



A STAR ALLIANCE MEMBER 





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Important Notice

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

The chairman Mr. Kong Dong, the chief financial officer Mr. Fan Cheng and the general manager of the Finance Department Mr. Xiao Feng of the Company hereby jointly declare that the unaudited interim condensed consolidated financial statements set out in this interim report are true and complete.

Corporate Information

CHINESE REGISTERED NAME

中國國際航空股份有限公司

ENGLISH NAME

Air China Limited

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SUPERVISORS

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LEGAL REPRESENTATIVE OF THE COMPANY

Kong Dong

JOINT COMPANY SECRETARIES

Huang Bin
Tam Shuit Mui

AUTHORISED REPRESENTATIVES

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LEGAL ADVISERS TO THE COMPANY

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INDEPENDENT AUDITORS

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LISTING VENUES

Hong Kong, London and Shanghai

Summary of Financial Information

<i>(RMB'000)</i>	For the six months ended 30 June 2011	For the six months ended 30 June 2010	Change (%)
Turnover	45,583,985	34,780,975	31.06
Profit from operations	4,014,455	4,101,203	(2.12)
Profit before tax	5,485,611	5,465,811	0.36
Profit after tax (including profit attributable to non-controlling interests)	4,271,596	4,710,065	(9.31)
Profit attributable to non-controlling interests	216,049	97,165	122.35
Profit attributable to equity holders of the Company	4,055,547	4,612,900	(12.08)
EBITDA ⁽¹⁾	8,620,318	8,106,791	6.33
EBITDAR ⁽²⁾	10,920,762	10,368,592	5.33
Earnings per share attributable to equity holders of the Company (RMB)	0.333	0.398	(16.33)
Return on equity (%) ⁽³⁾	9.28	16.41	(7.13ppts)

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

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

(3) Return on equity represents profit for the period attributable to equity holders divided by equity attributable to equity holders of the Company at period end.

<i>(RMB'000)</i>	30 June 2011	31 December 2010	Change (%)
Total assets	167,519,486	158,773,999	5.51
Total liabilities	121,860,832	117,402,762	3.80
Non-controlling interests	1,947,302	(66,717)	3,018.75
Equity attributable to owners of the Company (excluding non-controlling interests)	43,711,352	41,437,954	5.49
Shareholder's equity per share (RMB)	3.59	3.56	0.84

Summary of Operating Data

The data set out below include the data of Air China Limited (the "Company"), Air China Cargo Company Limited ("Air China Cargo") and Air Macau Company Limited ("Air Macau") and Shenzhen Airlines Company Limited ("Shenzhen Airlines"). In particular, the statistics relating to Shenzhen Airlines include information of Kunming Airlines Co., Ltd ("Kunming Airlines"). The data for the corresponding period of 2010 only include that of Shenzhen Airlines for the period from 20 April 2010 to 30 June 2010.

	For the six months ended 30 June 2011	For the six months ended 30 June 2010	Increase/ (decrease)
Traffic			
RPK (in millions)	59,483.58	47,213.69	25.99%
International	16,989.31	15,916.93	6.74%
Domestic	40,123.05	29,114.96	37.81%
Hong Kong, Macau and Taiwan	2,371.22	2,181.80	8.68%
RFTK (in millions)	2,396.72	2,214.59	8.22%
International	1,710.50	1,663.38	2.83%
Domestic	640.41	499.99	28.08%
Hong Kong, Macau and Taiwan	45.81	51.22	(10.56%)
Passengers (in thousands)	33,649.29	26,269.14	28.09%
International	3,354.00	3,357.47	(0.10%)
Domestic	28,819.03	21,573.76	33.58%
Hong Kong, Macau and Taiwan	1,476.26	1,337.91	10.34%
Cargo and mail carried (tonnes)	704,216.39	603,354.22	16.72%
Kilometers flown (in millions)	426.37	346.18	23.16%
Block hours (in thousands)	676.25	550.07	22.94%
Number of flights	240,967	201,732	19.45%
International	24,246	23,421	3.52%
Domestic	203,650	166,665	22.19%
Hong Kong, Macau and Taiwan	13,071	11,646	12.24%
RTK (in millions)	7,711.59	6,445.74	19.64%
Capacity			
ASK (in millions)	73,667.90	59,850.19	23.09%
International	21,712.80	19,602.72	10.76%
Domestic	48,675.62	37,290.27	30.53%
Hong Kong, Macau and Taiwan	3,279.48	2,957.20	10.90%
AFTK (in millions)	4,026.92	3,725.03	8.10%
International	2,632.85	2,462.11	6.93%
Domestic	1,276.80	1,154.32	10.61%
Hong Kong, Macau and Taiwan	117.27	108.60	7.98%
ATK (in millions)	10,670.55	9,085.91	17.44%

Summary of Operating Data

	For the six months ended 30 June 2011	For the six months ended 30 June 2010	Increase/ (decrease)
Load factors			
Passenger load factor (RPK/ASK)	80.75%	78.89%	1.86ppts
International	78.25%	81.20%	(2.95ppts)
Domestic	82.43%	78.08%	4.35ppts
Hong Kong, Macau and Taiwan	72.30%	73.78%	(1.48ppts)
Cargo and mail load factor (RFTK/AFTK)	59.52%	59.45%	0.07ppts
International	64.97%	67.56%	(2.59ppts)
Domestic	50.16%	43.31%	6.85ppts
Hong Kong, Macau and Taiwan	39.06%	47.16%	(8.10ppts)
Yield			
Yield per RPK (RMB)	0.6477	0.6056	6.95
International	0.5478	0.5367	2.07
Domestic	0.6757	0.6304	7.19
Hong Kong, Macau and Taiwan	0.8914	0.7769	14.74
Yield per RFTK (RMB)	1.8062	1.8722	(3.53)
International	1.8200	1.1836	53.77
Domestic	1.4954	1.8108	(17.42)
Hong Kong, Macau and Taiwan	5.1308	4.5680	12.32
Fleet			
Total number of aircraft in service at period end	411	381	30
Daily utilization (block hours per day per aircraft)	9.8	9.8	0 hour
Unit cost			
Operating cost per ASK (RMB)	0.5643	0.5119	10.24
Operating cost per ATK (RMB)	3.5370	3.2869	7.61

Chairman's Statement

In the first half of 2011, due to the slow recovery of the U.S. and European economies, the political turmoil in certain regions and the earthquakes in Japan, the international aviation market witnessed a constantly weak demand while fuel prices remained high, resulting in a more challenging operating environment for the aviation industry. However, benefitting from the stable and relatively fast economic growth of China, demand in the domestic aviation market increased in a steady pace. In spite of a significant 53.13% increase in our fuel costs, the Group achieved relatively satisfactory operating results through its constant efforts in strengthening safety management, uplifting the quality of customer service, effectively responding to changes in the market and seizing opportunities in the growing domestic market. During the reporting period, the Group recorded a turnover of RMB45,584 million, representing an increase of 31.06% compared with the corresponding period of the previous year. Profits attributable to shareholders were RMB4,056 million, representing a decrease of 12.08% over the corresponding period of the previous year, among which, profit from air traffic recorded an increase of 26.16% compared with the corresponding period of the previous year.

The Group's passenger service operations, especially domestic passenger services, had been growing steadily in the first half of the year. Targeting on the features of the growth in the domestic passenger market, the Group fully leveraged on the leading functions of aviation hubs and trunk routes, closely monitored market changes and adjusted its marketing strategies and allocation structure. The Group recorded available seat kilometers ("ASKs") on domestic routes of 48,676 million and revenue passenger kilometers ("RPKs") of 40,123 million, representing an increase of 30.53% and 37.81% respectively over the corresponding period of last year, and carried approximately 28,819,000 passengers with a load factor of 82.43%, representing an increase of 33.58% and 4.35 percentage points respectively over the corresponding period of last year. Meanwhile, the passenger yield increased to RMB0.68, representing an increase of 7.19% over the same period of the previous year. Our output-input efficiency continued to improve while the passenger yield increased steadily.

During the first half of the year, in spite of the constantly weak demand in the international market, the increasing imbalance between supply and demand and market competitions, the Group made a significant improvement on the performance of international passenger service operation in the second quarter as compared with the first quarter, with an overall passenger load factor of 78.25% at a relatively high level in the industry, which resulted from our endeavors in optimizing the allocation structure of traffic capacity and formulating more tailor-made marketing strategies. On the other hand, in order to further tap into new growth areas in the market and explore market opportunities for the Company, we introduced four new international routes by taking advantage of our aviation hubs and route networks, namely Beijing-Dusseldorf, Beijing-Athens, Beijing-Milan and Chengdu-Tokyo.

In the first half of the year, 24 aircraft were acquired by the Group, including B737-800 and A320 series narrow-body aircraft and three A330 wide-body aircraft, while six aircraft were retired from the fleet, including old model aircraft such as B757-200 and B737-300. Currently, the Group maintains 411 aircraft with an average age of 7.02 years. In the second half of the year, in addition to the existing aircraft models, the Group will acquire another four new B777-300ER widebody aircraft, one of which was successfully introduced into our fleet in July 2011 and is put in operation. The acquisition of new model aircraft further optimized the Group's fleet structure and placed us in a better position to enhance our operation efficiency and to advance the aviation hub network strategy.

In the first half of the year, the Group was committed to enhancing service quality by focusing on refining passenger experience. We improved our service efficiency through the development of means of offering services, such as strengthening our e-commerce service and flight information management. We enhanced the service experience of our customers through upgrading service standards, such as standardizing catering services and upgrading and renovating air cabinet facilities. We strengthened our management capability on the standardization and systematization of the service management through the establishment of service management systems. In June 2011, the Company was awarded the 4-Star Airline ranking by Skytrax, a world-recognized rating agency for airline services, marking a milestone in our service development.

Chairman's Statement

During the first half of the year, in particular the second quarter, demand in the international air cargo market experienced a significant slowdown while the cargo capacity in the industry had been on increase since 2010, resulting in severe challenges to the air cargo business. In face of acute changes in the market, the Group timely optimized its network and allocation structure, actively pursued market opportunities and improved the overall operation efficiency of our cargo business. The input of Air China Cargo Co., Ltd ("Air China Cargo") to domestic cargo operation decreased by 2.23% and its output increased by 3.78%; and its input to international cargo operation increased by 7.01% and output increased by 2.99%. During the period, it carried approximately 570,040 tonnes of cargo and mails with a load factor of 58.53%, representing an increase of 4.76% and a decrease of 0.67 percentage points over the same period of the previous year, respectively.

