2012
ANNUAL REPORT

AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 HongKong 601111 Shanghai AIRC London

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

Air China is headquartered in Beijing, the capital of China, with two increasingly important hubs in Shanghai and Chengdu. With Star Alliance, our network covered 1,329 destinations in 194 countries as at 31 December 2012. Air China is dedicated to provide passengers with safe, convenient, comfortable and personalised services.

Air China is actively implementing the strategic objectives of ranking among the top in terms of global competitiveness, continuously strengthening our development potentials, providing our customers with a unique and excellent experience and realising sustainable growth to create value for all related parties.

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

Contents

Corporate Information

REGISTERED CHINESE NAME
中國國際航空股份有限公司

ENGLISH NAME
Air China Limited

REGISTERED OFFICE
Blue Sky Mansion
28 Tianzhu Road
Airport Economic Development Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

WEBSITE ADDRESS
www.airchina.com.cn

DIRECTORS
Wang Changshun
Wang Yinxiang
Cao Jianxiong
Sun Yude
Christopher Dale Pratt
Ian Sai Cheung Shiu
Cai Jianjiang
Fan Cheng
Fu Yang
Li Shuang
Han Fangming
Yang Yuzhong

SUPERVISORS
Li Qinglin
Zhang Xueren
Zhou Feng
Xiao Yanjun
Su Zhiyong

LEGAL REPRESENTATIVE OF THE COMPANY
Wang Changshun

JOINT COMPANY SECRETARIES
Rao Xinyu
Tam Shuit Mui

AUTHORISED REPRESENTATIVES
Cai Jianjiang
Tam Shuit Mui

LEGAL ADVISERS TO THE COMPANY
Haiwen & Partners *(as to PRC Law)*
Sullivan & Cromwell *(as to Hong Kong and English Law)*

INTERNATIONAL AUDITORS
Ernst & Young

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

LISTING VENUES
Hong Kong, London and Shanghai

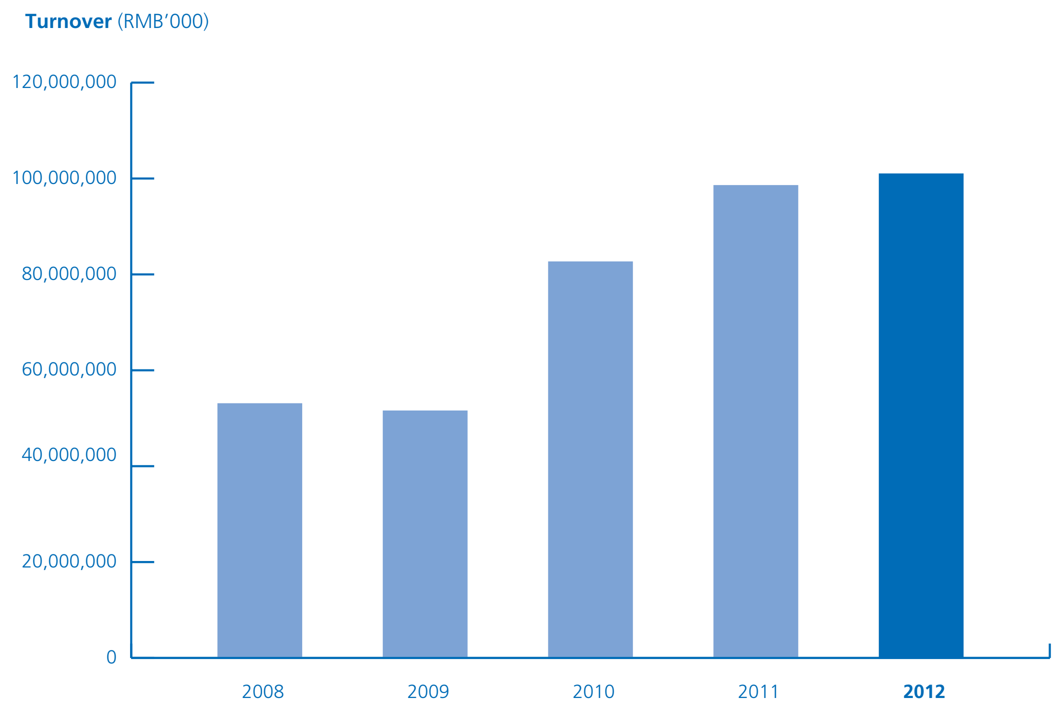
Summary of Financial Information

(RMB'000)

