land use rights with an aggregate net book value of approximately RMB35 million (2008: RMB36 million) were pledged to secure certain of the Group's bank loans (note 38(a)).

As at 31 December 2009, 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 RMB629 million (2008: RMB606 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned land use rights, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2009.

18 INTANGIBLE ASSET

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**60,147**	75,194	**60,147**	75,194
Deduction upon admission of new Star Alliance members	**(10,880)**	(15,047)	**(10,880)**	(15,047)
As at 31 December	**49,267**	60,147	**49,267**	60,147

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

19 GOODWILL

	Group	
	2009	2008
	RMB'000	*RMB'000*
As at 31 December	**346,845**	346,845

The Group's goodwill relates to the acquisition of 25% equity interest in Air China Cargo previously held by CITIC Pacific.

20 INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	*RMB'000*
Unlisted investments, at cost	**15,756,768**	10,327,299
Due from subsidiaries *(note 53)*	**391,490**	858,658
Due to subsidiaries *(note 53)*	**(261,490)**	(478,738)
	15,886,768	10,707,219

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

20 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2009 are as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of issued capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB2,200,000,000	75	25	Provision of cargo carriage services
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$400,000,000	69	31	Investment holding
Air Macau (澳門航空股份有限公司)	Macau	Limited liability company	MOP400,000,000	–	81	Airline operator
Air China Group Import and Export Trading Co. ("AIE") (國航集團進出口貿易公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Air Services Co., Ltd. # (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of airline catering and shuttle bus service
Air China Shantou Industrial Development Company (中國國際航空汕頭實業發展公司)	PRC/Mainland China	Limited liability company	RMB18,000,000	51	–	Manufacture and retail of aircraft supplies
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Shanghai Air China Aviation Service Co., Ltd. # (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service, air passenger, cargo and consultancy services
Beijing Golden Phoenix Human Resource Co., Ltd. # (北京金鳳凰人才資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB1,700,000	100	–	Provision of human resources services
Total Transform Group Limited (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Angel Paradise Limited	British Virgin Islands	Limited liability company	US$10	–	100	Investment holding
Chengdu Falcon Aircraft Engineering Service Co., Ltd. # ("Chengdu Falcon") (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB16,474,293	60	–	Provision of Aircraft maintenance and repair services

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2009 or formed a substantial portion of the net assets of the Group at 31 December 2009. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

21 INTERESTS IN JOINT VENTURES

	Company 2009 RMB'000	Company 2008 RMB'000
Unlisted investments, at cost	**568,487**	303,287

Particulars of the joint ventures of the Group as at 31 December 2009 are as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司)	PRC/Mainland China	US$187,533,000	60	57.1	60	Provision of aircraft overhaul and maintenance services
Macau Asia Express Ltd.	Macau	MOP100,000,000	68	68	68	Airline operator
SkyWork Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo services

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

21 INTERESTS IN JOINT VENTURES (Continued)

The Group's proportionate share of the assets, liabilities, revenue and expenses of the joint ventures as at the end of the reporting period are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Current assets	**818,243**	1,036,905
Non-current assets	**1,324,985**	925,928
Current liabilities	**(1,144,869)**	(737,848)
Non-current liabilities	**(122,287)**	(339,678)
Net assets attributable to the Group	**876,072**	885,307
Revenue	**1,544,965**	1,359,457
Operating expenses	**(1,520,100)**	(1,322,240)
Finance revenue	**908**	25,180
Finance costs	**(24,498)**	(22,378)
Profit before tax attributable to the Group	**1,277**	40,019
Tax	**(21,848)**	(15,872)
Profit/(loss) for the year attributable to the Group	**(20,571)**	24,147

22 INTERESTS IN ASSOCIATES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed shares in Mainland China, at cost	**–**	–	**163,477**	163,477
Unlisted investments, at cost	**–**	–	**715,107**	720,982
Share of net assets	**9,378,676**	5,004,702	**–**	–
Goodwill on acquisition	**2,893,239**	1,578,533	**–**	–
Due from associates *(note 53)*	**28,765**	161,219	**20,213**	35,791
Due to associates *(note 53)*	**(113,450)**	(472,921)	**(111,258)**	(87,047)
	12,187,230	6,271,533	**787,539**	833,203
Market value of listed shares			**614,688**	157,776

As at 31 December 2009, the listed shares in an associate of the Group with an aggregate market value of approximately RMB5,161 million (2008: RMB3,071 million) were pledged to secure certain bank loans of the Group (note 38(b)).

22 INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2009 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific*△ (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shenzhen Airlines Co., Ltd. ("Shenzhen Airlines")△ (深圳航空有限責任公司)	PRC/Mainland China	RMB300,000,000	25	Airline operator
Shandong Aviation Group Corporation ("Shandong Aviation")△ (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd.△ (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
Sichuan SNECMA Aeroengine Maintenance Co., Ltd. ("SNECMA")△ (四川斯奈克瑪航空發動機維修有限公司)	PRC/Mainland China	US$31,900,000	43.64	Provision of aircraft maintenance and repair services
Yunnan Airport Aircraft Maintenance Services Co., Ltd.△ (雲南空港飛機維修服務公司)	PRC/Mainland China	RMB10,000,000	40	Provision of aircraft maintenance and repair services
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Macau Aircraft Maintenance and Engineering Corporation △# (澳門飛機維修工程有限公司)	Macau	MOP100	35	Provision of aircraft maintenance and repair services
Guangzhou Baiyun International Airport Ground Handling Service Company Limited△ (廣州白雲國際機場地勤服務有限公司)	PRC/Mainland China	RMB100,000,000	21	Provision of airport ground handling services
CAAC Cares Chongqing Co., Ltd.△ (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB9,800,000	24.5	Provision of airline-related information system services
Chengdu CAAC Southwest Cares Co., Ltd. △# (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB2,000,000	35	Provision of airline-related information system services
China National Aviation Finance Co., Ltd. ("CNAF")**△ (中國航空集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services

22 INTERESTS IN ASSOCIATES (Continued)

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

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

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

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

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2009. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Summarised financial information of the Group's associates as at the end of the reporting period is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Total assets	**139,141,815**	134,785,583
Total liabilities	**(101,132,135)**	(98,007,287)
Revenue	**78,199,283**	95,929,284
Net profit/(loss)	**4,089,656**	(7,943,592)

Movements in goodwill are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
As at 1 January	**1,578,533**	1,627,888
Addition	**1,314,706**	–
Disposal	**–**	(49,355)
As at 31 December	**2,893,239**	1,578,533

23 LONG TERM RECEIVABLE FROM ULTIMATE HOLDING COMPANY

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

24 AVAILABLE-FOR-SALE INVESTMENTS

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

25 DEFERRED TAX ASSETS AND LIABILITIES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
As at 1 January	**392,543**	300,181	**392,543**	286,690
Charge for the year *(note 11)*	**(128,793)**	92,362	**(128,793)**	105,853
Gross deferred tax liabilities				
As at 31 December	**263,750**	392,543	**263,750**	392,543
Deferred tax assets:				
Balance as at 1 January	**2,022,652**	870,645	**1,974,543**	790,690
Charge for the year *(note 11)*	**(340,449)**	1,199,268	**(347,793)**	1,183,853
Acquisition of additional interests in a joint venture	**–**	(39,657)	**–**	–
Disposal of interests in subsidiaries	**–**	(7,604)	**–**	–
Gross deferred tax assets as at 31 December	**1,682,203**	2,022,652	**1,626,750**	1,974,543
Net deferred assets as at 31 December	**1,418,453**	1,630,109	**1,363,000**	1,582,000

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
Accelerated depreciation for tax purposes	**(120,750)**	(182,543)	**(120,750)**	(182,543)
Unrealised exchange gain	**(143,000)**	(210,000)	**(143,000)**	(210,000)
Gross deferred tax liabilities	**(263,750)**	(392,543)	**(263,750)**	(392,543)
Deferred tax assets:				
Additional tax deduction on revaluation surplus arising from restructuring	**25,750**	27,543	**25,750**	27,543
Provisions and accruals	**827,453**	512,788	**772,000**	473,000
Losses available for offsetting against future taxable income	**188,000**	453,321	**188,000**	447,000
Unrealised loss on derivative financial instruments	**500,000**	929,000	**500,000**	929,000
Other deferred tax assets	**141,000**	100,000	**141,000**	98,000
Gross deferred tax assets	**1,682,203**	2,022,652	**1,626,750**	1,974,543
Net deferred tax assets	**1,418,453**	1,630,109	**1,363,000**	1,582,000