The Company continued to strengthen our strategic collaboration with Shenzhen Airlines Company Limited ("Shenzhen Airlines") through deepening the cooperation in various aspects including key clients, frequent-flyers, aircraft maintenance, information and centralized procurement with increasing synergies. Our cargo joint venture with Cathay Pacific Airways Limited ("Cathay Pacific") was duly established in May this year with the intention to develop it into a preferred choice air cargo company in China. Meanwhile, with an aim to grasping new business opportunities and advancing our strategic plan, Beijing Airlines Company Limited (北京航空有限責任公司), a company positioned as a supplier of the business jet and public air transport, was established in March. Recently, Dalian Airlines Company Limited (大連航空有限責任公司) ("Dalian Airlines"), a company with a foothold in the northeast market, was also established.

In the second half of the year, high risks and great uncertainties are expected to continue to be associated with the global economy. The progress of the economic recovery in the U.S. and Europe will bring great pressure over the rebound of the demand in the international aviation market. The fluctuating fuel price will remain the key factor affecting the improvement of the results of global aviation industry. Furthermore, the operating environment will become more complicated in light of intensifying competitions among domestic airlines, the inadequacy of support resources and the impact from high-speed railways in some of our markets.

Nevertheless, the stable growth of the Chinese economy will create opportunities for the growth of the aviation industry. The "12th Five-Year" industrial development program outlines promising prospects for the civil aviation industry. The Group will continue to uphold its strategies on prudent business operation and sustainable development, improve its service quality, consolidate and enhance its core competitiveness as well as strengthening the close cooperation with Cathay Pacific, our strategic partner, to achieve a stable and healthy development.



Kong Dong

Chairman

Beijing, PRC
August 25, 2011

Business Overview

BUSINESS REVIEW OF PASSENGER SERVICE OPERATION

In the first half of 2011, the Company's ASK reached 55,728 million, representing an increase of 6.75% over the same period last year, and its passenger traffic was 45,155 million RPK, representing an increase of 9.22% over the same period last year. The number of passengers carried by the Company was 23,743,700, representing an increase of 7.44% over the same period last year. The Company recorded an average passenger load factor of 81.03%, representing an increase of 1.84 percentage points over the same period last year.

Air Macau's ASK was 1,683 million, representing an increase of 9.67% over the same period last year. Its passenger traffic decreased by 3.27% from that of the same period last year to 1,047 million RPK. It carried 649,700 passengers with a load factor of 62.21%, representing a decrease of 4.61% and 8.33 percentage points, respectively, over the same period last year.

Shenzhen Airlines' ASK (including information of Kunming Airlines) was 16,257 million, representing an increase of 8.63% over the same period last year. Its passenger traffic increased by 11.81% over the same period last year to 13,281 million RPK. It carried 9,255,900 passengers with a load factor of 81.69%, representing an increase of 6.00% and 2.32 percentage points, respectively, over the same period last year.

BUSINESS REVIEW OF CARGO SERVICE OPERATION

In the first half of 2011, the AFTK of Air China Cargo, including its freighters and the bellyhold space of the Company's passenger aircraft, increased by 4.20% over the same period last year to 3,741 million. Its cargo and mail traffic was 2,189 million RFTK, representing an increase of 3.01% over the same period last year. During the period, it carried 570,400 tonnes of cargo and mails with a load factor of 58.53%, representing an increase of 4.76% and a decrease of 0.67 percentage points, respectively, over the same period last year.

Air Macau's AFTK was 35.26 million, representing an increase of 14.88% over the same period last year. Its cargo and mail traffic decreased by 25.93% to 13.36 million RFTK as compared with the same period last year. It carried 9,600 tonnes of cargo and mails with a load factor of 37.89%, representing a decrease of 27.96% and 20.88 percentage points, respectively, over the same period last year.

Shenzhen Airlines' AFTK (including information of Kunming Airlines) was 251 million, representing a decrease of 10.68% over the same period last year. Its cargo and mail traffic increased by 13.45% over the same period last year to 194 million RFTK. It carried 124,200 tonnes of cargo and mails with a load factor of 77.30%, representing an increase of 13.01% and 16.55 percentage points, respectively, over the same period last year.

FLEET

Details of the fleet of the Group are set out in the table below:

Type of aircraft	Owned	Number of aircraft		Entrusted	Sub-total
		Finance leased	Operating leased		
Passenger aircraft	189	87	116	0	392
Among which: Boeing series	114	29	79	0	222
Airbus series	75	58	37	0	170
Freighters	7	0	4	0	11
Business jets	0	0	0	8	8
Total	196	87	120	8	411

Business Overview

As at 30 June 2011, the Company operated a fleet of 275 aircraft (including 10 aircraft under wet lease), all of which were passenger aircraft, with an average age of aircraft being 6.7 years (excluding aircraft under wet lease).

As at 30 June 2011, Air China Cargo operated a fleet of nine aircraft. All of them were freighters.

As at 30 June 2011, Air Macau operated a fleet of 12 aircraft, of which 10 were passenger aircraft (excluding three A321 aircraft and one A320 aircraft leased to the Company under wet lease) and two were freighters.

As at 30 June 2011, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 107 aircraft. All of them were passenger aircraft.

As at 30 June 2011, Beijing Airlines operated a fleet of eight aircraft. All of them were business jets.

HUB AND ROUTE NETWORK

In the first half of the year, the Company continued to strengthen its market position in Beijing hub by increasing capacity and uplifting the operational quality. Up to 68.8% traffic capacity was allocated to Beijing hub. Operational stability in terms of providing traffic service and effective procedure in dealing with extensive flight delays were enhanced by improving the ability of Beijing Hub Control Centre (HCC) over operational control. In Chengdu hub, its operational support capability was further enhanced by adding new flights in schedules, setting up transit service counter in T2 terminal and increasing first class and business class lounges. After the construction of Aviation Administration of Shanghai branch, comprehensive traffic services were available for customers, so that our competitiveness in Shanghai market was further consolidated. In the first half of the year, the Company introduced four new international routes, including Beijing-Dusseldorf, Beijing-Athens and Beijing-Milan routes; one new regional route of Tianjin-Taichung and four new domestic routes, including Tianjin-Xi'an route. In addition, more efforts were put in improving network and market control. As at the end of June 2011, the Company operated 278 passenger routes, including 71 international routes, 14 regional routes and 193 domestic routes covering 30 countries and regions and 137 cities (including 43 international cities, four regional cities and 90 domestic cities). Air China Cargo operated 11 freighted routes.

MARKETING AND CO-OPERATION

In the first half of the year, based on the characteristics of market change, the Company focused on refining marketing management methods and promoting marketing innovation, so as to reinforce the control over marketing channels which closely catching up with the market trend. Continuous efforts were made to optimize the marketing service of e-business platform which stirred an increase in sales, realising a sales income from e-business of RMB4.19 billion in the first half of the year, representing an increase of 42% as compared with the corresponding period last year. We continued to push forward the development and maintenance of key clients. In the first half of the year, we achieved sales income from key clients of RMB5.37 billion, representing an increase of 47% as compared with the corresponding period of the previous year. We innovated our mileage management mechanism and continuously improved the degree of satisfaction of our frequent flyers, who contributed to the income of RMB8.91 billion in the first half of the year, representing an increase of 26% as compared with the corresponding period of the previous year.

Fully leveraging on the resources of Star Alliance, our income generated from the cooperation with Star Alliance increased by 13%, as compared with the corresponding period of the previous year. Our business cooperation with Cathay Pacific was further enhanced. Apart from strengthening the joint operation of Beijing-Hong Kong route, Air China Cargo, a company jointly organized by Air China and Cathay Pacific, was duly established in May. Moreover, cooperation with Shenzhen Airlines and Shandong Airlines was also strengthened. Our income was increased by RMB739 million solely based on the cooperative marketing initiatives with Shenzhen Airlines targeted at key clients and frequent flyers.

COST CONTROL

In the first half of 2011, the Company persisted in enhancing cost management to further its energy-saving and emission reduction efforts and also explored the potentials to reduce the operational cost. Through optimizing operation, improving payload capacity and cutting expenses, the income increased by RMB505 million. Over a hundred million of expense incurred in aircraft maintenance, information management and centralized procurement was saved through cost linkage mechanism with Shenzhen Airlines. With our effort on innovating the financing platform, we were the first airlines in PRC aviation industry to launch aircraft financing arrangement for US-export credit agencies without guarantees which enabled us to save interest expense and to reflect the credibility of the Company in the market.

SERVICES AND PRODUCTS

In the first half of the year, the Company speeded up the construction of service system with the establishment of a primary Customer Service Management (CSM) system. As for flight information management, the Company proactively took measures to ensure smooth information transmission when the flight encountered abnormality. To win passengers' recognition for our in-flight meals, we formulated catering standards. We updated and rebuilt the passenger cabins of B777-200, A330-200 and A330-300 to improve the quality of our service products. As to enrich passenger's flight experience, well-selected newspaper and magazines, as well as entertainments in the cabin, were made available to passengers. The promotion of self-inquire service for passengers steadily decreased the luggage error rate. Capability of dealing with complaints was strengthened during the improvement of customers relationship maintenance centre. Eventually, we were able to provide services with stable quality and increased the degree of overall satisfaction of passengers.

Starting from optimizing the analysis of passenger demands, we rearranged the design-flow of service products. In terms of new products development, we were the first airlines to launch the joint transport product combining with flight and ground transportation in the PRC. We also launched the "Fast Passage Card" as a trial run for high-end passengers handling the exit and entry formalities at Australian airports, which shortened the time of passing through the customs significantly.

In June, the Company was awarded the 4-Star Airline ranking by Skytrax, a world-recognized rating agency for airline services, marking a milestone in our service development.

In addition, in the first half of the year, the Company efficiently completed its urgent mission to evacuate rescuers from Egypt and Libya, as well as quickly responded to the emergency events of earthquake in Japan and volcanic ash in Iceland, which sufficiently proved our endeavour in fulfilling our social responsibility and our ability of providing services.

EMPLOYEES

As of 30 June 2011, the Company had 24,556 employees, and its subsidiaries and joint ventures had 28,442 employees.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

The following discussion and analysis are based on the Group's interim condensed consolidated financial statements and its notes prepared in accordance with IFRSs 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

For the six months ended 30 June 2011, the Group recorded a profit before tax of RMB5,486 million, slightly higher than the amount of RMB5,466 million recorded in the same period of 2010; a profit attributable to owners of the Company of RMB4,056 million, representing a decrease of RMB557 million or 12.08% from RMB4,613 million from the same period of 2010, primarily attributable to the increase in income tax and profit attributable to non-controlling interests of the current period; and earnings per share of RMB0.333, as compared with those of RMB0.398 in the same period of 2010.