	2012	2011	2010	2009	2008
Turnover	**100,837,682**	98,409,502	82,487,539	51,393,191	52,908,161
Profit from operations	**8,209,059**	6,258,661	10,927,521	5,500,956	(9,806,971)
Profit before tax	**6,575,512**	9,354,739	14,833,612	5,066,285	(10,977,680)
Profit after tax (including profit attributable to non-controlling interests)	**4,928,005**	7,062,666	12,335,864	4,803,051	(9,367,030)
Profit attributable to non-controlling interests	**291,270**	(19,708)	330,860	(51,183)	(111,208)
Profit attributable to owners of the Company	**4,636,735**	7,082,374	12,005,004	4,854,234	(9,255,822)
EBITDA[(1)]	**18,585,490**	15,819,568	19,496,891	12,552,228	(3,441,696)
EBITDAR[(2)]	**22,811,733**	20,420,033	23,696,910	15,349,155	(593,230)
Earnings per share attributable to equity holders of the Company (RMB)	**0.38**	0.58	1.03	0.41	(0.78)
Return on equity attributable to owners of the Company (%)	**9.34**	15.36	28.97	20.30	(46.41)

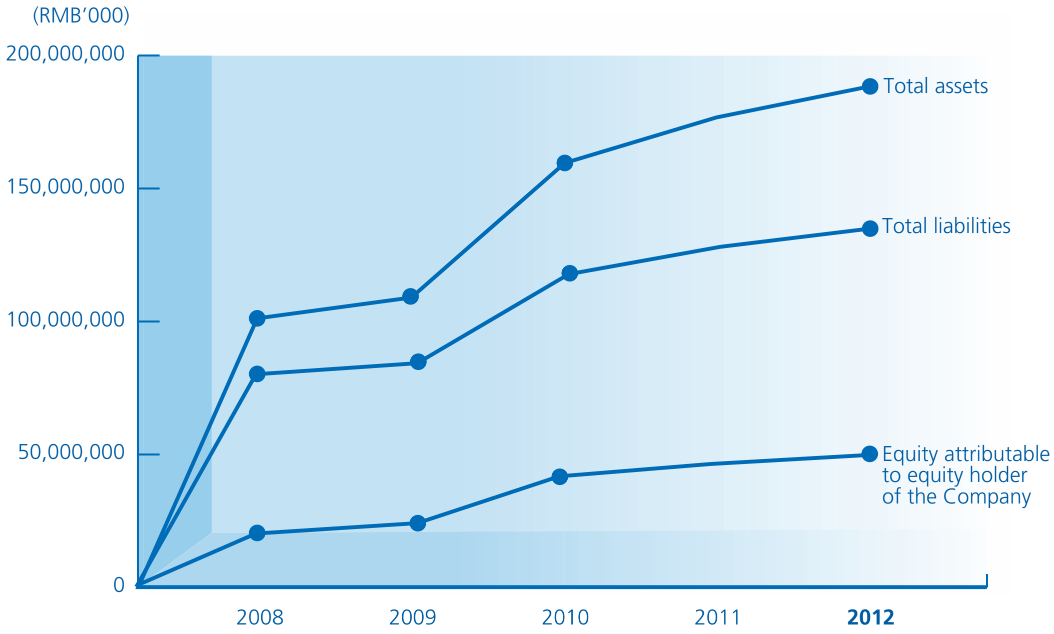
(1) EBITDA represents earnings before finance revenue, finance costs, enterprise income taxes, profits resulting from sale of associates, share of profits and losses of associates, depreciation and amortisation as computed under the IFRSs.