Deferred tax assets not recognised are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Tax losses	**389,887**	347,983
Deductible temporary differences	**723,634**	4,252,090
	1,113,521	4,600,073

The Group has tax losses arising from the operation out of Mainland China of RMB389,887,000 (2008: RMB347,983,000) that will expire in three financial years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to a subsidiary that has been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

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

26 AIRCRAFT HELD FOR SALE

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**837,462**	327,528	**349,107**	–
Acquisition of additional interest in a joint venture	**–**	314,685	**–**	–
Disposal	**(318,858)**	–	**(189,513)**	–
Reclassification from property, plant and equipment during the year *(note 16)*	**8,316**	195,249	**–**	349,107
	526,920	837,462	**159,594**	349,107
Impairment	**(396,106)**	(486,566)	**(27,892)**	(41,509)
As at 31 December	**130,814**	350,896	**131,702**	307,598

The movements in provision for impairment of aircraft held for sale are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**(486,566)**	(142,800)	**(41,509)**	–
Acquisition of additional interest in a joint venture	**–**	(137,200)	**–**	–
Disposal	**90,460**	–	**13,617**	–
Provision during the year *(note 7)*	**–**	(206,566)	**–**	(41,509)
As at 31 December	**(396,106)**	(486,566)	**(27,892)**	(41,509)

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

27 INVENTORIES

An analysis of inventories as at the end of the reporting period is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts of flight equipment	**1,116,559**	977,365	**822,003**	711,939
Work in progress	**240,320**	233,616	**4,467**	5,271
Catering supplies	**27,827**	31,616	**24,048**	24,706
	1,384,706	1,242,597	**850,518**	741,916

28 ACCOUNTS RECEIVABLE

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Accounts receivable	**2,105,743**	1,893,057	**1,271,708**	1,241,739
Impairment	**(51,478)**	(42,768)	**(42,288)**	(31,684)
	2,054,265	1,850,289	**1,229,420**	1,210,055

The Group normally allows credit periods ranging from 30 to 90 days to its sales agents and other customers while some major customers are granted a credit period up to six months or above. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, net of provision for impairment, is as follows:

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Within 30 days	**1,773,021**	1,533,390	**1,036,675**	997,021
31 to 60 days	**114,134**	166,412	**67,309**	90,785
61 to 90 days	**30,186**	59,916	**15,974**	42,982
Over 90 days	**136,924**	90,571	**109,462**	79,267
	2,054,265	1,850,289	**1,229,420**	1,210,055

Included in accounts receivable as at the end of the reporting period is the following amount due from a joint venture:

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Joint venture	**126**	79	**–**	–

28 ACCOUNTS RECEIVABLE (Continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**42,768**	45,505	**31,684**	36,266
Acquisition of additional interest in a joint venture	**–**	1,755	**–**	–
Acquisition of additional interest in an associate	**162**	–	**–**	–
Impairment losses recognised, net *(note 7)*	**15,758**	653	**15,036**	–
Amount written off as uncollectible	**(7,210)**	(5,145)	**(4,432)**	(4,582)
As at 31 December	**51,478**	42,768	**42,288**	31,684

As at 31 December 2009, accounts receivable with a nominal value of 19,603,059 (2008: RMB9,856,534) were impaired and fully provided for. The individually impaired accounts receivable relate to customers that were in financial difficulties and the probability to recover these receivables is remote. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,666,389**	1,054,810	**930,042**	913,160
Less than 3 moths past due	**298,190**	725,870	**237,155**	238,589
More than 3 months past due	**89,686**	69,609	**62,223**	58,306
	2,054,265	1,850,289	**1,229,420**	1,210,055

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

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

29 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments				
Advances and others	**263,532**	578,775	**192,292**	492,262
Manufacturers' credits	**17,222**	21,860	**7,182**	11,177
Prepaid aircraft operating lease rentals	**215,177**	207,020	**199,313**	187,372
	495,931	807,655	**398,787**	690,811
Deposits and other receivables	**734,863**	748,253	**407,855**	720,716
	1,230,794	1,555,908	**806,642**	1,411,527

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

30 DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Fuel derivative contracts	–	**2,051,428**	253,406	7,478,463
Interest rate derivative contracts	–	**223,199**	–	249,455
	–	**2,274,627**	253,406	7,727,918

The above derivative contracts are accounted for as held for trading financial instruments and any fair value change is recognised in the income statement (note 8).

The Group's strategy for managing jet fuel price risk is to provide the Group with protection against sudden and significant increases in prices. In meeting these objectives, the Group allows for the use of approved derivative instruments with approved counterparties and within approved credit limits. The Group's management is of the view that it is more appropriate to disclose the realised and unrealised gain or loss of fuel derivative contracts as movements in fair value of fuel derivative contracts on the Group's consolidated income statement to reflect the objective of the transactions and have therefore reclassified the comparative amounts accordingly. The movements in the fair value of fuel derivative contracts for the year ended 31 December 2009 was RMB2,758,224,000 (2008: RMB7,899,205,000), which consisted of the changes in fair value of RMB5,414,342,000 (2008: RMB7,471,589,000) and a decrease in fair value of RMB2,656,118,000 (2008: RMB427,616,000) resulting from the settlement of fuel derivative contracts.

30 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The fair value of the fuel derivative contracts as at the end of the reporting period was estimated by using Monte Carlo simulation with considerations of mean reversion, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include expected volatility, the mean-reverting speed, long term equilibrium price and risk-free rate which can be obtained from observable markets.

The fair value of interest rate swaps as at the end of the reporting period was estimated by using the Rendlemen and Barter model, taking into account the terms and conditions of the derivative contracts. The major inputs used in the estimation process include volatility of short term interest rate and the LIBOR curve, which can be obtained from observable markets.

31 BALANCE WITH ULTIMATE HOLDING COMPANY

The amount due from the Company's parent mainly arose from transactions as set out in notes 23 and 56 to the financial statements. The amount is unsecured, interest-free and repayable within one year.

32 BALANCES WITH RELATED COMPANIES

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

33 DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**1,654,399**	2,283,485	**553,840**	1,087,714
Cash placed with CNAF	**455,400**	385,243	**454,585**	349,756
Total cash and bank balances	**2,109,799**	2,668,728	**1,008,425**	1,437,470
Time deposits placed with banks	**1,161,706**	2,069,090	**81,090**	73,751
Pledged deposits against:				
Aircraft operating leases and financial derivatives	**(564,662)**	(1,746,210)	**–**	(2,274)
Others	**(85)**	(4,250)	**–**	–
Pledged deposits	**(564,747)**	(1,750,460)	**–**	(2,274)
Non-pledged deposits	**596,959**	318,630	**81,090**	71,477
Cash and cash equivalents	**2,706,758**	2,987,358	**1,089,515**	1,508,947

33 DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

An analysis of non-pledged time deposit placed with banks is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-pledged time deposits with original maturity of:				
Less than 3 months when acquired	**566,510**	280,334	**50,000**	34,786
Over 3 months when acquired	**30,449**	38,296	**31,090**	36,691
	596,959	318,630	**81,090**	71,477

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

34 ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of reporting period is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**4,027,306**	4,645,064	**3,293,293**	4,050,251
31 to 60 days	**795,309**	948,831	**684,528**	541,813
61 to 90 days	**469,321**	413,886	**391,100**	261,271
Over 90 days	**753,797**	916,114	**676,896**	718,887
	6,045,733	6,923,895	**5,045,817**	5,572,222

Included in the accounts payable as at the end of the reporting period is the following amount due to a joint venture:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Joint venture	**102,976**	114,637	**192,301**	176,979

The accounts payable are non-interest-bearing and have normal credit terms of 90 days.