TURNOVER

For the six months ended 30 June 2011, the Group's total turnover (including air traffic revenue and other operating revenue, net of business taxes and surcharges) was RMB45,584 million, representing an increase of RMB10,803 million or 31.06% from the same period of 2010, among which, air traffic revenue amounted to RMB43,502 million, representing an increase of RMB10,412 million or 31.47% from the same period of 2010, primarily due to the strong demand in the domestic passenger market in the first half of the year causing an increase in the air passenger revenue of RMB9,903 million; and other operating revenue was RMB2,082 million, representing an increase of RMB391 million or 23.12% from the same period of 2010, primarily due to the significant increase in the deferred income and service charges together with other revenues as compared with the same period of 2010.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENT

<i>(in RMB'000)</i>	For the six months ended 30 June				Change (%)
	2011		2010		
	Amount	Percentage	Amount	Percentage	
International	13,056,470	28.64%	12,278,221	35.30%	6.34
Domestic	30,150,208	66.14%	20,445,640	58.79%	47.47
Hong Kong, Macau and Taiwan	2,377,307	5.22%	2,057,114	5.91%	15.57
Total	45,583,985	100.00%	34,780,975	100.00%	31.06

Management's Discussion and Analysis of Financial Conditions and Results of Operations

AIR PASSENGER REVENUE

For the six months ended 30 June 2011, the Group recorded air passenger revenue of RMB38,530 million, representing an increase of RMB9,903 million or 34.59% from the same period of 2010. This is primarily attributable to the active adjustment to the allocation structure of traffic capacity and marketing strategies in response to the strong demand in domestic passenger market and to the weakening demand in international passenger market. As a result, the output-input efficiency and passenger yield were improved. Among the Group's air passenger revenue, the increase in traffic capacity and passenger load factor contributed to an increase of RMB6,562 million and RMB835 million, respectively, while the increase in passenger yield caused an RMB2,506 million increase in revenue. The Group's traffic capacity, passenger load factor and unit yield of the air passenger operations for the six months ended 30 June 2011 are as follows:

	For the six months ended 30 June		
	2011	2010	Change
ASKs (million)	73,667.90	59,850.19	23.09%
Passenger load factor (%)	80.75	78.89	1.86 ppts
Yield per RPK (RMB)	0.6477	0.6056	6.95%

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June					Change (%)
	2011		2010			
	Amount	Percentage	Amount	Percentage		
International	9,306,360	24.15%	8,542,833	29.84%	8.94	
Domestic	27,110,125	70.36%	18,389,147	64.24%	47.42	
Hong Kong, Macau and Taiwan	2,113,762	5.49%	1,695,093	5.92%	24.70	
Total	38,530,247	100.00%	28,627,073	100.00%	34.59	

AIR CARGO REVENUE

For the six months ended 30 June 2011, the Group's air cargo and mail revenue was RMB4,971 million, representing an increase of RMB509 million or 11.40% from the same period of 2010. Among the Group's air cargo and mail revenue, the increase in traffic capacity contributed to an increase of RMB691 million, while the cargo and mail load factor remain largely unchanged compared with the same period in the previous year and the decrease in cargo yield caused a decrease in revenue of RMB182 million. The traffic capacity, cargo and mail load factor and unit yield of the cargo and mail operations for the six months ended 30 June 2011 are as follows:

	For the six months ended 30 June		
	2011	2010	Change
Available freight tonne kilometres (million)	4,026.92	3,725.03	8.10%
Cargo and mail load factor (%)	59.52	59.45	0.07 ppts
Yield per revenue freight tonne kilometre (RMB)	1.8062	1.8722	(3.53%)

Management's Discussion and Analysis of Financial Conditions and Results of Operations

AIR CARGO REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENT

(in RMB'000)	For the six months ended 30 June				
	2011		2010		Change (%)
	Amount	Percentage	Amount	Percentage	
International	3,750,110	75.43%	3,322,739	74.46%	12.86
Domestic	957,659	19.27%	905,805	20.30%	5.72
Hong Kong, Macau and Taiwan	263,545	5.30%	233,953	5.24%	12.65
Total	4,971,314	100.00%	4,462,497	100.00%	11.40

Given that only the data of Shenzhen Airlines on and after 20 April 2010 were taken into account for calculating the above air cargo and mail revenue for the same period of 2010, if the data of Shenzhen Airlines were excluded, the Group would record an aggregate decrease of RMB115 million in air cargo and mail revenue generated by its other operating segments over the same period of the previous year, primarily attributable to the effect of a clear slowdown in the demand in the global air cargo market combined with the continuous growth of traffic capacity in the first half of the year.

OPERATING EXPENSES

For the six months ended 30 June 2011, the Group's operating expenses amounted to RMB41,570 million, representing an increase of 35.49% as compared with RMB30,680 million recorded in the same period of 2010. The breakdown of the operating expenses is set out below:

(in RMB'000)	For the six months ended 30 June				
	2011		2010		Change (%)
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	16,251,151	39.09%	10,612,980	34.59%	53.13
Movements in fair value of fuel derivative contracts	(80,386)	(0.19%)	(720,801)	(2.35%)	(88.85)
Take-off, landing and depot charges	4,274,858	10.28%	3,559,424	11.60%	20.10
Depreciation	4,578,365	11.01%	4,005,588	13.06%	14.30
Aircraft maintenance, repair and overhaul costs	1,466,398	3.53%	1,038,642	3.39%	41.18
Employee compensation costs	5,528,179	13.30%	4,150,838	13.53%	33.18
Air catering charges	1,185,540	2.85%	853,590	2.78%	38.89
Selling expenses	2,558,298	6.16%	1,796,598	5.86%	42.40
General and administrative expenses	605,031	1.46%	466,681	1.52%	29.65
Others	5,202,096	12.51%	4,916,232	16.02%	5.81
Total	41,569,530	100.00%	30,679,772	100.00%	35.49

- Jet fuel costs increased by 53.13% to RMB16,251 million for the six months ended 30 June 2011 as compared with RMB10,613 million for the six months ended 30 June 2010, which accounted for 39.09% of total operating expenses as compared with 34.59% for the same period of 2010. The substantial increase in the Group's jet fuel costs was mainly due to the fact that the international fuel price remained high during the period. Moreover, the growing jet fuel consumption as a result of the increase in flight hours and the consolidation of the data relating to Shenzhen Airlines from 20 April 2010 for the reporting period of 2010 also affected the comparison between the current period and the same period of 2010.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

- Gains due to the movements in fair value of fuel derivative contracts amounted to RMB80 million, representing a decrease of RMB641 million as compared with RMB721 million recorded during the same period of 2010, which was mainly attributable to the facts that there was a gradual decrease in outstanding contractual volume and that the international fuel price remained at a high level with relatively low fluctuation during the first half of the year.
- Take-off, landing and depot charges amounted to RMB4,275 million, representing an increase of RMB716 million from RMB3,559 million for the same period of 2010, which was mainly due to an increase in the number of aircraft take-offs and landings and the effects arisen from the different consolidation periods for Shenzhen Airlines' data.
- Depreciation expenses increased mainly due to the increase in the number of self-owned and finance leased aircraft and the effects arisen from the different consolidation periods for Shenzhen Airlines' data.
- Aircraft maintenance, repair and overhaul costs increased mainly due to the effects arisen from the different consolidation periods for Shenzhen Airlines' data.
- Employee compensation costs increased significantly as compared with the same period of 2010, which was mainly due to the increase in the number of employees and basic income of employees as well as the effects arisen from the different consolidation periods for Shenzhen Airlines' data.
- Air catering charges increased by 38.89% as compared with the same period of 2010, which was mainly due to the increase in the investment by the Company and in the number of passengers carried, together with the effects arisen from the different consolidation periods for Shenzhen Airlines' data.
- Excluding the effects arisen from the different consolidation periods for Shenzhen Airlines' data, the selling expenses and general and administrative expenses remained largely unchanged as compared with the same period of the previous year.
- Other operating expenses mainly included the aircraft and engines operating lease expenses, CAAC Infrastructure Development Fund and the daily expenses arising from air traffic business not included in the items specifically set forth above.

FINANCE REVENUE AND FINANCE COSTS

For the six months ended 30 June 2011, the Group recorded net exchange gain of RMB1,508 million, representing an increase of RMB1,229 million or 440.02% from the same period of 2010, which was mainly due to the accelerating appreciation of Renminbi against U.S. dollars. For the current reporting period, the Group recorded interest expenses (including interest capitalized) of RMB1,034 million, representing an increase of RMB397 million from the same period of 2010, which was mainly due to the fact that most of the Group's interest-bearing debts were those with floating interest rates such that an increase in the floating interest rate in the current reporting period lead to a corresponding increase in interest expenses during the current reporting period. The effects arisen from the different consolidation periods for Shenzhen Airlines' data also contributed to the increase in the interest expenses. During the reporting period, the Group recorded net loss in interest rate derivative contracts and forward foreign exchange contracts of RMB37 million, representing a decrease of RMB101 million from the same period of 2010, which was mainly due to a decrease in the loss caused by the interest rate derivative contracts.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

For the six months ended 30 June 2011, the Group's share of profits of its associates was RMB646 million, representing a decrease of RMB1,073 million as compared with the same period of 2010, which was mainly due to a decrease of RMB1,117 million in gains recognized on investment in Cathay Pacific from the same period of 2010 to RMB483 million in the current reporting period, using the equity method of accounting.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

ANALYSIS OF ASSETS STRUCTURE

As at 30 June 2011, the total assets of the Group amounted to RMB167,519 million, representing an increase of 5.51% as compared with 31 December 2010, among which the current assets were RMB24,048 million, accounting for 14.36% of the total assets, while the non-current assets were RMB143,471 million, accounting for 85.64% of the total assets.

For the current assets, cash and cash equivalents amounted to RMB15,763 million, representing an increase of 9.46% from 31 December 2010, while accounts receivable increased by 5.54% to RMB3,263 million from 31 December 2010. For the non-current assets, the net book value of property, plant and equipment as at 30 June 2011 was RMB102,900 million, representing an increase of 7.02% from 31 December 2010.