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



Summary of Financial Information

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
					(RMB'000)
Total assets	**187,590,704**	175,850,072	158,769,531	107,919,022	100,401,224
Total liabilities	**135,313,078**	127,524,637	117,398,294	83,964,555	79,944,718
Non-controlling interests	**2,619,123**	2,209,636	(66,717)	38,571	513,654
Equity attributable to equity holder of the Company	**49,658,503**	46,115,799	41,437,954	23,915,896	19,942,852
Equity attributable to owners of the Company per share (RMB)	**4.09**	3.79	3.56	2.02	1.68



Summary of Operating Data

The following is the operating data summary of the Company, Air China Cargo, Shenzhen Airlines (including Kunming Airlines), Air Macau and Dalian Airlines.

	2012	2011	Change
Traffic			
RPK (in millions)	**129,773.32**	123,489.07	5.09%
International	**37,536.36**	35,720.32	5.08%
Domestic	**86,588.77**	82,669.66	4.74%
Hong Kong, Macau and Taiwan	**5,648.18**	5,099.09	10.77%
RFTK (in millions)	**5,006.72**	4,847.63	3.28%
International	**3,509.12**	3,427.48	2.38%
Domestic	**1,385.93**	1,323.22	4.74%
Hong Kong, Macau and Taiwan	**111.67**	96.93	15.20%
Passengers carried (in thousands)	**72,415.84**	69,687.41	3.92%
International	**7,391.22**	7,120.68	3.80%
Domestic	**61,430.80**	59,388.40	3.44%
Hong Kong, Macau and Taiwan	**3,593.81**	3,178.32	13.07%
Cargo and mail carried (tonnes)	**1,460,939.24**	1,426,086.62	2.44%
Kilometres flown (in millions)	**916.03**	871.75	5.08%
Block hours (in thousands)	**1,462.41**	1,382.98	5.74%
Number of flights	**511,735**	490,287	4.37%
International	**51,647**	50,120	3.05%
Domestic	**429,455**	413,071	3.97%
Hong Kong, Macau and Taiwan	**30,633**	27,096	13.05%
RTK (in millions)	**16,574.09**	15,867.17	4.46%
Capacity			
ASK (in millions)	**161,382.14**	151,572.40	6.47%
International	**47,263.58**	45,292.02	4.35%
Domestic	**106,397.05**	99,391.80	7.05%
Hong Kong, Macau and Taiwan	**7,721.52**	6,888.58	12.09%
AFTK (in millions)	**8,465.78**	8,172.91	3.58%
International	**5,535.55**	5,351.14	3.45%
Domestic	**2,652.12**	2,570.79	3.16%
Hong Kong, Macau and Taiwan	**278.11**	250.99	10.80%
ATK (in millions)	**23,020.94**	21,842.08	5.40%

Summary of Operating Data

	2012	2011	Change
Load factor			
Passenger load factor (RPK/ASK)	80.41%	81.47%	(1.06ppts)
International	79.42%	78.87%	0.55ppts
Domestic	81.38%	83.18%	(1.79ppts)
Hong Kong, Macau and Taiwan	73.15%	74.02%	(0.87ppts)
Cargo and mail load factor (RFTK/AFTK)	59.14%	59.31%	(0.17ppts)
International	63.39%	64.05%	(0.66ppts)
Domestic	52.26%	51.47%	0.79ppts
Hong Kong, Macau and Taiwan	40.15%	38.62%	1.53ppts
Overall Load Factor (RTKs expressed as a percentage of ATKs)	72.00%	72.64%	(0.65ppts)
Yield			
Yield per RPK (RMB)	0.67	0.68	(1.47%)
International	0.57	0.57	–
Domestic	0.70	0.72	(2.78%)
Hong Kong, Macau and Taiwan	0.87	0.76	14.47%
Yield per RFTK (RMB)	1.68	1.79	(6.15%)
International	1.75	1.81	(3.31%)
Domestic	1.35	1.49	(9.40%)
Hong Kong, Macau and Taiwan	3.74	4.95	(24.44%)
Daily utilization of aircraft (block hours per day per aircraft)	9.61	9.71	(0.10 hour)
Unit cost			
Operating cost per ASK (RMB)	0.57	0.61	(6.56%)
Operating cost per ATK (RMB)	4.02	4.04	(0.50%)

Chairman's Statement

Wang Changshun
Chairman

Demand in the aviation industry in 2012 continued to be weak as a result of the slow recovery of the U.S. economy, the on-going European debt crisis and the global recession. Escalating operating costs from high jet fuel price and the intensifying competition added to the challenges faced by the industry. The Group adhered to a strategy of sustainable development and steady and prudent operation and proactively adjusted its routes and capacity deployment, consolidated our external and internal resources, improved its management standard and service quality effectively responding to market changes. During the reporting period, we recorded a turnover of RMB100,838 million and profit attributable to equity holders of RMB4,637 million, representing a year-on-year increase of 2.47% and a year-on-year decrease of 34.53%, respectively, maintaining our market leader position.