35 BILLS PAYABLE

An aged analysis of the bills payable as at the end of the reporting period is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**–**	780,245	**–**	830,833
31 to 60 days	**763,255**	640,193	**160,000**	662,982
	763,255	1,420,438	**160,000**	1,493,815

36 OTHER PAYABLES AND ACCRUALS

An analysis of other payables and accruals as at the end of the reporting period is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for staff housing benefits	**45,981**	46,857	**43,722**	44,598
Accrued salaries, wages and benefits	**1,188,557**	981,774	**963,216**	795,646
Interest payable	**298,423**	305,416	**301,950**	307,333
Customs duties and levies tax payable	**782,450**	455,210	**705,267**	378,204
Current portion of long term payables *(note 40)*	**19,334**	120,725	**19,334**	120,725
Current portion of deferred income related to frequent-flyer programme *(note 41)*	**156,572**	434,622	**146,580**	428,705
Current portion of deferred income related to government grant *(note 42)*	**110,088**	76,944	**110,088**	76,944
Deposits received from sales agents	**472,333**	463,244	**279,454**	341,940
Accrued operating expenses	**1,154,091**	1,035,535	**991,378**	889,230
Others	**417,577**	769,322	**200,528**	606,526
	4,645,406	4,689,649	**3,761,517**	3,989,851

37 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2010 to 2019 (2008: 2009 to 2018) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present value of the net minimum lease payments which are principally denominated in foreign currencies, are as follows:

	Group and Company			
	Minimum lease payments 2009 RMB'000	**Present value of minimum lease payments 2009 RMB'000**	Minimum lease payments 2008 RMB'000	Present value of minimum lease payments 2008 RMB'000
Amounts repayable:				
Within one year	**3,582,545**	**3,454,233**	4,569,762	4,064,038
In the second year	**1,942,181**	**1,906,281**	3,974,251	3,599,513
In the third to fifth years, inclusive	**6,070,163**	**6,013,648**	5,749,811	5,109,696
Over five years	**7,584,383**	**7,446,546**	8,216,543	7,771,575
Total minimum finance lease payments *(note 53)*	**19,179,272**	**18,820,708**	22,510,367	20,544,822
Less: Amounts representing finance charges	**(358,564)**		(1,965,545)	
Present value of minimum lease payments	**18,820,708**		20,544,822	
Less: Portion classified as current liabilities	**(3,454,233)**		(4,064,038)	
Non-current portion	**15,366,475**		16,480,784	

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

As at 31 December 2009, there were 65 (2008: 60) aircraft under finance lease agreements. Under the terms of the leases, the Company has the option to purchase these aircraft, at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from -1.49% to 9.84% (2008: 1.44% to 9.84%) per annum.

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

(a) mortgages over certain of the Group's and the Company's aircraft, which had an aggregate net book value of approximately RMB27,425 million (2008: RMB23,279 million) (note 16); and

(b) guarantees by certain commercial banks in an aggregate amount of approximately RMB3,058 million (2008: RMB5,516 million).

37 OBLIGATIONS UNDER FINANCE LEASES (Continued)

As at 31 December 2009, certain PRC state-owned banks have provided counter-guarantees in an aggregate amount of RMB469 million (2008: RMB702 million) in respect of the above-mentioned commercial bank guarantee arrangements.

38 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**6,929,790**	7,872,912	**5,634,046**	6,687,437
Unsecured	**28,117,408**	20,689,771	**27,086,898**	19,899,046
	35,047,198	28,562,683	**32,720,944**	26,586,483
Other loans:				
Secured	**–**	486,117	**–**	486,117
Unsecured	**434,322**	624,905	**319,890**	419,890
	434,322	1,111,022	**319,890**	906,007
Corporate bonds – unsecured	**9,000,000**	3,000,000	**9,000,000**	3,000,000
	44,481,520	32,673,705	**42,040,834**	30,492,490
Bank loans repayable:				
Within one year	**16,826,120**	14,639,705	**15,595,095**	14,150,737
In the second year	**6,478,148**	8,001,444	**6,286,632**	7,538,036
In the third to fifth years, inclusive	**10,085,641**	5,012,694	**9,623,993**	4,521,590
Over five years	**1,657,289**	908,840	**1,215,224**	376,120
	35,047,198	28,562,683	**32,720,944**	26,586,483
Other loans repayable:				
Within one year	**334,322**	691,132	**319,890**	486,117
In the second year	**100,000**	–	**–**	–
In the third to fifth years, inclusive	**–**	419,890	**–**	419,890
	434,322	1,111,022	**319,890**	906,007
Corporate bonds:				
In the third to fifth years, inclusive	**6,000,000**	–	**6,000,000**	–
Over five years	**3,000,000**	3,000,000	**3,000,000**	3,000,000
	9,000,000	3,000,000	**9,000,000**	3,000,000
Total bank loans, other loans and corporate bonds	**44,481,520**	32,673,705	**42,040,834**	30,492,490
Less: Portion classified as current liabilities	**(17,160,442)**	(15,330,837)	**(15,914,985)**	(14,636,854)
Non-current portion	**27,321,078**	17,342,868	**26,125,849**	15,855,636

38 INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Further details of the bank loans, other loans and corporate bonds at the end of the reporting period are as follows:

Nature	Interest rate and final maturity	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
RMB denominated loans and corporate bonds:					
Loans for purchases of aircraft and related equipment	Floating interest rates ranging from 5.18% to 6.72% (2008: 5.10% to 7.05%) per annum, with maturities up until 2018	**432,997**	1,895,512	**23,700**	1,594,800
Loans for construction in progress	Floating interest rates ranging from 4.86% to 5.10% (2008: 2.10% to 6.97%) per annum, with maturities up until 2011	**701,930**	1,185,550	**319,890**	752,510
Loans for working capital	Fixed interest rates ranging from 4.37% to 5.84% (2008: 4.23% to 4.77%) per annum, with maturities up until 2010	**417,101**	1,076,378	**–**	1,000,000
Loans for working capital	Floating interest rate at 4.78% (2008: 4.37% to 6.85%) per annum, with maturities up until 2013	**18,000**	1,801,740	**–**	1,521,740
Corporate bonds for purchases of aircraft and related equipment	Fixed interest rate at 4.50% (2008: 4.50%) per annum, with maturity up until 2015	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Corporate bonds for working capital	Fixed interest rates ranging from 3.32% to 3.48% per annum, with maturities up until 2014	**6,000,000**	–	**6,000,000**	–
		10,570,028	8,959,180	**9,343,590**	7,869,050

38 INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
United States dollars ("USD") denominated loans:					
Loans for purchases of aircraft and related equipment	Fixed interest rates ranging from 1.08% to 10.00% (2008: 5.85% to 7.98%) per annum, with maturities up until 2019	**1,603,206**	2,244,558	**1,603,206**	2,244,558
Loans for purchases of aircraft and related equipment	Floating interest rate at six months LIBOR+0.50% to 0.90% (2008: six months LIBOR+0.40% to 1.20%) per annum, with maturities up until 2021	**6,676,632**	5,239,887	**5,799,184**	4,355,124
Loans for working capital	Floating interest rates ranging from three months LIBOR+ 0.27% to six months LIBOR+1.00% (2008: six months LIBOR+0.27% to 2.50%) per annum, with maturities up until 2014	**18,755,700**	13,595,229	**18,524,225**	13,423,155
Loans for working capital	Fixed interest rates ranging from 1.08% to 1.48% per annum, with maturities up until 2010	**88,228**	–	**–**	–
		27,123,766	21,079,674	**25,926,615**	20,022,837

38 INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Hong Kong dollars denominated loans:					
Loans for capital investment	Floating interest rate at three months HIBOR+0.45% to 0.85% (2008: three months HIBOR+0.45%) per annum, with maturities up until 2013	**6,542,115**	2,345,854	**6,542,115**	2,345,854
		6,542,115	2,345,854	**6,542,115**	2,345,854
MOP denominated loans:					
Loans for capital investment	Floating interest rate at three months HIBOR+0.50% (2008:three months HIBOR+0.50%) per annum, with maturities up until 2010	**17,097**	34,248	**–**	–
		17,097	34,248	**–**	–
Euros denominated loans:					
Loans for purchase of related equipment	Fixed interest rate at 3.88% (2008: 3.88%) per annum, with maturities up until 2013	**228,514**	254,749	**228,514**	254,749
		228,514	254,749	**228,514**	254,749
Total bank and other borrowings		**44,481,520**	32,673,705	**42,040,834**	30,492,490
Less: Portion falling due within one year and classified as current liabilities		**(17,160,442)**	(15,330,837)	**(15,914,985)**	(14,636,854)
Non-current portion		**27,321,078**	17,342,868	**26,125,849**	15,855,636

38 INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

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

The Group's bank and other loans of approximately RMB10,168 million as at 31 December 2009 (2008: RMB11,359 million) were secured or guaranteed by:

(a) mortgages over certain of the Group's aircraft and buildings with an aggregate net book value of approximately RMB9,688 million as at 31 December 2009 (2008: RMB12,057 million) (note 16); and land use rights with an aggregate carrying amount of approximately RMB35 million as at 31 December 2009 (2008: RMB36 million) (note 17);

(b) the pledge of certain number of listed shares in an associate of the Group with an aggregate market value of approximately RMB5,161 million as at 31 December 2009 (2008: RMB3,071 million) (note 22); and

(c) guarantees provided by certain commercial banks amounting to approximately RMB2,121 million as at 31 December 2009 (2008: RMB2,648 million).