ASSETS MORTGAGE

As at 30 June 2011, the Group mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB61,362 million (compared with RMB55,885 million as at 31 December 2010), certain number of shares in its associates with an aggregate market value of approximately RMB5,985 million (compared with approximately RMB7,287 million as at 31 December 2010), and land use rights with an aggregate net book value of approximately RMB40 million (compared with approximately RMB40 million as at 31 December 2010) pursuant to certain bank loans and finance lease agreements. In addition, certain bank deposits of the Group of approximately RMB133 million (compared with approximately RMB843 million as at 31 December 2010) were pledged against the obligations in respect of certain bank loans, operating leases and financial derivatives of the Group.

CAPITAL EXPENDITURE

For the six months ended 30 June 2011, the aggregate capital expenditure of the Company amounted to RMB9,417 million, of which the total investment in aircraft and engines was RMB8,196 million.

Other capital expenditure amounted to RMB1,221 million, which mainly included the long-term investment (cash portion) of RMB510 million, the purchase of high-cost rotables of RMB347 million, additions and modifications to aircraft of RMB53 million, flight simulators of RMB52 million, the construction of infrastructure of RMB160 million, information system of RMB51 million and the purchase of equipment and facilities of RMB48 million.

EQUITY INVESTMENT

As at 30 June 2011, the equity investment in the Group's associates was RMB13,565 million, representing a decrease of 4.40% as compared with 31 December 2010, of which the equity investment in Cathay Pacific, Shandong Aviation Group Co., Ltd. ("Shandong Aviation Group") and Shandong Airlines Co., Ltd. ("Shandong Airlines") was approximately RMB12,329 million, RMB685 million and RMB378 million, respectively. Cathay Pacific, Shandong Aviation Group and Shandong Airlines recorded a profit of RMB2,362 million, RMB139 million and RMB329 million, respectively, for the six months end 30 June 2011.

DEBT STRUCTURE ANALYSIS

As at 30 June 2011, the total liabilities of the Group amounted to RMB121,861 million, representing an increase of 3.80% as compared with 31 December 2010. Among the Group's total liabilities, the total current liabilities were RMB56,529 million, which accounted for 46.39% of the total liabilities, and the total non-current liabilities were RMB65,332 million, which accounted for 53.61% of the total liabilities.

For the current liabilities, payables in respect of the derivative financial instruments amounted to RMB298 million, representing a decrease of RMB129 million as compared with 31 December 2010. The interests-bearing debt (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB29,574 million, representing an increase of 5.27% as compared with 31 December 2010. Other advances and payables amounted to RMB26,657 million, representing an increase of 11.68% as compared with 31 December 2010.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

For the non-current liabilities, the interest-bearing debt (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB58,148 million, representing a decrease of 0.12% as compared with 31 December 2010.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2011, capital commitments of the Group amounted to RMB110,471 million, representing a decrease of 9.51% from RMB122,085 million as at 31 December 2010, which was primarily used for the purchase of certain aircraft and related equipment to be delivered in the coming years and for the construction of certain properties. The Group had operating lease commitments of RMB18,041 million, representing a decrease of 5.65% as compared with 31 December 2010, which was primarily used for leasing aircraft, office premises and related equipment. The Group had investment commitments of RMB1,039 million, representing an increase of RMB800 million from RMB239 million as at 31 December 2010 which was primarily used for the investment in Dalian Airlines.

Details of contingent liabilities of the Group are set out in note 22 to the condensed consolidated financial statements contained in this interim report.

GEARING RATIO

As at 30 June 2011, the Group's gearing ratio (total liabilities divided by total assets) was 72.74%, representing a decrease of 1.2 percentage points as compared with that of 73.94% as at 31 December 2010, primarily due to the satisfactory profitability of the Group, for which the shareholders' equity increased from RMB41,438 million as at 31 December 2010 to RMB43,711 million. Considering that the prevailing gearing ratios of air carriers in the aviation industry were at a relatively high level, the current gearing ratio of the Group remains in a relatively better position in the domestic aviation industry and the long-term insolvency risks are within its control.

WORKING CAPITAL AND ITS SOURCES

As at 30 June 2011, the net current liabilities of the Group (current liabilities minus current assets) amounted to RMB32,481 million, representing an increase of RMB3,071 million as compared with 31 December 2010. The Group's current ratio (current assets divided by current liabilities) was 0.43, representing a decrease of 0.01 from 0.44 as at 31 December 2010. The increase in the net current liabilities was mainly due to the significant increase in the Group's current liabilities.

The Group mainly met its working capital needs through the proceeds from its operating activities and external financing activities. During the first half of 2011, the Group recorded a net cash inflow from operating activities of RMB9,310 million, representing an increase of 34.76% from RMB6,909 million for the same period of 2010, primarily due to the increase in air traffic revenue for the reporting period and the effects arisen from the different consolidation periods for Shenzhen Airlines' data. Net cash outflow from investment activities was RMB9,224 million, representing an increase of 82.98% from RMB5,041 million from the same period of 2010, primarily due to the effects arisen from the different consolidation periods for Shenzhen Airlines' data and the increase in expenditure on purchase of fixed assets during the reporting period. The Group recorded a net cash inflow from financing activities of RMB293 million, representing a decrease of RMB423 million from RMB716 million from the same period of 2010, primarily due to the payment of dividends by the Company to its shareholders during the reporting period. The Group's cash and cash equivalent increased by RMB287 million in the first half of 2011 (as opposed to the increase of RMB2,536 million in the same period of 2010). The Company obtained bank facilities with an aggregate maximum amount of RMB141,685 million from a number of banks in the PRC, of which approximately RMB50,964 million was utilized, sufficient to meet its own demands on working capital and on its future capital commitments.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

OBJECTIVES AND POLICIES OF FINANCIAL RISKS MANAGEMENT

The Group is exposed to the risk of fluctuations in jet fuel prices in its daily operations. International jet fuel prices have historically been, 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 at protecting 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 their high sensitivity towards the Group's costs, the Group will continue to utilize the hedging instruments to manage and control the risk in relation to rising fuel prices.

As at 30 June 2011, the total amount of interest-bearing debts of the Group was RMB87,722 million, which accounted for 71.99% of the Group's total liabilities. Most of such debts were foreign debts and mainly denominated in U.S. dollars, Hong Kong dollars and Euros. In addition, the Group also had sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimize any risks relating to the fluctuations in foreign exchange rates and interest rates by adjusting the structure of the interest rates and currency denomination of its debts and by making use of the financial derivatives.

ANTITRUST INVESTIGATION

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

Change in Particulars of Directors and Supervisors

1. At the eighth meeting of the third session of the Board convened on 29 March 2011, Mr. Yang Yuzhong was nominated as candidate for election of independent non-executive directors of the Company. On 26 May 2011, the Company convened the 2010 annual general meeting to approve to elect Mr. Yang Yuzhong as independent non-executive director of the Company. Mr. Jia Kang submitted resignation to the Board due to the regulatory policies of Ministry of Finance and ceased to serve as independent non-executive director of the Company from 26 May 2011.
2. At the 25th Joint Conference of Leaders of the Delegation of the First Employee Representatives' Meeting of the Company convened on 16 June 2011, Ms. Xiao Yanjun was elected as employee representative supervisor for the third session of Supervisory Committee of the Company and Mr. Su Zhiyong was reelected as employee representative supervisor of the third session of Supervisory Committee of the Company, with effect from 16 June 2011 to the expiry of the term of office of the third session of Supervisory Committee of the Company (28 October 2013). Mr. Chen Bangmao ceased to serve as employee representative supervisor of the Supervisory Committee of the Company due to his retirement.

Shareholdings of Directors, Supervisors and Chief Executives and Substantial Shareholders of the Company

(I) DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2011, the Company's Directors, supervisors or chief executives had following interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which shall be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which shall be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code or Securities Transaction by Directors of Listed Issuers (the "Model Code").

Interests in Shares of Associated Corporations

Name of associated corporation and relevant shareholder	Number of Shares			Total	Shareholding percentage as at 30 June 2011
	Personal interest	Interest of children under the age of 18 or spouse	Corporate interest		
Cathay Pacific Airways Limited					
Sai Cheung Shiu, Ian	1,000	–	–	1,000	0.00%

Save as disclosed above, as at 30 June 2011, none of the Directors, supervisors or chief executives of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were 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.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Sai Cheung Shiu, Ian is a non-executive Director of the Company and is concurrently the non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,452,865,455 H shares in the Company as at 30 June 2011, 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 Dragonair Airlines Limited ("Dragonair"). Mr. Kong Dong, the chairman and a non-executive Director of the Company, and Mr. Cai Jianjiang and Mr. Fan Cheng, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules.

(II) SUBSTANTIAL SHAREHOLDERS' SIGNIFICANT INTERESTS IN THE COMPANY

As at 30 June 2011, to the best knowledge of the Directors, supervisors and chief executives 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 and 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 were as follows:

Shareholdings of Directors, Supervisors and Chief Executives and Substantial Shareholders of the Company

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
China National Aviation Holding Company ("CNAHC")	Beneficial owner	5,078,600,246 A shares	39.39%	60.97%	–	–
CNAHC ⁽¹⁾	Attributable interests	1,332,482,920 A shares	10.34%	16.00%	–	–
CNAHC ⁽¹⁾	Attributable interests	223,852,000 H shares	1.74%	–	4.91%	–
China National Aviation Corporation (Group) Limited	Beneficial owner	1,332,482,920 A shares	10.34%	16.00%	–	–
China National Aviation Corporation (Group) Limited	Beneficial owner	223,852,000 H shares	1.74%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,452,865,455 H shares	19.03%	–	53.76%	–
Swire Pacific Limited ⁽²⁾	Attributable interests	2,452,865,455 H shares	19.03%	–	53.76%	–
John Swire & Sons Limited ⁽²⁾	Attributable interests	2,452,865,455 H shares	19.03%	–	53.76%	–
John Swire & Sons (H.K.) Limited ⁽²⁾	Attributable interests	2,452,865,455 H shares	19.03%	–	53.76%	–

Notes:

Based on the information available to the Directors, chief executives and supervisors of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, chief executives and supervisors are aware, as at 30 June 2011:

1. By virtue of CNAHC's 100% interest in China National Aviation Corporation (Group) Limited, CNAHC was deemed to be interested in the 1,332,482,920 A shares and 223,852,000 H shares of the Company directly held by China National Aviation Corporation (Group) Limited.
2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 40.95% equity interest and 57.74% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 43.97% interest in Cathay Pacific, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,452,865,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 30 June 2011, to the knowledge of the Directors, the supervisors and chief executives of the Company, no other person (other than a Director, supervisor or chief executives 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.

1. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011.

2. COMPLIANCE WITH THE MODEL CODE

The Company has adopted and established a code of conduct on no less exacting terms than the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each Director and each supervisor of the Company have complied with the required standards of the Model Code throughout the six months ended 30 June 2011.

1. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the first half of 2011 (the term “securities” has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules).

2. INTERIM DIVIDEND

No interim dividend will be paid for the six months ended 30 June 2011.

3. REVIEW BY AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the interim report for the six months ended 30 June 2011 and the Company’s unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

Independent Auditors' Report



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

We have reviewed the interim financial information of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively the "Group") set out on pages 26 to 54 which comprises the Group's interim condensed consolidated statement of financial position as at 30 June 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

Hong Kong
25 August 2011

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2011

(Prepared under International Financial Reporting Standards)

	Notes	For the six months ended	
		30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
TURNOVER			
Air traffic revenue	4	43,501,561	33,089,570
Other operating revenue	5	2,082,424	1,691,405
		45,583,985	34,780,975
OPERATING EXPENSES			
Jet fuel costs		(16,251,151)	(10,612,980)
Movements in fair value of fuel derivative contracts		80,386	720,801
Take-off, landing and depot charges		(4,274,858)	(3,559,424)
Depreciation		(4,578,365)	(4,005,588)
Aircraft maintenance, repair and overhaul costs		(1,466,398)	(1,038,642)
Employee compensation costs		(5,528,179)	(4,150,838)
Air catering charges		(1,185,540)	(853,590)
Aircraft and engine operating lease expenses		(1,929,207)	(1,495,065)
Other operating lease expenses		(371,237)	(766,736)
Other flight operation expenses		(2,901,652)	(2,654,431)
Selling and marketing expenses		(2,558,298)	(1,796,598)
General and administrative expenses		(605,031)	(466,681)
		(41,569,530)	(30,679,772)
PROFIT FROM OPERATIONS	6	4,014,455	4,101,203
Finance revenue	7	1,595,898	294,561
Finance costs	7	(771,100)	(648,846)
Share of profits and losses of associates		646,358	1,718,893
PROFIT BEFORE TAX		5,485,611	5,465,811
Tax	8	(1,214,015)	(755,746)
PROFIT FOR THE PERIOD		4,271,596	4,710,065
Attributable to:			
Owners of the parent		4,055,547	4,612,900
Non-controlling interests		216,049	97,165
		4,271,596	4,710,065
Earnings per share attributable to equity holders of the parent:			
Basic and diluted	10	33.3 cents	39.8 cents

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

(Prepared under International Financial Reporting Standards)

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	4,271,596	4,710,065
OTHER COMPREHENSIVE INCOME/(LOSSES)		
Share of other comprehensive income of associates	199,389	550
Exchange realignment	(419,227)	(145,548)
OTHER COMPREHENSIVE LOSSES FOR THE PERIOD, NET OF TAX	(219,838)	(144,998)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	4,051,758	4,565,067
Attributable to:		
Owners of the parent	3,836,828	4,467,995
Non-controlling interests	214,930	97,072
	4,051,758	4,565,067

Interim Condensed Consolidated Statement of Financial Position

30 June 2011

(Prepared under International Financial Reporting Standards)

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	11	102,899,698	96,152,542
Lease prepayments	12	2,208,946	2,163,649
Intangible asset		39,519	41,076
Goodwill		1,487,721	1,657,675
Interests in associates		13,565,056	14,189,469
Advance payments for aircraft and flight equipment		20,458,604	18,946,626
Deposits for aircraft under operating leases		364,209	391,600
Long term receivable from the ultimate holding company		–	31,813
Available-for-sale investments		27,182	27,182
Deferred tax assets		2,420,145	2,193,002
		143,471,080	135,794,634
CURRENT ASSETS			
Aircraft and flight equipment held for sale		11,373	77,682
Inventories		1,739,937	1,608,951
Accounts receivable	13	3,263,348	3,092,069
Bills receivable		559	14,295
Prepayments, deposits and other receivables	14	2,428,355	2,284,230
Financial assets	15	19,748	27,379
Due from the ultimate holding company		667,895	620,565
Due from related companies		5,466	3,244
Tax recoverable		14,978	6,171
Pledged deposits	16	133,304	843,065
Cash and cash equivalents	16	15,763,443	14,401,714
		24,048,406	22,979,365
TOTAL ASSETS		167,519,486	158,773,999
CURRENT LIABILITIES			
Air traffic liabilities		(4,188,829)	(3,608,700)
Accounts payable	17	(10,190,465)	(8,101,515)
Bills payable		(190,031)	(387,327)
Other payables and accruals	18	(10,063,242)	(9,259,833)
Financial liabilities	15	(298,225)	(427,329)
Due to related companies		(283,514)	(184,427)
Tax payable		(1,280,299)	(2,210,372)
Obligations under finance leases		(2,301,705)	(2,223,240)
Interest-bearing bank loans and other borrowings		(27,082,295)	(25,482,725)
Provision for major overhauls		(650,674)	(503,628)
		(56,529,279)	(52,389,096)
NET CURRENT LIABILITIES		(32,480,873)	(29,409,731)
TOTAL ASSETS LESS CURRENT LIABILITIES		110,990,207	106,384,903

Interim Condensed Consolidated Statement of Financial Position

30 June 2011

(Prepared under International Financial Reporting Standards)

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited) (Restated)
NON-CURRENT LIABILITIES			
Obligations under finance leases		(16,127,677)	(16,061,352)
Interest-bearing bank loans and other borrowings		(42,020,816)	(42,159,439)
Provision for major overhauls		(2,292,206)	(2,105,150)
Provision for early retirement benefit obligations		(217,797)	(220,236)
Long term payables		(265,095)	(265,159)
Deferred income		(3,323,168)	(3,196,103)
Deferred tax liabilities		(1,084,794)	(1,006,227)
		(65,331,553)	(65,013,666)
NET ASSETS			
		45,658,654	41,371,237
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	19	12,891,955	12,891,955
Treasury shares	20	(2,800,354)	(2,613,232)
Reserves		33,619,751	31,159,231
		43,711,352	41,437,954
NON-CONTROLLING INTERESTS			
		1,947,302	(66,717)
TOTAL EQUITY			
		45,658,654	41,371,237

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

(Prepared under International Financial Reporting Standards)

	Attributable to owners of the parent								
	Issued capital	Treasury shares	Capital reserve	Reserve funds	Foreign exchange	Retained earnings	Total	Non-controlling interests	Total equity
					translation reserve				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)									
At 1 January 2011	12,891,955	(2,613,232)	18,256,092*	2,230,086*	(2,168,360)*	12,841,413*	41,437,954	(66,717)	41,371,237
Profit for the period	-	-	-	-	-	4,055,547	4,055,547	216,049	4,271,596
Other comprehensive income/(losses)	-	-	199,389	-	(418,108)	-	(218,719)	(1,119)	(219,838)
Total comprehensive income/(losses)	-	-	199,389	-	(418,108)	4,055,547	3,836,828	214,930	4,051,758
Capital contribution by non-controlling interest of a subsidiary	-	-	189,227	-	-	-	189,227	1,309,996	1,499,223
Elimination of reciprocal shareholding	-	(187,122)	-	-	-	-	(187,122)	-	(187,122)
Set up of a new subsidiary	-	-	-	-	-	-	-	490,000	490,000
Transfer to reserve funds and others	-	-	-	614,386	-	(656,092)	(41,706)	-	(41,706)
Final dividend declared	-	-	-	-	-	(1,523,829)	(1,523,829)	(907)	(1,524,736)
At 30 June 2011	12,891,955	(2,800,354)	18,644,708*	2,844,472*	(2,586,468)*	14,717,039*	43,711,352	1,947,302	45,658,654
(Unaudited)									
At 1 January 2010	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
Profit for the period	-	-	-	-	-	4,612,900	4,612,900	97,165	4,710,065
Other comprehensive income/(losses)	-	-	550	-	(145,455)	-	(144,905)	(93)	(144,998)
Total comprehensive income/(losses)	-	-	550	-	(145,455)	4,612,900	4,467,995	97,072	4,565,067
Acquisition of additional interest in an associate	-	-	(127)	-	-	-	(127)	(433,077)	(433,204)
Elimination of reciprocal shareholding	-	(273,397)	-	-	-	-	(273,397)	-	(273,397)
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	(18,550)	(18,550)
At 30 June 2010	12,251,362	(2,593,276)	12,542,749	1,615,700	(1,769,863)	6,063,695	28,110,367	(315,984)	27,794,383

* The aggregate of these reserve accounts represents the consolidated reserves of RMB33,619,751,000 (31 December 2010: RMB31,159,231,000) on the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

(Prepared under International Financial Reporting Standards)

	Note	For the six months ended	
		30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Net cash inflow from operating activities		9,309,910	6,908,593
Net cash outflow from investing activities		(9,224,263)	(5,041,237)
Net cash inflow from financing activities		293,132	715,693
NET INCREASE IN CASH AND CASH EQUIVALENTS		378,779	2,583,049
Cash and cash equivalents at beginning of period		14,376,050	2,676,309
Effect of exchange rate changes on cash and cash equivalents		(91,656)	(46,787)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		14,663,173	5,212,571
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	6,297,241	3,962,058
Non-pledged time deposits with original maturity of less than three months when acquired	16	8,365,932	1,250,513
		14,663,173	5,212,571

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

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 (the “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 25 February 2010, the Company, Fine Star Enterprises Corporation (“Fine Star”, an indirectly wholly-owned subsidiary of the Company), Air China Cargo Limited (“Air China Cargo”, another wholly-owned subsidiary of the Company), Cathay Pacific Airways Limited (“Cathay Pacific”) and Cathay Pacific 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 RMB851,621,140 and Fine Star agreed to make a further capital contribution of RMB238,453,919 in cash to Air China Cargo; and the Company agreed to sell Fine Star to Advent Fortune Limited (“AFL”) for a consideration of RMB626,793,159. On 19 April 2011, these transactions were completed and were approved by the State Administration for Industry & Commerce of the People’s Republic of China. Upon completion of these transactions, the equity interests held by the Company, Cathay Pacific and AFL became 51%, 25% and 24%, respectively.

On 28 February 2011, the Company, Beijing Enterprises Group Company, Beijing State-owned Assets Management Co., Ltd. and Zhong Da Yin Rui Co., Ltd. set up a private jet company named Beijing Airline Co., Ltd (“Beijing Airline”). The registered capital of Beijing Airline is RMB1,000,000,000. The equity interest held by the Company is 51%.