We recorded a steady increase in passenger operations during the reporting period by managing our capacity deployment dynamically in response to market conditions. With regards to our international operations, we capitalised on the recovery in the U.S. market and increased our capacity deployment on the U.S. routes while managing our overall deployment on our European routes in view of the endured recession in the European economy. We had also reduced our capacity on the Japanese routes and re-deployed such capacity to markets with a higher demand. With regards to our domestic operation, we fortified our base-hub advantage and increased the deployment of wide-body aircraft on our domestic routes, resulting in the strengthened compatibility of our capacity, market, aircraft and route. In 2012, our capacity measured in ASK reached 161,382 million and RPK reached 129,773 million, representing an increase of 6.47% and 5.09% over the previous year, respectively. We carried 72,415,800 passengers with a passenger load factor of 80.41%, representing an increase of 3.92% and a decrease of 1.06 ppts over the previous year respectively. Our passenger yield decreased by 1.47% to RMB0.67.

The Group continued to promote its hub network strategy and the competitiveness of its hubs enhanced steadily. Our operations at the Beijing hub continued to expand. We launched new services, increased the frequency of existing services on a number of international and domestic routes and further expanded our network and enhanced our operation control capability. The number of transfer passengers at the Beijing hub reached 4.48 million during the year together with a significant increase in the number of international transfer passengers. We added 56 slots per week at the Chengdu hub. New routes were also introduced, including Chengdu–Kathmandu and Chengdu–Mumbai routes, and the number of cities serviced by the Chengdu hub reached 61. At the Shanghai international gateway, our development focused on optimisation of fleet and routes. Gradual improvement in the support capabilities such as maintenance, operation support and service was achieved.

With long-term development in mind, the Group continued to optimise its fleet structure. During the year, we introduced 53 aircraft and phased out 24 aircraft, resulting in a further increase of wide-body aircraft in our entire fleet. The wide-body aircraft are primarily used on our international long-haul routes and major domestic routes. Notwithstanding the fact that the adjustment made to our fleet had, in the short-term, increased our operating cost and affecting our profit margin, the adjustment represented a milestone in our strategy in improving our international competitiveness and building an international airline with a comprehensive network. In the long run, the adjustment will assist in the sustainable development of the Group. After the restructuring, the average age of our fleet dropped to 6.54 years. A younger fleet will also assist in reducing our operating costs and set a foundation for increasing our safety margin.

Chairman's Statement

We continued to strengthen our strategic partnership with our associated corporations and promote the business synergy among the member airlines. During the year, we moved ahead in strengthening our collaboration with Cathay Pacific and established a joint venture company, SIA Services Company, with Cathay Pacific and the Shanghai Airport Authority. Our presence in Star Alliance was enhanced with our membership upgraded to a Class 1 Member from Class 2 Member and we also made a recommendation for Shenzhen Airlines to become a member of Star Alliance successfully. Our collaboration with Shenzhen Airlines continued to deepen in various areas, including sales and marketing, frequent flyer programme, maintenance, information technology and central procurement and our synergy further developed. We continued to strengthen our influence in the regional markets and have completed the preparation work for establishing Air China Inner Mongolia Limited.

We are committed to improving our service quality by enhancing passengers' experience. During the reporting period, we put our focus on enhancing the construction of our service management system and standardizing our products, service and management process, further optimising our one-stop service system. We also improved the efficiency in our communication with passengers by launching protocols for managing passengers' feedback, upgraded our facilities and integrated the convenience brought by state of the art technology into our services. All of these measures improved our passengers' experience and enhanced their satisfaction. During the reporting period, the number of PhoenixMiles members increased by 8.23 million to 25.65 million.