The Company's bank and other loans of approximately RMB8,634 million as at 31 December 2009 (2008: RMB10,474 million) were secured or guaranteed by:

(i) mortgages over certain of the Company's aircraft and buildings with an aggregate net book value of approximately RMB7,393 million as at 31 December 2009 (2008: RMB9,987 million); and land use rights with an aggregate carrying amount of approximately RMB35 million as at 31 December 2009 (2008: RMB36 million);

(ii) guarantees provided by certain commercial banks amounting to approximately RMB2,121 million as at 31 December 2009 (2008: RMB2,648 million).

In addition to the above, the Group had mortgages over the aircraft of a subsidiary with an aggregate net book value of approximately RMB2,295 million as at 31 December 2009 (2008: RMB2,070 million) (note 16).

As at 31 December 2009, certain PRC state-owned banks provided counter-guarantees in an aggregate amount of approximately RMB1,677 million (2008: RMB2,037 million) to one of the above-mentioned commercial banks.

39 PROVISION FOR MAJOR OVERHAULS

Details of the movements of provision for major overhauls in respect of aircraft and engines under operating leases during the years are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**1,495,847**	1,274,322	**1,205,932**	1,024,713
Acquisition of additional interest in a joint venture	**–**	44,793	**–**	–
Provision for the year	**821,718**	660,374	**542,768**	469,471
Utilisation during the year	**(730,439)**	(483,642)	**(515,971)**	(288,252)
As at 31 December	**1,587,126**	1,495,847	**1,232,729**	1,205,932
Less: Portion classified as current liabilities	**(268,418)**	(232,926)	**(168,548)**	(232,926)
Non-current portion	**1,318,708**	1,262,921	**1,064,181**	973,006

The amount of the provision is estimated based on the costs of overhauls and actual flying hours/cycles of aircraft and engines under operating leases. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

40 LONG TERM PAYABLES

An analysis of long term payables as at the end of the reporting period are as follows:

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Customs duties and value-added tax payable in respect of acquisition of aircraft and related equipment under finance leases	**28,783**	165,510	**28,783**	165,510
Non-voting redeemable preference shares of a subsidiary	**170,971**	–	**–**	–
	199,754	165,510	**28,783**	165,510
Less: Portion classified as current liabilities *(note 36)*	**(19,334)**	(120,725)	**(19,334)**	(120,725)
Non-current portion	**180,420**	44,785	**9,449**	44,785

41 DEFERRED INCOME RELATED TO FREQUENT-FLYER PROGRAMME

The movements in deferred income related to frequent-flyer programme during the year are as follows:

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
As at 1 January	**1,123,855**	1,095,002	**1,109,705**	1,070,482
Arising during the year	**801,511**	707,778	**785,027**	697,487
Recognised as air traffic revenue during the year	**(977,911)**	(678,925)	**(963,125)**	(658,264)
As at 31 December	**947,455**	1,123,855	**931,607**	1,109,705
Less: Portion classified as current liabilities *(note 36)*	**(156,572)**	(434,622)	**(146,580)**	(428,705)
Non-current portion	**790,883**	689,233	**785,027**	681,000

42 DEFERRED INCOME RELATED TO GOVERNMENT GRANT

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income:				
As at 1 January	**1,462,667**	1,462,667	**1,462,667**	1,462,667
Addition	**649,370**	–	**645,290**	–
As at 31 December	**2,112,037**	1,462,667	**2,107,957**	1,462,667
Accumulated income recognised:				
As at 1 January	**(590,643)**	(513,700)	**(590,643)**	(513,700)
Recognised as other operating revenue during the year *(note 5)*	**(76,943)**	(76,943)	**(76,943)**	(76,943)
Recognised as air traffic revenue during the year	**(19,692)**	–	**(19,692)**	–
As at 31 December	**(687,278)**	(590,643)	**(687,278)**	(590,643)
Net carrying amounts	**1,424,759**	872,024	**1,420,679**	872,024
Less: Portion classified as current liabilities *(note 36)*	**(110,088)**	(76,944)	**(110,088)**	(76,944)
Non-current portion	**1,314,671**	795,080	**1,310,591**	795,080

43 ISSUED CAPITAL

	Number of shares 2009	Nominal value 2009 RMB'000	Number of shares 2008	Nominal value 2008 RMB'000
Registered, issued and fully paid				
H shares of RMB1.00 each	**4,405,683,364**	**4,405,683**	4,405,683,364	4,405,683
A shares of RMB1.00 each:				
Tradable	**7,845,678,909**	**7,845,679**	1,639,000,000	1,639,000
Trade-restricted	**–**	**–**	6,206,678,909	6,206,679
	12,251,362,273	**12,251,362**	12,251,362,273	12,251,362

	Number of shares	Nominal value RMB'000
As at 31 December 2009 and 2008	12,251,362,273	12,251,362

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

44 TREASURY SHARES

As at 31 December 2009, the Group owned 29.99% equity interest in Cathay Pacific, which in turn owned 18.1% equity interest in the Company. Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

45 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

45 RESERVES (Continued)

Company

	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
As at I January 2008	10,964,458	1,289,624	3,766,148	16,020,230
Total comprehensive loss for the year	–	–	(8,216,244)	(8,216,244)
Transfer to reserve funds	–	264,700	(264,700)	–
Others	61,420	–	–	61,420
As at 31 December 2008 and 1 January 2009	11,025,878	1,554,324	(4,714,796)	7,865,406
Total comprehensive income for the year	–	–	4,208,145	4,208,145
Others	(3,000)	–	–	(3,000)
As at 31 December 2009	**11,022,878**	**1,554,324**	**(506,651)**	**12,070,551**

46 SHARE APPRECIATION RIGHTS

The Company has adopted a share appreciation rights arrangement (the "Plan") which was approved by the shareholders on 18 October 2004 for the purpose of motivating its employees. The Plan provides for the grant of SARs to eligible participants, including the Company's Directors (excluding independent non-executive Directors), supervisors (excluding independent supervisors), president, vice presidents, heads of key departments in the Company's headquarters, general managers and general deputy managers of principal branches and subsidiaries as well as selected senior professionals and key specialists. In any event, SARs will be granted to no more than 200 individuals.

Under the Plan, the holders of SARs are entitled to the rights to receive an amount in respect of the appreciation in market value of the Company's H shares from the date of grant of SARs and the date of exercise. No shares will be issued under the Plan and therefore the Company's equity interests will not be diluted as a result of the issuance of SARs. The maximum number of unexercised SARs permitted to be granted under the Plan is, upon their exercise, limited to 2% of the Company's H shares in issue at any time during each year. The maximum number of SARs granted to eligible participants under the Plan within any 12-month period is, upon their exercise, limited to 0.4% of the Company's H shares in issue at any time during each year. The maximum number of SARs granted to any eligible participant is limited to 10% of the total number of unexercised SARs in issue at any time during each year. Any further grant of SARs in excess of the above limits is subject to shareholders' approval in general meetings.

46 SHARE APPRECIATION RIGHTS (Continued)

The exercise period of all SARs commences after a vesting period and ends on a date which is not later than five years from the date of grant of the SARs. The exercise price of SARs will be equal to the average closing price of the Company's H shares on the HKSE for the five consecutive trading days immediately preceding the date of the grant. On 15 June 2007, 14,939,900 SARs were granted to a total of 109 individuals at an exercise price of HK$2.98 per share. As at each of the last days of the second, third and fourth anniversaries of the date of grant, the total number of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants. As at 31 December 2009, all SARs granted remained unexercised and had an aggregate fair value of RMB9,043,230.

On 25 August 2009, a board resolution was passed to suspend the Plan and to amend certain terms of the Plan in response to certain recently announced government policies. The revised Plan will be submitted for approval in the forthcoming shareholders meeting of the Company.

The fair value of SARs was estimated initially as at the date of grant using a binomial model, taking into account the terms and conditions upon which the SARs were granted. The major inputs used in the estimation process include expected life of rights, expected volatility, risk-free interest rate which can be taken from observable markets.