The principal activities of the Company, its subsidiaries and joint ventures (collectively the “Group”) and associates consist of the provision of airline, 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at 30 June 2011, the Group’s net current liabilities amounted to approximately RMB32,481 million, which comprised current assets of approximately RMB24,048 million and current liabilities of approximately RMB56,529 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 interim condensed consolidated financial statements for the six months ended 30 June 2011, 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 interim condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and therefore should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Impact of new and revised IFRSs

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2010, except for the adoption of the following new and revised International Financial Reporting Standards ("IFRSs"):

IFRS 1 Amendment	Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>
IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to IFRSs (Issued in May 2010)	

In May 2010, the IASB issued its third omnibus of amendment to its standards, including improvements to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13, primarily with a view to removing inconsistencies and clarifying wording.

Other than as further explained below regarding the impact of IAS 24 (revised), the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

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 adoption of IAS 24 (Revised) has resulted in the restatement of the comparative related party disclosures.

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 Interim condensed consolidated financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
IFRS 9	<i>Financial Instruments</i> ⁴
IFRS 10	<i>Consolidated Financial Statements</i> ⁴
IFRS 11	<i>Joint Arrangements</i> ⁴
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
IFRS 13	<i>Fair Value Measurement</i> ⁴
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements- Presentation of other comprehensive income</i> ³
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits – Post-Employment benefits and Termination Benefits projects</i> ⁴
IAS 27 Amendments	<i>Separate Financial Statements</i> ⁴
IAS 28 Amendments	<i>Investments in Associates and Joint Ventures</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

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 "other operations" segment which comprises the provision of aircraft engineering, ground services and other airline-related services.

In determining the Group's geographical information, 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 Group's worldwide transportation network, are mainly located in Mainland China. An analysis of assets of the Group by geographical distribution has therefore not been included in the interim condensed consolidated financial statements.

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 before tax regarding the Group's operating segments in accordance with China Accounting Standards for Business Enterprises ("CASs") for the six months ended 30 June 2011 and 2010:

For the six months ended 30 June 2011

(Unaudited)	Airline Operations RMB'000	Other Operations RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE				
Sales to external customers	45,093,508	36,850	–	45,130,358
Intersegment sales	–	531,284	(531,284)	–
Total revenue	45,093,508	568,134	(531,284)	45,130,358
SEGMENT PROFIT BEFORE TAX	5,421,315	105,567	–	5,526,882

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

3. OPERATING SEGMENT INFORMATION (continued)

Operating segments (continued)

For the six months ended 30 June 2010

(Unaudited)	Airline Operations RMB'000	Other Operations RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE				
Sales to external customers	34,270,125	37,548	–	34,307,673
Intersegment sales	–	359,907	(359,907)	–
Total revenue	34,270,125	397,455	(359,907)	34,307,673
SEGMENT PROFIT BEFORE TAX	5,492,425	66,832	–	5,559,257

The following tables present the segment assets of the Group's operating segments under CASs as at 30 June 2011 and 31 December 2010:

	Airline Operations RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
SEGMENT ASSETS				
As at 30 June 2011 (Unaudited)	162,033,648	4,902,383	(2,711,490)	164,224,541
As at 31 December 2010 (Audited)	153,816,518	2,968,976	(1,565,881)	155,219,613

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

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
REVENUE		
Total revenue for reportable segments	45,130,358	34,307,673
Business tax not included in segment revenue	(1,039,955)	(671,630)
Other income not included in segment revenue	384,292	420,915
Effects of differences between IFRSs and CASs	1,109,290	724,017
Revenue for the period	45,583,985	34,780,975
PROFIT BEFORE TAX		
Total profit before tax for reportable segments	5,526,882	5,559,257
Effects of differences between IFRSs and CASs	(41,271)	(93,446)
Profit before tax for the period	5,485,611	5,465,811

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

3. OPERATING SEGMENT INFORMATION (continued)

Operating segments (continued)

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
ASSETS		
Total assets for reportable segments	164,224,541	155,219,613
Effects of differences between IFRSs and CASs	3,294,945	3,554,386
Total assets	167,519,486	158,773,999

Geographical information

The following tables present the geographical information of the Group's consolidated revenue under IFRSs for the six months ended 30 June 2011 and 2010:

For the six months ended 30 June 2011

(Unaudited)	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	30,150,208	2,377,307	4,848,947	3,194,551	2,819,117	2,193,855	45,583,985

For the six months ended 30 June 2010

(Unaudited)	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	20,445,640	2,057,114	4,436,706	3,024,711	2,806,724	2,010,080	34,780,975

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

4. AIR TRAFFIC REVENUE

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

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Passenger	38,530,247	28,627,073
Cargo and mail	4,971,314	4,462,497
	43,501,561	33,089,570

Air traffic revenue for all domestic flights were subject to a business tax rate of 3%. Pursuant to the relevant business tax rules and regulations in Mainland China, all international, Hong Kong, Macau and Taiwan regional flights are exempted from business tax with effect from 1 January 2010. Business tax incurred and set off against air traffic revenue for the period ended 30 June 2011 amounted to approximately RMB968 million (six months ended 30 June 2010: RMB639 million).

5. OTHER OPERATING REVENUE

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Aircraft engineering income	376,506	334,425
Ground service income	353,799	319,637
Government grants and subsidies:		
Recognition of deferred income	120,559	54,178
Others	233,506	185,456
Service charges on return of unused flight tickets	283,136	143,536
Cargo handling service income	71,652	69,911
Training service income	36,839	24,879
Sale of materials	7,142	10,430
Import and export service income	8,713	7,235
Others	590,572	541,718
	2,082,424	1,691,405

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

6. PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Gain on disposal of property, plant and equipment, net	(780)	(3,635)
Loss on derecognition of property, plant and equipment	19,989	7,525
Minimum lease payments under operating leases:		
Aircraft and related equipment	1,929,207	1,459,593
Land and buildings	296,239	604,469
Amortisation of lease prepayments (note 12)	27,498	21,794

7. FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Exchange gains, net	1,508,288	279,302
Interest income	87,610	15,259
	1,595,898	294,561

Finance costs

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Interest on interest-bearing bank loans and other borrowings	866,193	512,027
Interest on finance leases	167,710	124,933
Loss on interest rate derivative contracts and forward foreign exchange contracts, net	37,499	138,457
	1,071,402	775,417
Less: Interest capitalised	(300,302)	(126,571)
	771,100	648,846

The interest capitalisation rates during the period ranges from 0.8% to 5.9% (six months ended 30 June 2010: 0.8% to 5.9%) per annum relating to the costs of related borrowings during the period.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

8. TAX

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for a subsidiary and certain joint ventures of the Company which are taxed at a preferential rate of 24% (six months ended 30 June 2010: 15% to 22%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2010: 25%) during the period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% (six months ended 30 June 2010: 16.5%) and 12% (six months ended 30 June 2010: 12%), respectively.

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

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Current income tax:		
Mainland China	1,362,049	560,454
Hong Kong and Macau	542	492
Deferred income tax	(148,576)	194,800
Income tax charge for the period	1,214,015	755,746

The Group's share of tax charge attributable to associates amounting to RMB112,272,776 (six months ended 30 June 2010: RMB305,759,000) is included in the "share of profits and losses of associates" on the face of the interim condensed consolidated income statement for the six months ended 30 June 2011.

9. DIVIDEND

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

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

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

The calculation of basic earnings per share for the six months ended 30 June 2011 was based on the profit attributable to equity holders of the Company for the six months ended 30 June 2011 of RMB4,055,546,569, and the weighted average of 12,177,025,905 ordinary shares in issue during the period, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding (note 20).

The calculation of basic earnings per share for the six months ended 30 June 2010 was based on the profit attributable to equity holders of the Company for the six months ended 30 June 2010 of RMB4,612,900,495, and the weighted average of 11,579,847,377 ordinary shares in issue during that period, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding (note 20).

The Group had no potentially dilutive ordinary shares in issue during both periods.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

11. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and flight equipment RMB'000 (Unaudited)	Buildings RMB'000 (Unaudited)	Machinery RMB'000 (Unaudited)	Transportation equipment RMB'000 (Unaudited)	Office equipment RMB'000 (Unaudited)	Construction in progress RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2011, net of accumulated depreciation and impairment	82,654,556	5,876,491	1,784,795	777,651	362,745	4,696,304	96,152,542
Additions	867,747	8,364	93,023	42,283	35,275	11,064,510	12,111,202
Disposals	(655,838)	(30,367)	(72,875)	(2,947)	(2,139)	–	(764,166)
Transfer from construction in progress	9,205,040	45,253	173,889	34,104	11,677	(9,469,963)	–
Transfer from held for sale	665	–	–	–	–	–	665
Reclassification to flight equipment held for sale under current assets	(17,929)	–	–	–	–	–	(17,929)
Depreciation charge for the period	(4,145,785)	(130,027)	(162,615)	(82,352)	(57,586)	–	(4,578,365)
Exchange realignment	(3,900)	(53)	(35)	(258)	(5)	–	(4,251)
At 30 June 2011, net of accumulated depreciation and impairment	87,904,556	5,769,661	1,816,182	768,481	349,967	6,290,851	102,899,698
At 1 January 2011							
Cost	140,046,596	7,911,206	4,114,100	2,135,748	887,055	4,696,304	159,791,009
Accumulated depreciation and impairment	(57,392,040)	(2,034,715)	(2,329,305)	(1,358,097)	(524,310)	–	(63,638,467)
Net book value	82,654,556	5,876,491	1,784,795	777,651	362,745	4,696,304	96,152,542
At 30 June 2011							
Cost	149,016,451	7,925,736	4,265,729	2,183,638	904,372	6,290,851	170,586,777
Accumulated depreciation and impairment	(61,111,895)	(2,156,075)	(2,449,547)	(1,415,157)	(554,405)	–	(67,687,079)
Net book value	87,904,556	5,769,661	1,816,182	768,481	349,967	6,290,851	102,899,698

As at 30 June 2011, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB32,371 million (31 December 2010: RMB27,575 million) were pledged to secure certain bank loans of the Group.

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB28,991 million (31 December 2010: RMB28,310 million).