47 DISTRIBUTABLE RESERVES

As at 31 December 2009, in accordance with the PRC Company Law, an amount of approximately RMB14,332 million (2008: RMB14,334 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB1,554 million (2008: RMB1,554 million) standing to the credit of the Company's reserve funds, as determined in accordance with CAS, were available for distribution by way of a future capitalisation issue. In addition, the Company had accumulated losses of approximately RMB1,906 million (2008: RMB6,259 million) and therefore there was no retained earnings available for distribution.

48 MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB2,779 million (2008: RMB7,721 million).

49 BUSINESS COMBINATION

On 26 June 2009, the Group acquired 24.4% equity interest in Chengdu Falcon in addition to the 35.6% equity interest it already held. Upon completion of the transaction, the Company's interest in Chengdu Falcon increased from 35.6% to 60% and Chengdu Falcon became a subsidiary of the Company. The purchase consideration for the acquisition in the form of cash of RMB9,595,000 was settled on 16 December 2009.

The fair value of the identifiable assets and liabilities of Chengdu Falcon as at the date of acquisition is as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	*16*	19,948
Lease prepayments	*17*	6,298
CURRENT ASSETS		
Inventories		8,486
Accounts receivable		12,360
Prepayments, deposits and other receivables		1,444
Cash and cash equivalents		6,305
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings		(9,000)
Accounts payable		(3,285)
Other payables and accruals		(2,702)
NET ASSETS		39,854
Fair value of acquiring 24.4% equity interest in Chengdu Falcon		9,724
Excess over the amount of a business combination recognised in the income statement		(129)
Satisfied by cash		9,595

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	RMB'000
Cash consideration	(9,595)
Net cash acquired with the subsidiary	6,305
Net outflow of cash and cash equivalents	(3,290)

There was no significant differences between the fair value of the identifiable assets and liabilities of Chengdu Falcon as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition.

Since its acquisition, Chengdu Falcon has contributed approximately RMB17 million to the Group's turnover and RMB3 million to the consolidated profit for the year ended 31 December 2009.

50 CONTINGENT LIABILITIES

As at 31 December 2009, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC, in preparation for the listing of the Company's H shares on the HKSE and the London Stock Exchange, the Company entered into a restructuring agreement with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004 (the "Restructuring Agreement"). According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities were assumed by the Company and the Company is not liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG 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 nor any possible appeal actions. Up to 31 December 2009, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB238 million (2008: RMB238 million) in respect of passenger liability and other auxiliary costs. Included in the RMB238 million (2008: RMB238 million) is an amount of approximately RMB231 million (2008: RMB230 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 will not be any material adverse impact on the Group's financial position.

(c) On 26 February 2007, the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States and the European Union. 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 at this stage. Also, the Directors of the Company are of the view that there would be valid defense against this claim and consider that no provision for this claim is needed accordingly.

(d) On 17 November 2009, Airport City Development Co., Ltd. ("Airport City Development") commenced proceedings against the Company, Air China Cargo, Air China International Corporation and a third party, claiming for an aggregate compensation of approximately RMB224 million for the unlawful use of land owned by Airport City Development. 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 at this stage. Also, the Directors of the Company are of the view that there would be valid defense against this claim and consider that no provision for this claim is needed accordingly.

50 CONTINGENT LIABILITIES (Continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Associates	**130,779**	105,770	**130,779**	105,770
Subsidiary	**–**	–	**305,797**	300,712
	130,779	105,770	**436,576**	406,482

51 OPERATING LEASE ARRANGEMENTS

The Group and the Company lease certain of its office premises, aircraft and related equipment under operating lease arrangements for terms ranging from 1 to 20 years.

At the end of the reporting period, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**2,941,092**	2,625,969	**2,476,825**	2,162,269
In the second to fifth years, inclusive	**6,901,533**	6,752,785	**5,604,284**	5,471,544
Over five years	**4,209,817**	4,198,883	**3,701,197**	3,736,540
	14,052,442	13,577,637	**11,782,306**	11,370,353

52 COMMITMENTS

(a) Capital commitments

The Group and the Company had the following amounts of contractual commitments for the acquisition and construction of plant, property and equipment as at the end of the reporting period:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Aircraft and flight equipment	**57,458,579**	65,680,080	**56,737,410**	65,228,996
Buildings	**224,525**	459,682	**163,065**	311,720
Others	**47,803**	236,432	**25,703**	231,378
	57,730,907	66,376,194	**56,926,178**	65,772,094
Authorised, but not contracted for:				
Aircraft and flight equipment	**515,520**	88,210	**–**	–
Buildings	**3,217,713**	2,997,790	**3,124,116**	2,811,190
Others	**572,472**	816,728	**478,265**	683,760
	4,305,705	3,902,728	**3,602,381**	3,494,950
Total capital commitments	**62,036,612**	70,278,922	**60,528,559**	69,267,044

(b) Investment commitments

The Group and the Company had the following amounts of investment commitments as at the end of the reporting period:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**50,633**	50,680	**50,633**	50,680

53 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's and the Company's financial instruments approximated to their fair value as at the end of the reporting period. The present value of bank loans and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of long term deposits and other financial assets has been discounted to present value based on market interest rates. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2009

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	28,765	–	28,765
Deposits for aircraft under operating leases	–	253,815	–	253,815
Long term receivable from ultimate holding company	–	131,813	–	131,813
Available-for-sale investments	–	–	1,997	1,997
Accounts and bills receivables	–	2,056,754	–	2,056,754
Deposits and other receivables *(note 29)*	–	734,863	–	734,863
Due from ultimate holding company	–	461,147	–	461,147
Due from related companies	–	10,194	–	10,194
Pledged deposits	–	564,747	–	564,747
Cash and cash equivalents	–	2,706,758	–	2,706,758
	–	6,948,856	1,997	6,950,853

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(113,450)	(113,450)
Accounts and bills payables	–	(6,808,988)	(6,808,988)
Financial liabilities included in other payables and accruals	–	(4,332,765)	(4,332,765)
Derivative financial instruments	(2,274,627)	–	(2,274,627)
Due to related companies	–	(113,024)	(113,024)
Obligations under finance leases *(note 37)*	–	(18,820,708)	(18,820,708)
Interest-bearing bank and other borrowings *(note 38)*	–	(44,481,520)	(44,481,520)
	(2,274,627)	(74,670,455)	(76,945,082)

53 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group

2008

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	161,219	–	161,219
Deposits for aircraft under operating leases	–	229,899	–	229,899
Long term receivable from ultimate holding company	–	231,813	–	231,813
Available-for-sale investments	–	–	1,997	1,997
Accounts and bills receivables	–	1,851,893	–	1,851,893
Deposits and other receivables *(note 29)*	–	748,253	–	748,253
Derivative financial instruments	253,406	–	–	253,406
Due from ultimate holding company	–	361,892	–	361,892
Due from related companies	–	7,537	–	7,537
Pledged deposits	–	1,750,460	–	1,750,460
Cash and cash equivalents	–	2,987,358	–	2,987,358
	253,406	8,330,324	1,997	8,585,727

Financial liabilities

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(472,921)	(472,921)
Accounts and bills payables	–	(8,344,333)	(8,344,333)
Financial liabilities included in other payables and accruals	–	(4,131,226)	(4,131,226)
Derivative financial instruments	(7,727,918)	–	(7,727,918)
Due to related companies	–	(62,924)	(62,924)
Obligations under finance leases *(note 37)*	–	(20,544,822)	(20,544,822)
Interest-bearing bank and other borrowings *(note 38)*	–	(32,673,705)	(32,673,705)
	(7,727,918)	(66,229,931)	(73,957,849)

53 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2009

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	391,490	–	391,490
Due from associates *(note 22)*	–	20,213	–	20,213
Deposits for aircraft under operating leases	–	182,406	–	182,406
Long term receivable from ultimate holding company	–	131,813	–	131,813
Available-for-sale investments	–	–	3,366	3,366
Accounts and bills receivable	–	1,231,688	–	1,231,688
Deposits and other receivables *(note 29)*	–	407,855	–	407,855
Due from ultimate holding company	–	468,447	–	468,447
Cash and cash equivalents	–	1,089,515	–	1,089,515
	–	3,923,427	3,366	3,926,793