As at 30 June 2011, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,617 million (31 December 2010: RMB2,935 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 30 June 2011.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2011

(Prepared under International Financial Reporting Standards)

12. LEASE PREPAYMENTS

	30 June 2011 RMB'000 (Unaudited)
Cost	
As at 1 January 2011	2,390,599
Additions	72,795
As at 30 June 2011	2,463,394
Accumulated amortisation	
As at 1 January 2011	(226,950)
Amortisation for the period (note 6)	(27,498)
As at 30 June 2011	(254,448)
Net carrying amount	
As at 30 June 2011	2,208,946

The Group's lease prepayments in respect of land are held under long term leases and located in Mainland China.

As at 30 June 2011, the Group's land use rights with an aggregate net book value of approximately RMB40 million (31 December 2010: RMB40 million) were pledged to secure certain bank loans of the Group.

As at 30 June 2011, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB624 million (31 December 2010: RMB631 million). The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2011.

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13. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of 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:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited) (Restated)
Within 30 days	2,468,485	2,495,523
31 to 60 days	240,346	272,380
61 to 90 days	195,385	97,884
Over 90 days	359,132	226,282
	3,263,348	3,092,069

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Joint ventures	1,518	1,412

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14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Prepayments		
Advances and others	344,460	486,809
Manufacturers' credits	469,591	424,817
Prepaid aircraft operating lease rentals	252,469	268,015
	1,066,520	1,179,641
Deposits and other receivables	1,361,835	1,104,589
	2,428,355	2,284,230

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Fuel derivative contracts	–	3,119	–	83,506
Interest rate derivative contracts	4,134	295,106	5,894	330,012
Forward foreign exchange contracts	–	–	–	13,811
Listed equity securities at fair value	15,614	–	21,485	–
	19,748	298,225	27,379	427,329

The above financial assets and liabilities are accounted for as held-for-trading financial instruments and any fair value change is recognised in the income statement.

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 movements in the fair value of fuel derivative contracts for the six months ended 30 June 2011 was RMB80,386,314 (six months ended 30 June 2010: RMB720,800,647), which represented the recovery in the fair value of RMB80,386,314 (six months ended 30 June 2010: represented a recovery in the fair value of RMB734,651,928 and changes in the fair value of RMB13,851,281 as a result of the settlement of fuel derivative contracts.)

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-reversion 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-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.

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16. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Cash and bank balances	5,987,468	3,477,325
Cash placed with China National Aviation Finance Co., Ltd.	309,773	99,659
Total cash and bank balances	6,297,241	3,576,984
Time deposits placed with banks	7,099,506	7,867,795
Time deposits placed with China National Aviation Finance Co., Ltd.	2,500,000	3,800,000
Total time deposits	9,599,506	11,667,795
Less: Pledged deposits against:		
Aircraft operating leases and financial derivatives	(116,455)	(324,923)
Bank loans	(16,759)	(436,270)
Others	(90)	(81,872)
Total pledged deposits	(133,304)	(843,065)
Non-pledged deposits	9,466,202	10,824,730
Cash and cash equivalents	15,763,443	14,401,714

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Non-pledged time deposits with original maturity of:		
Less than 3 months when acquired	8,365,932	10,799,066
Over 3 months when acquired	1,100,270	25,664
Total non-pledged time deposits	9,466,202	10,824,730

Notes to Interim Condensed Consolidated Financial Statements

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(Prepared under International Financial Reporting Standards)

17. ACCOUNTS PAYABLE

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited) (Restated)
Within 30 days	6,738,194	5,591,997
31 to 60 days	1,332,338	959,910
61 to 90 days	853,397	456,123
Over 90 days	1,266,536	1,093,485
	10,190,465	8,101,515

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Joint ventures	155,841	106,741

18. OTHER PAYABLES AND ACCRUALS

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Accrued salaries, wages and benefits	2,070,905	1,988,466
Receipts in advance for employee residence	1,541,337	806,025
Accrued operating expenses	1,451,849	1,812,333
Business tax, customs duties and levies tax payable	1,022,023	1,061,619
Deposits received from sales agents	912,995	851,033
Due to a non-controlling shareholder of a subsidiary	707,787	707,787
Current portion of deferred income related to frequent-flyer programme	371,570	423,658
Current portion of deferred income related to government grants	271,314	110,671
Interest payable	339,141	320,254
Land lease payable	256,538	256,538
Provision for staff housing benefits	32,210	47,350
Current portion of long term payables	4,491	28,716
Others	1,081,082	845,383
	10,063,242	9,259,833

Notes to Interim Condensed Consolidated Financial Statements

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(Prepared under International Financial Reporting Standards)

19. SHARE CAPITAL

The numbers of shares of the Company and their nominal values as at 30 June 2011 and 31 December 2010 are as follows:

	Number of shares	Nominal value <i>RMB'000</i>
Registered, issued and fully paid:		
H shares of RMB1.00 each:		
Tradable	4,405,683,364	4,405,683
Trade-restricted	157,000,000	157,000
A shares of RMB1.00 each:		
Tradable	7,845,678,909	7,845,679
Trade-restricted	483,592,400	483,593
	<hr/> 12,891,954,673	<hr/> 12,891,955

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.

20. TREASURY SHARES

As at 30 June 2011, the Group owned a 29.99% (31 December 2010: 29.99%) equity interest in Cathay Pacific, which in turn owned a 19.03% (31 December 2010: 18.31%) 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.

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(Prepared under International Financial Reporting Standards)

21. SHARE APPRECIATION RIGHTS

The Company has adopted a share appreciation rights ("SARs") 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), 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, no more than 200 individuals will be granted SARs.

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 to 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.

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 numbers of SARs exercisable will not exceed 30%, 70% and 100%, respectively, of the total SARs granted to the respective eligible participants.

On 25 August 2009, a board resolution was passed to suspend the Plan and to amend certain terms of the Plan in response to the requirements of related government policies. In 2011, a board resolution was passed to approve the "Report on the Resumption of Share Appreciation Rights Plan" and to revise the "Shares Appreciation Rights Management Rules of Air China Limited". On 26 May 2011, a resolution was passed in the annual general meeting of the Company to resume the Plan and to authorize the exercise of 70% of the SARs already vested during a special window period within 60 trading days after the annual general meeting. The exercise price was adjusted to HK\$5.97 per share according to the revised Plan.

As at 30 June 2011, all SARs granted remained unexercised and had an aggregate fair value of RMB14,553,768. Based on a board resolution passed on 15 July, the special window period for the exercise of the 70% vested SARs was from 19 July 2011 to 22 July and the date of 25 July. Up to 25 July 2011, all of the 70% vested SARs were already exercised.

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.

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(Prepared under International Financial Reporting Standards)

22. CONTINGENT LIABILITIES

As at 30 June 2011, the Group had the following contingent liabilities:

- (a) Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. 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 would be assumed by the Company and the Company would not be 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 against 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 the Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed aircraft. Certain injured passengers and family members 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 30 June 2011, the Company, Air China International Corporation and the Company's insurer had paid an aggregate amount of approximately RMB399 million (31 December 2010: RMB399 million) in respect of passenger liability and other auxiliary costs, within which approximately RMB388 million (31 December 2010: RMB388 million) was 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. The Directors of the Company are also of the view that there would be valid defence 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 involving approximately RMB224 million (31 December 2010: RMB224 million) against the Company, Air China Cargo, Air China International Corporation and a third party, for the unlawful use of land owned by Airport City Development. The status of the proceedings is still in the preliminary stage and 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. The Directors of the Company are also of the view that there would be valid defence against this claim and consider that no provision for this claim is needed accordingly.

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22. CONTINGENT LIABILITIES (continued)

- (e) Shenzhen Airlines, a subsidiary of the Group, has provided guarantees to banks for certain employees in respect of their residential loans as well as for certain pilot trainees in respect of their tuition loans. As at 30 June 2011, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB321,190,511 (31 December 2010: RMB281,475,589) and for pilot trainees' tuition loans amounting to RMB359,380,614 (31 December 2010: RMB354,705,922).
- (f) In May 2011, Shenzhen Airlines, a subsidiary of the Group, received a summon from the Higher People's Court of Guangdong Province in respect of an outstanding loan balance totalling RMB390,000,000 borrowed by Shenzhen Huirun Investment Co., Ltd ("Huirun", a non-controlling shareholder of Shenzhen Airlines) from a third party. It was alleged that Shenzhen Airlines had entered into several guarantee agreements with Huirun and the third party, pursuant to which Shenzhen Airlines acted as a guarantor in favour of the third party for the loan borrowed by Huirun. The proceeding is still in the preliminary stage and Shenzhen Airlines is awaiting for the court ruling on the authenticity of the guarantee agreements. Accordingly, the Directors of the Group are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage and consider that no provision for this claim is required as at 30 June 2011.

23. OPERATING LEASE ARRANGEMENTS

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

At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within one year	3,462,628	3,743,901
In the second to fifth years, inclusive	9,974,185	9,952,825
Over five years	4,603,939	5,423,563
	18,040,752	19,120,289

Included in the above commitments, the Group has the following minimum lease payments under non-cancellable operating leases towards related companies:

Related companies	203,673	524,757
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(Prepared under International Financial Reporting Standards)

24. COMMITMENTS

(a) Capital commitments

The Group 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:

	30 June 2011 <i>RMB'000</i> (Unaudited)	31 December 2010 <i>RMB'000</i> (Audited)
Contracted, but not provided for:		
Aircraft and flight equipment	106,504,310	118,639,688
Buildings	1,864,431	1,765,801
Others	42,860	48,369
	108,411,601	120,453,858
Authorised, but not contracted for:		
Buildings	1,888,951	1,443,606
Others	169,950	187,963
	2,058,901	1,631,569
Total capital commitments	110,470,502	122,085,427

(b) Investment commitments

The Group had the following amounts of investment commitments as at the end of the reporting period:

	30 June 2011 <i>RMB'000</i> (Unaudited)	31 December 2010 <i>RMB'000</i> (Audited)
Contracted, but not provided for:		
Associate and joint venture	239,000	239,000

In addition to the above commitments, the Group had authorised but not contracted investment commitment of RMB800 million for Dalian Airlines Co., Ltd. ("Dalian Airlines") as at 30 June 2011.