Financial liabilities

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(261,490)	(261,490)
Due to associates *(note 22)*	–	(111,258)	(111,258)
Accounts and bills payables	–	(5,205,817)	(5,205,817)
Financial liabilities included in other payables and accruals	–	(3,461,128)	(3,461,128)
Derivative financial instruments	(2,274,627)	–	(2,274,627)
Due to related companies	–	(26,263)	(26,263)
Obligations under finance leases *(note 37)*	–	(18,820,708)	(18,820,708)
Interest-bearing bank and other borrowings *(note 38)*	–	(42,040,834)	(42,040,834)
	(2,274,627)	(69,927,498)	(72,202,125)

53 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2008

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	858,658	–	858,658
Due from associates *(note 22)*	–	35,791	–	35,791
Deposits for aircraft under operating leases	–	166,689	–	166,689
Long term receivable from ultimate holding company	–	231,813	–	231,813
Available-for-sale investments	–	–	3,516	3,516
Accounts and bills receivable	–	1,211,020	–	1,211,020
Deposits and other receivables *(note 29)*	–	720,716	–	720,716
Derivative financial instruments	253,406	–	–	253,406
Due from ultimate holding company	–	376,894	–	376,894
Pledged deposits	–	2,274	–	2,274
Cash and cash equivalents	–	1,508,947	–	1,508,947
	253,406	5,112,802	3,516	5,369,724

Financial liabilities

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(478,738)	(478,738)
Due to associates *(note 22)*	–	(87,047)	(87,047)
Accounts and bills payables	–	(7,066,037)	(7,066,037)
Financial liabilities included in other payables and accruals	–	(3,439,604)	(3,439,604)
Derivative financial instruments	(7,727,918)	–	(7,727,918)
Due to related companies	–	(24,878)	(24,878)
Obligations under finance leases *(note 37)*	–	(20,544,822)	(20,544,822)
Interest-bearing bank and other borrowings *(note 38)*	–	(30,492,490)	(30,492,490)
	(7,727,918)	(62,133,616)	(69,861,534)

54 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group and the Company held the following financial instruments measured at fair value:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	2,274,627	–	2,274,627

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

(a) Liquidity risk

The Group's net current liabilities amounted to approximately RMB28,648 million as at 31 December 2009 (2008: RMB32,308 million). The Group recorded a net cash inflow from operating activities of approximately RMB5,465 million for the year ended 31 December 2009 (2008: RMB4,994 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB12,666 million (2008: RMB7,202 million). The Group also recorded a net cash inflow from financing activities of approximately RMB6,948 million for the year ended 31 December 2009 (2008: RMB2,870 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB273 million and an increase in cash and cash equivalents of approximately RMB472 million for the years ended 31 December 2009 and 2008, respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB84,148 million as at 31 December 2009 (2008: RMB108,390 million), of which an amount of approximately RMB32,692 million was utilised (2008: RMB40,042 million).

The Directors of the Company had carried out a detailed review of the cash flow forecast of the Group for the year ending 31 December 2010. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group during 2010. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group prior to the end of 2010. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009				
	On demand	Within one year	In the second to fifth years, inclusive	Over five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to associates *(note 22)*	–	113,450	–	–	113,450
Accounts and bills payables	400,196	6,408,792	–	–	6,808,988
Financial liabilities included in other payables and accruals	951,571	3,381,194	–	–	4,332,765
Derivative financial instruments	–	2,274,627	–	–	2,274,627
Due to related companies	–	113,024	–	–	113,024
Obligations under finance leases *(note 37)*	–	3,582,545	8,012,344	7,584,383	19,179,272
Interest-bearing bank and other borrowings	–	17,160,442	23,563,437	4,745,856	45,469,735
Guarantee *(note 50(e))*	130,779	–	–	–	130,779
	1,482,546	33,034,074	31,575,781	12,330,239	78,422,640

	2008				
	On demand	Within one year	In the second to fifth years, inclusive	Over five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to associates *(note 22)*	373,298	99,623	–	–	472,921
Accounts and bills payables	245,000	8,099,333	–	–	8,344,333
Financial liabilities included in other payables and accruals	918,454	3,212,772	–	–	4,131,226
Derivative financial instruments	–	7,727,918	–	–	7,727,918
Due to related companies	–	62,924	–	–	62,924
Obligations under finance leases *(note 37)*	–	4,569,762	9,724,062	8,216,543	22,510,367
Interest-bearing bank and other borrowings	–	15,330,837	14,295,240	4,188,598	33,814,675
Guarantee *(note 50(e))*	105,770	–	–	–	105,770
	1,642,522	39,103,169	24,019,302	12,405,141	77,170,134

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2009				
	On demand *RMB'000*	Within one year *RMB'000*	In the second to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	261,490	–	–	261,490
Due to associates *(note 22)*	–	111,258	–	–	111,258
Account and bills payables	376,584	4,829,233	–	–	5,205,817
Financial liabilities included in other payables and accruals	695,942	2,765,186	–	–	3,461,128
Derivative financial instruments	–	2,274,627	–	–	2,274,627
Due to related companies	–	26,363	–	–	26,363
Obligations under finance leases *(note 37)*	–	3,582,545	8,012,344	7,584,383	19,179,272
Interest-bearing bank and other borrowings	–	15,914,985	23,031,461	4,415,086	43,361,532
Guarantee *(note 50(e))*	436,576	–	–	–	436,576
	1,509,102	29,765,687	31,043,805	11,999,469	74,318,063

	2008				
	On demand *RMB'000*	Within one year *RMB'000*	In the second to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	478,738	–	–	478,738
Due to associates *(note 22)*	–	87,047	–	–	87,047
Account and bills payables	216,057	6,849,980	–	–	7,066,037
Financial liabilities included in other payables and accruals	720,144	2,719,460	–	–	3,439,604
Derivative financial instruments	–	7,727,918	–	–	7,727,918
Due to related companies	–	24,878	–	–	24,878
Obligations under finance leases (note 37)	–	4,569,762	9,724,062	8,216,543	22,510,367
Interest-bearing bank and other borrowings	–	14,636,854	13,274,446	3,623,915	31,535,215
Guarantee *(note 50(e))*	406,482	–	–	–	406,482
	1,342,683	37,094,637	22,998,508	11,840,458	73,276,286

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Jet fuel price risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in fuel price, with all other variables held constant and excluding the impact of fuel derivative contracts, of the Group's profit or loss before tax for the year:

	Change in profit/ (loss) before tax *RMB'000*
31 December 2009	
If fuel price changes by RMB1,000 per tonne	**3,162,892**
31 December 2008	
If fuel price changes by RMB1,000 per tonne	3,038,278

The following table demonstrates the sensitivity at 31 December 2009 to a reasonably possible change in fuel price, with all other variables held constant, of the Group's profit or loss before tax for the year due to changes in the fair value of fuel derivative contracts:

	Increase/(decrease) in profit/(loss) before tax *RMB'000*
If fuel price increases by 5%	**305,774**
If fuel price decreases by 5%	**(337,265)**

(c) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses to meet its foreign currency liabilities repayable within one year.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit or loss before tax (due to changes in the fair value of monetary assets and liabilities.) for the year:

	Change in profit/ (loss) before tax *RMB'000*
31 December 2009	
If RMB changes against USD by 1%	**400,418**
31 December 2008	
If RMB changes against USD by 1%	331,304

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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

31 December 2009

Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	**1,744,724**	**131,745**	**274,371**	**625,035**	**2,775,875**
Interest-bearing bank and other borrowings *(note 38)*	**1,176,702**	**561,024**	**6,301,459**	**3,297,864**	**11,337,049**
Time deposits placed with banks *(note 33)*	**1,161,706**	**–**	**–**	**–**	**1,161,706**

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	**1,709,509**	**1,774,536**	**5,739,277**	**6,821,511**	**16,044,833**
Interest-bearing bank and other borrowings *(note 38)*	**15,983,740**	**6,017,124**	**9,784,182**	**1,359,425**	**33,144,471**
Cash at bank *(note 33)*	**2,109,799**	**–**	**–**	**–**	**2,109,799**

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk (Continued)

31 December 2008

Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	2,554,488	2,081,901	–	–	4,636,389
Interest-bearing bank and other borrowings *(note 38)*	1,026,272	1,653,611	758,533	3,137,269	6,575,685
Time deposits placed with banks *(note 33)*	2,069,090	–	–	–	2,069,090

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 37)*	1,509,550	1,517,612	5,109,696	7,771,575	15,908,433
Interest-bearing bank and other borrowings *(note 38)*	14,304,565	6,347,833	4,674,051	771,571	26,098,020
Cash at bank *(note 33)*	2,668,728	–	–	–	2,668,728

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

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

	Change in profit/(loss) before tax ***RMB'000***
31 December 2009	
If interest rate of USD borrowings changes by 50 basis points	**19,262**
31 December 2008	
If interest rate of USD borrowings changes by 50 basis points	15,136

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Credit risk

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

	31 December 2009 *RMB'000*	31 December 2008 *RMB'000*
Due from associatesb *(note 22)*	**28,765**	161,219
Deposits for aircraft under operating leases	**253,815**	229,899
Long term receivable from ultimate holding company	**131,813**	231,813
Available-for-sale investments	**1,997**	1,997
Accounts and bills receivables	**2,056,754**	1,851,893
Deposits and other receivables *(note 29)*	**734,863**	748,253
Derivative financial instruments	**–**	253,406
Due from ultimate holding company	**461,147**	361,892
Due from related companies	**10,194**	7,537
Pledged deposits	**564,747**	1,750,460
Cash and cash equivalents	**2,706,758**	2,987,358
Guarantee *(note 50(e))*	**130,779**	105,770
Commitments *(note 52)*	**62,087,245**	70,329,602
Operating lease arrangements *(note 51)*	**14,052,442**	13,577,637
	83,221,319	92,598,736

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 28 to the financial statements.