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25. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates:

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited) (Restated)
(a) Included in air traffic revenue		
Sale of cargo space:		
CNAHC Group	47,716	28,530
Associate	39,390	37,679
	87,106	66,209
Government charter flights:		
CNAHC Group	275,679	273,668
(b) Included in other operating revenue		
Equipment leasing income:		
CNAHC Group	–	1,050
Associate	1,206	1,470
	1,206	2,520
Aircraft engineering income:		
Joint venture	436	26
Associates	5,196	30,149
	5,632	30,175
Ground services income:		
CNAHC Group	218	195
Joint venture	66	117
Associates	34,138	32,652
	34,422	32,964
Others:		
CNAHC Group	21,069	12,165
Joint ventures	5,962	595
Associates	9,436	6,746
	36,467	19,506
(c) Included in finance revenue and finance costs		
Interest income:		
Joint venture	3,318	328
Associate	29,757	7,546
	33,075	7,874
Interest expense:		
Associate	25,924	13,010

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25. RELATED PARTY TRANSACTIONS (continued)

		For the six months ended	
		30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited) (Restated)
(d)	Included in operating expenses		
	Airport ground services, take-off, landing and depot expenses:		
	CNAHC Group	284,097	249,808
	Joint venture	24,802	–
	Associates	58,036	36,524
		366,935	286,332
	Air catering charges:		
	CNAHC Group	358,711	250,884
	Associates	5,571	6,340
		364,282	257,224
	Repair and maintenance costs:		
	CNAHC Group	25	20
	Joint venture	453,649	404,777
	Associates	255	329,571
		453,929	734,368
	Sales commission expenses:		
	CNAHC Group	2,264	1,932
	Joint venture	9,542	7,597
	Associates	1,075	1,167
		12,881	10,696
	Management fees:		
	CNAHC Group	4,077	4,176
	Aircraft and flight equipment leasing fees:		
	Associates	337,381	311,583
	Others:		
	CNAHC Group	90,539	90,248
	Joint venture	1,981	618
	Associates	29,019	3,232
		121,539	94,098
(e)	Sales of office equipment and motor vehicle to:		
	Joint venture	1,536	–

Notes to Interim Condensed Consolidated Financial Statements

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(Prepared under International Financial Reporting Standards)

25. RELATED PARTY TRANSACTIONS (continued)

	30 June 2011 <i>RMB'000</i> (Unaudited)	31 December 2010 <i>RMB'000</i> (Audited) (Restated)
(f) Deposits, loans and bills payable		
Deposits placed with an associate	2,809,773	3,899,659
Loans from an associate	1,020,000	1,005,499
Entrusted loans to a joint venture	20,335	–
(g) Outstanding balances with related parties		
Long term receivable from the ultimate holding company	–	31,813
Due from the ultimate holding company	667,895	620,565
Due from related companies	5,466	3,244
Due from associates	57,864	45,463
Due from joint ventures	142,101	64,152
Due to related companies	(283,514)	(184,427)
Due to associates	(180,677)	(127,068)
Due to joint ventures	(165,132)	(116,711)

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.

(h) An analysis of the compensation of key management personnel of the Group is as follows:

	For the six months ended	
	30 June 2011 <i>RMB'000</i> (Unaudited)	30 June 2010 <i>RMB'000</i> (Unaudited)
Compensation of key management personnel of the Group:		
Short term employee benefits	5,282	4,619
Equity-settled share option expense	(1,419)	1,126
Post-employment benefits	188	184
	4,051	5,929

Notes to Interim Condensed Consolidated Financial Statements

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(Prepared under International Financial Reporting Standards)

26. EVENTS AFTER THE REPORTING PERIOD

On 27 July 2011, the Company and Dalian Baoshui Zhengtong Co., Ltd. entered into an agreement to set up a private jet company named Dalian Airlines engaging in public air transport operations. The registered capital of Dalian Airlines is RMB1,000,000,000. On 1 August 2011, the business registration of Dalian Airlines was completed. The Company subscribed for 80% or RMB800,000,000 of the registered capital of Dalian Airlines. As of the date of this report, the paid up capital of Dalian Airlines was RMB200,000,000, including RMB160,000,000 contributed by the Company. According to the articles of association, Dalian Airlines is a subsidiary of the Company.

27. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of IAS 24 (Revised) during the current period, the disclosures of related parties have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current period presentation.

28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 August 2011.

Unaudited Interim Consolidated Income Statement

For the six months ended 30 June 2011

(Prepared under China Accounting Standards for Business Enterprises)

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Revenue from operations	45,130,358	34,307,673
Less: Cost of operations	35,803,960	26,951,413
Business taxes and surcharges	1,028,098	662,104
Selling expenses	3,080,587	2,421,755
General and administrative expenses	1,286,222	959,410
Finance costs	(730,494)	288,192
Impairment losses in assets	20,043	126,230
Add: Gains from movements in fair value	39,326	576,969
Investment income	640,101	1,890,209
Including: Share of profits of associates and joint ventures	638,599	1,739,454
Profit from operations	5,321,369	5,365,747
Add: Non-operating income	255,555	213,311
Less: Non-operating expenses	50,042	19,801
Including: Loss on disposal of non-current assets	4,955	9,657
Profit before tax	5,526,882	5,559,257
Less: Tax	1,174,769	778,086
Net profit	4,352,113	4,781,171
Net profit attributable to owners of the parent	4,063,214	4,694,021
Non-controlling interests	288,899	87,150
Earnings per share (RMB)		
Basic and diluted	0.33	0.41
Other comprehensive loss	(219,808)	(142,466)
Total comprehensive income	4,132,305	4,638,705
Attributable to:		
Owners of the parent	3,844,546	4,551,518
Non-controlling interests	287,759	87,187

Unaudited Interim Consolidated Balance Sheet

30 June 2011

(Prepared under China Accounting Standards for Business Enterprises)

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
ASSETS		
Current assets:		
Cash and bank balances	15,623,593	15,011,027
Financial assets held for trading	19,748	27,379
Bills receivable	559	14,295
Accounts receivable	3,451,045	3,180,638
Other receivables	1,540,537	1,138,695
Prepayments	567,063	683,781
Inventories	1,092,316	932,317
Total current assets	22,294,861	20,988,132
Non-current assets:		
Long term receivables	366,515	393,492
Long term equity investments	14,951,114	15,522,585
Fixed assets	93,338,497	88,224,954
Construction in progress	26,620,719	23,518,332
Intangible assets	2,885,195	2,867,600
Goodwill	1,279,076	1,449,030
Long term deferred expenses	169,249	181,317
Deferred tax assets	2,319,315	2,074,171
Total non-current assets	141,929,680	134,231,481
Total assets	164,224,541	155,219,613

Unaudited Interim Consolidated Balance Sheet

30 June 2011

(Prepared under China Accounting Standards for Business Enterprises)

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term loans	14,329,373	15,703,154
Financial liabilities held for trading	298,225	427,329
Bills payable	190,031	387,327
Accounts payable	11,920,759	9,426,483
Domestic air traffic liabilities	1,596,300	1,582,868
International air traffic liabilities	2,592,529	2,025,831
Receipts in advance	110,118	125,088
Employee compensations payable	1,727,758	1,593,762
Taxes payable	2,074,408	2,998,802
Interest payable	314,796	310,029
Other payables	5,121,615	4,630,782
Non-current liabilities repayable within one year	13,184,360	11,421,643
Total current liabilities	53,460,272	50,633,098
Non-current liabilities:		
Long term loans	36,020,817	31,923,371
Corporate bonds	6,000,000	9,000,000
Long term payables	2,447,091	2,271,951
Obligations under finance leases	16,127,677	16,061,353
Accrued liabilities	68,080	77,820
Deferred income	2,953,558	2,546,860
Deferred tax liabilities	1,076,412	1,005,840
Total non-current liabilities	64,693,635	62,887,195
Total liabilities	118,153,907	113,520,293
Shareholders' equity:		
Issued capital	12,891,955	12,891,955
Capital reserve	16,446,963	16,245,469
Reserve funds	2,792,686	2,178,300
Retained earnings	14,402,130	12,515,511
Foreign exchange translation reserve	(2,596,667)	(2,178,610)
Equity attributable to owners of the parent	43,937,067	41,652,625
Non-controlling interests	2,133,567	46,695
Total shareholders' equity	46,070,634	41,699,320
Total liabilities and shareholders' equity	164,224,541	155,219,613

Supplementary Information

Effects of Significant Differences Between IFRSs and CASs

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

	Notes	For the six months ended	
		30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Net profit attributable to owners of the parent under CASs		4,063,214	4,694,021
Deferred tax	(i)	(25,995)	38,000
Differences in value of fixed assets	(ii)	31,979	(122,067)
Government grants	(iii)	71,595	(7,469)
Others		(85,246)	10,415
Net profit attributable to owners of the parent under IFRSs		4,055,547	4,612,900

	Notes	For the six months ended	
		30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Equity attributable to owners of the parent under CASs		43,937,067	41,652,625
Deferred tax	(i)	88,618	114,613
Differences in value of fixed assets	(ii)	(118,137)	(150,116)
Government grants	(iii)	(364,210)	(435,805)
Others	(iv)	168,014	256,637
Equity attributable to owners of the parent under IFRSs		43,711,352	41,437,954

Supplementary Information

Notes:

- (i) The differences in deferred tax were mainly caused by the other differences under CASs and IFRSs as explained below.
- (ii) The differences in the value of fixed assets mainly consist of the following three types: (1) 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 CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under CASs and IFRSs. Such differences are expected to be eliminated gradually through depreciation or disposal of the related fixed assets in future; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs. Such differences are expected to be eliminated gradually through depreciation or disposal of the related fixed assets in future; (3) the differences were caused by the adoption of component accounting in different years under CASs and IFRSs. Component accounting was adopted by the Group on a prospective basis under IFRSs in 2005 and under CASs in 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.
- (iii) Under both CASs and IFRSs, government grants or government subsidies should be debited as government grants/subsidies 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 grants 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 CASs and IFRSs. Therefore, in the Group's financial statements prepared in accordance with CASs, government grants received were 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.
- (iv) 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 “ASK”	the number of seats available for sale multiplied by the kilometres flown
“available freight tonne kilometres” or “AFTK”	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown
“available tonne kilometres” or “ATK”	the number of tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
“tonne”	a metric tonne, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

“revenue passenger kilometres” or “RPK”	the number of revenue passengers carried multiplied by the kilometres flown
“passenger traffic”	measured in RPK, unless otherwise specified
“revenue freight tonne kilometres” or “RFTK”	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
“cargo traffic”	measured in RFTK, unless otherwise specified
“revenue tonne kilometres” or “RTK”	the revenue load (passengers and cargo) in tonnes multiplied by the kilometres flown

LOAD FACTORS

“cargo and mail load factor”	RFTK expressed as a percentage of AFTK
“passenger load factor”	RPK expressed as a percentage of ASK
“overall load factor”	RTK expressed as a percentage of ATK

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
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