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

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB564 million or 27% of accounts receivable as at 31 December 2009 (2008: RMB627 million or 34% of accounts receivable).

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

55 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratios as at the end of the reporting period were as follows:

Group

	2009 ***RMB'000***	2008 *RMB'000*
Total Liabilities	**83,964,555**	79,944,718
Total assets	**107,919,022**	100,401,224
Gearing ratio	**77.80%**	79.63%

56 RELATED PARTY TRANSACTIONS

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

	Group 2009 RMB'000	Group 2008 RMB'000
(a) Included in air traffic revenue		
Sale of cargo space:		
CNAHC Group	**100,614**	149,162
Associate	**12,670**	–
	113,284	149,162
Charter flights:		
CNAHC Group	**568,647**	481,372
Associate	**300**	–
	568,947	481,372
(b) Included in other operating revenue		
Aircraft engine lease income:		
Joint venture	**49**	105
Associate	**–**	989
	49	1,094
Aircraft engineering income:		
Associates	**44,416**	48,941
Ground services income:		
CNAHC Group	**7**	–
Joint venture	**142**	314
Associates	**66,945**	69,681
	67,094	69,995
Others:		
CNAHC Group	**32,410**	29,285
Joint venture	**7,228**	7,168
Associates	**11,344**	24,152
	50,982	60,605

56 RELATED PARTY TRANSACTIONS (Continued)

	Group 2009 RMB'000	Group 2008 RMB'000
(c) Included in finance revenue and finance costs		
Interest income:		
Associate	**7,340**	8,363
Interest expense:		
Associate	**38,357**	29,340
(d) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	**95,399**	98,557
Associates	**96,131**	178,334
	191,530	276,891
Air catering charges:		
CNAHC Group	**43,344**	56,497
Joint ventures	**–**	65,048
Associates	**14,959**	20,667
	58,303	142,212
Repair and maintenance costs:		
Joint venture	**660,252**	649,657
Associates	**466,254**	265,346
	1,126,506	915,003
Sale commission expenses:		
CNAHC Group	**3,536**	4,559
Joint venture	**11,331**	16,149
Associates	**2,105**	3,287
	16,972	23,995
Management fees:		
CNAHC Group	**9,168**	8,465
Aircraft leasing fees:		
Associates	**630,438**	661,825
Others:		
CNAHC Group	**144,502**	156,979
Joint venture	**1,913**	3,172
Associates	**9,413**	17,862
	155,828	178,013

56 RELATED PARTY TRANSACTIONS (Continued)

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
(e) Deposits, loans and bills payable:				
Deposits placed with an associate *(note 33)*	**455,400**	385,243	**454,585**	349,756
Loans from an associate	**527,731**	1,046,619	**319,890**	806,007
(f) Outstanding balances with related parties:				
Long term receivable from ultimate holding company	**131,813**	231,813	**131,813**	231,813
Due from related companies	**10,194**	7,537	**–**	–
Due from associates *(note 22)*	**28,765**	161,219	**20,213**	35,791
Due to associates *(note 22)*	**(113,450)**	(472,921)	**(111,258)**	(87,047)
Due from a joint venture	**11,485**	12,080	**–**	155
Due to related companies	**(113,024)**	(62,924)	**(26,363)**	(24,878)
Due to a joint venture	**(105,049)**	(164,968)	**(192,301)**	(299,276)
Due from ultimate holding company	**461,147**	361,892	**468,447**	376,894
Due from subsidiaries *(note 20)*	**–**	–	**391,490**	858,658
Due to subsidiaries *(note 20)*	**–**	–	**(261,490)**	(478,738)

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
(g) Compensation of key management personnel:		
Short term employee benefits	**7,290**	7,891
Post-employment benefits	**330**	257
Equity-settled share option expense	**741**	(5,016)
	8,361	3,132

Further details of the remuneration of the Directors and Supervisors are included in note 9 to the financial statements.

(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, so 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 each of the two years ended 31 December 2009 and 2008.

56 RELATED PARTY TRANSACTIONS (Continued)

(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 CNAF; the provision of construction project management services by China National Aviation Construction and Development Company; the subcontracting of charter flight services to CNAHC; the leasing of properties from and to CNAHC; the provision of air ticketing and cargo services; media and advertising services arrangement to China National Aviation Media and Advertising Co., Ltd.; the tourism services co-operation agreement with CNAHC; the comprehensive services agreement with CNAHC; and the provision of maintenance by China Aircraft Services Limited.

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

57 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 10 February 2010, the Company, AIE and Airbus S.A.S. ("Airbus") entered into a sales and purchase agreement pursuant to which the Company agreed to purchase 20 A320-series aircraft from Airbus. The aggregate consideration of the purchase is approximately US$1,628 million (equivalent to approximately RMB11,115 million) and is payable by the Company in cash instalments. The Company is expecting to take delivery of the aircraft in stages from 2011 to 2014.

On 25 February 2010, the Company, Air China Cargo, Fine Star Enterprises Corporation ("Fine Star", an indirectly wholly owned subsidiary of the Company), Cathay Pacific and Cathay Pacific China Cargo Holdings Limited ("Cathay Pacific Cargo", a wholly owned subsidiary of Cathay Pacific), entered into a framework agreement and several related agreements, pursuant to which Cathay Pacific, through Cathay Pacific Cargo, agreed to subscribe for a 25% equity interest in Air China Cargo for a consideration of approximately RMB852 million and the Company, through Fine Star, agreed to make a further capital contribution of approximately RMB238 million in cash to Air China Cargo; and Air China agreed to sell the entire equity interest in Air China Cargo held by Fine Star to Advent Fortune Limited ("AFL") for a consideration of approximately RMB627 million. Upon completion of these transactions, the equity interests held by the Company, Cathay Pacific and AFL will be 51%, 25% and 24%, respectively.

57 EVENTS AFTER THE END OF THE REPORTING PERIOD (Continued)

On 11 March 2010, the Company's board of directors passed a resolution to convene an extraordinary general meeting for the grant of specific mandates to issue not more than 585,000,000 new A shares to not more than 10 specific investors including CNAHC at the subscription price of not less than RMB9.58 each; and issue not more than 157,000,000 new H shares to CNACG at the subscription price of not less than HK$6.62 each. On the same date, CNAHC entered into an agreement with the Company pursuant to which CNAHC will commit at least RMB1,500 million to subscribe in cash for not more than 157,000,000 new A shares at the subscription price of not less than RMB9.58 each; and CNACG entered into another agreement with the Company pursuant to which CNACG will subscribe in cash for not more than 157,000,000 new H shares at the subscription price of not less than HK$6.62 each. The subscription of new A shares by CNAHC and the subscription of new H shares by CNACG are inter-conditional.

On 21 March 2010, the Company, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") and Shenzhen Huirun Investment Co., Ltd. ("Huirun") entered into an agreement pursuant to which the Company and Total Logistics agreed to make an aggregate capital contribution of approximately RMB1,030 million to Shenzhen Airlines, of which the Company will contribute approximately RMB682 million and Total Logistics will contribute approximately RMB348 million. Upon completion of the capital contribution, the equity interests in Shenzhen Airlines held by the Company, Total Logistics and Huirun will be 51%, 25% and 24%, respectively

58 COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. In addition, as mentioned in note 30 to the financial statements certain comparative amounts have been reclassified to conform with the current year's presentation.

59 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 April 2010.

Consolidated Balance Sheet

31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

	31 December 2009 ***RMB'000***	31 December 2008 *RMB'000*
ASSETS		
CURRENT ASSETS		
Cash and bank balances	**3,201,568**	4,663,792
Financial assets held for trading	**–**	253,406
Bills receivable	**2,489**	1,604
Accounts receivable	**2,201,172**	2,074,178
Other receivables	**492,007**	1,110,524
Prepayments	**350,257**	309,945
Inventories	**931,271**	812,941
Total current assets	**7,178,764**	9,226,390
NON-CURRENT ASSETS		
Long term receivables	**254,306**	229,474
Long term equity investments	**13,235,575**	7,326,523
Fixed assets	**69,147,527**	66,244,815
Construction in progress	**11,731,131**	10,887,225
Intangible assets	**2,576,301**	2,563,887
Goodwill	**349,055**	349,055
Long term deferred expenses	**138,105**	141,601
Deferred tax assets	**1,552,443**	1,930,109
Total non-current assets	**98,984,443**	89,672,689
Total assets	**106,163,207**	98,899,079

Consolidated Balance Sheet

31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

	31 December 2009 RMB'000	31 December 2008 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term loans	**8,870,400**	9,379,700
Financial liabilities held for trading	**2,274,627**	7,727,918
Bills payable	**763,255**	1,493,815
Accounts payable	**7,113,031**	7,792,638
Domestic air traffic liabilities	**850,394**	744,804
International air traffic liabilities	**1,583,959**	1,517,530
Receipts in advance	**38,127**	56,022
Employee compensations payable	**348,492**	163,918
Taxes payable	**720,295**	300,198
Interest payable	**303,154**	303,066
Other payables	**2,224,083**	3,031,546
Non-current liabilities repayable within one year	**11,304,489**	10,186,078
Total current liabilities	**36,394,306**	42,697,233
NON-CURRENT LIABILITIES		
Long term loans	**18,321,078**	14,109,828
Corporate bonds	**9,000,000**	3,000,000
Long term payables	**1,499,128**	1,307,706
Obligations under finance leases	**15,366,476**	16,480,784
Accrued liabilities	**94,438**	112,754
Deferred income	**1,383,338**	689,232
Deferred tax liabilities	**143,000**	214,000
Total non-current liabilities	**45,807,458**	35,914,304
Total liabilities	**82,201,764**	78,611,537
SHAREHOLDERS' EQUITY		
Issued capital	**12,251,362**	12,251,362
Capital reserve	**10,823,906**	11,676,739
Reserve funds	**1,563,914**	1,563,914
Retained earnings/(accumulated losses)	**921,848**	(4,107,603)
Foreign exchange translation reserve	**(1,638,158)**	(1,610,522)
Equity attributable to equity holders of the Company	**23,922,872**	19,773,890
Minority interests	**38,571**	513,652
Total shareholders' equity	**23,961,443**	20,287,542
Total liabilities and shareholders' equity	**106,163,207**	98,899,079

Consolidated Income Statement

31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

		2009 *RMB'000*	2008 *RMB'000*
Revenue from operations		**51,095,369**	52,969,998
Less:	Cost of operations	**41,947,116**	48,606,512
	Business taxes and surcharges	**1,505,062**	1,085,137
	Selling expenses	**3,812,512**	3,281,648
	General and administrative expenses	**1,620,311**	1,574,236
	Finance costs	**1,205,931**	375,713
	Impairment losses in assets	**161,247**	258,888
Add:	Gains/(loss) from changes in fair value	**2,759,580**	(8,154,835)
	Investment income/(loss)	**610,449**	(704,198)
	Including: Share of profits and losses of associates and joint ventures	**606,605**	(1,182,141)
Profit/(loss) from operations		**4,213,219**	(11,071,169)
Add:	Non-operating income	**1,168,519**	363,999
Less:	Non-operating expenses	**67,057**	145,016
	Including: Loss on disposal of non-current assets	**55,545**	14,549
Profit/(loss) before tax		**5,314,681**	(10,852,186)
Less:	Tax	**336,413**	(1,591,898)
Net profit/(loss)		**4,978,268**	(9,260,288)
Net profit/(loss) attributable to equity holders of the Company		**5,029,451**	(9,149,080)
Minority interests		**(51,183)**	(111,208)
Earnings/(loss) per share (RMB)			
Basic and diluted		**0.42**	(0.77)
Other comprehensive income/(loss)		**316,836**	(783,259)
Total comprehensive income/(loss)		**5,295,104**	(10,043,547)
Attributable to:			
Equity holders of the Company		**5,346,253**	(9,929,399)
Minority interests		**(51,149)**	(114,148)

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND CAS

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

	Notes	2009 RMB'000	2008 RMB'000
Net profit/(loss) attributable to the equity holders of the Company under CAS		**5,029,451**	(9,149,080)
Deferred tax	*(i)*	**95,000**	39,000
Additional depreciation from restatement of costs of fixed assets	*(ii)*	**(134,169)**	(150,481)
Reversal of depreciation and amortisation arising on revaluation	*(iii)*	**7,170**	278,195
Government grant	*(iv)*	**(22,315)**	15,016
Effect of component accounting	*(v)*	**(117,814)**	(288,463)
Others		**(3,089)**	(9)
Net profit/(loss) attributable to equity holders of the Company under IFRS		**4,854,234**	(9,255,822)

	Notes	2009 RMB'000	2008 RMB'000
Equity attributable to equity holders of the Company under CAS		**23,922,872**	19,773,890
Deferred tax	*(i)*	**9,000**	(86,000)
Restatement of costs of fixed assets	*(ii)*	**433,036**	567,205
Reversal of revaluation of surplus	*(iii)*	**(326,550)**	(333,720)
Government grant	*(iv)*	**(417,541)**	(395,226)
Effect of component accounting	*(v)*	**130,751**	248,565
Others	*(vi)*	**164,328**	168,138
Equity attributable to equity holders of the Company under IFRS		**23,915,896**	19,942,852

Notes:

(i) The differences in deferred tax were mainly caused by the other differences under CAS and IFRS as explained below.

(ii) The differences in the costs of fixed assets mainly relate to fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e. the government prescribed rates) under CAS. Under IFRS, the costs of fixed asset acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rates (i.e. the swap rates) and therefore resulted in differences in the costs of fixed asset in the financial statements prepared under CAS and IFRS. Such differences are expected to be eliminated gradually through depreciation or disposals of the related fixed assets in future.

(iii) In accordance with the accounting policies under IFRS, all assets are recorded at historical costs. Therefore the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CAS should be reversed in the financial statements prepared under IFRS. Such differences are expected to be eliminated gradually through depreciation or disposals of the related fixed assets in future.

(iv) Under both CAS and IFRS, government grant or government subsidies should be debited as government grant/subsidiaries receivable or the relevant assets and credited as deferred income, which will then be charged to the income statement on a straight line basis over the useful lives of the relevant assets. As the accounting for government grant or government subsidies have had no significant impact on the Group's financial statements, no adjustment has been made to unify the accounting treatments of government grants or government subsidies under CAS and IFRS. Therefore in the Group's financial statement prepared in accordance with CAS, government grant received was debited as the relevant assets and credited as capital reserve; government subsidies were debited as cash and bank balances and credited as subsidy income in the income statement. Such differences are expected to be eliminated gradually through amortisation of deferred income to the income statement in future.

(v) The differences were caused by the adoption of component accounting in different years under CAS and IFRS. Component accounting was adopted by the Group on a prospective basis under IFRS in 2005 and under CAS in 2007. Such differences are expected to be eliminated through depreciation and disposal of fixed assets in future.

(vi) The difference was mainly caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

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

TRAFFIC MEASUREMENTS

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

YIELD MEASUREMENTS

"passenger yield"	revenues from passenger operations divided by RPKs
"cargo yield"	revenues from cargo operations divided by RFTKs

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

Definitions

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd
"Air Macau"	Air Macau Company Limited
"Board"	the board of directors of the Company
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAHC"	China National Aviation Holding Company
"Company"	means 中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange, and whose principal business is the operation of scheduled airline services
"Director(s)"	the director(s) of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"RMB"	Renminbi, the lawful currency of the PRC
"Shandong Airlines"	Shandong Airlines Company Limited
"Shenzhen Airlines"	Shenzhen Airlines Company Limited