In 2012, Air China Cargo faced unprecedented challenges due to the weak international air cargo market and the decline in demand in the Chinese air cargo market. Air China Cargo responded to the challenging operating environment by controlling freighters capacity deployment, optimising the cargo routes network and introducing new routes such as Shanghai–Amsterdam and Zhengzhou–Chicago routes. Air China Cargo also carried out marketing initiatives to increase the sale of bellyhold spaces alongside the increase of passenger flights. All these measures played a positive role in improving the cargo operation and minimising its losses. During the year, the AFTKs and RFTKs of Air China Cargo reached 7,836 million, representing a year-on-year increase of 3.41%, and 4,548 million, representing a year-on-year increase of 3.01%, respectively. The volume of cargo and mail carried increased by 1.83% from last year to 1,169,800 tonnes and the cargo and mail load factor decreased by 0.23 ppts to 58.05% in 2012. The cargo yield decreased by 3.29% to RMB1.69.

The Group has committed to corporate social responsibility and made continuous efforts towards saving energy and reducing emissions. We completed and initiated phase two of our energy and environment monitoring system in 2012 and our energy consumption record and monitoring functions had been standardised across the Group. We also refined our emissions management and were awarded the Green Standardization Prize of the Environmental Responsibility Awards among PRC Listed Companies. At the same time, the Group was actively involved in a number of major national events and participated in various charitable activities with the aim of growing together with the relevant parties through a series of community services.

In 2013, notwithstanding the steady recovery in the global economy, the shadows of the European debt crisis have not subsided and the structural consolidation of the PRC domestic economy is at an important transition. The global aviation industry will face pressures from the slowdown of capacity growth, the accelerating adjustments in the industrial landscape and intensifying competition, among others. However, benefiting from the continuous growth and economic transitions of the Chinese economy, the growth of aviation market in the PRC will exceed its GDP growth, allowing it to remain as the market with the highest development potential globally. The Group will continue to implement its strategy effectively on the subject of adopting international best practices, exercising refined management, conforming to standards and realising comprehensive information technology coverage. We will be dedicated to building a world-class airline with the best safety records, service quality, as well as the highest efficiency and delivering better performance to our shareholders and the community.

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Wang Changshun
Chairman

Beijing, PRC
26 March 2013

In 2012, the Group's ATKs reached 23.021 billion and RTKs reached 16.574 billion, representing an increase of 5.40% and 4.46%, respectively, over the previous year. The Group's overall load factor was 72.00%, representing a decrease of 0.65 ppts from 2011.

DEVELOPMENT OF FLEET

In 2012, the Group acquired 53 aircraft, including A320, A330, B737-800 and B777-300ER, and phased out 24 old aircraft, such as B737-300, B767 and A300F. As at 31 December 2012, the Group had a total of 461 aircraft, with an average age of 6.54 years (excluding aircraft under wet leases). Details of the fleet of the Group are set out in the table below:

	As at 31 December 2012					Introduction Plan		
	Subtotal	Self-owned	Finance Leased	Operating Leased	Average Age	2013	2014	2015
Passenger aircraft	**441**	**218**	**112**	**111**	**6.32**	**56**	**61**	**45**
Among which:								
Airbus series	**209**	**85**	**82**	**42**	**4.76**	**26**	**19**	**5**
A319	40	24	9	7	7.68	0	0	0
A320/A321	129	49	55	25	3.66	19	11	1
A330	34	6	18	10	3.74	7	8	4
A340	6	6	0	0	14.56	0	0	0
Boeing series	**232**	**133**	**30**	**69**	**7.77**	**30**	**42**	**40**
B737	191	101	21	69	6.94	25	35	35
B747	9	9	0	0	15.74	0	3	4
B757	8	8	0	0	18.00	0	0	0
B767	3	3	0	0	16.38	0	0	0
B777	21	12	9	0	6.54	5	4	0
B787	0	0	0	0	–	0	0	1
Freighters	**11**	**9**	**0**	**2**	**18.29**	**1**	**4**	**3**
B747F	11	9	0	2	18.29	0	0	0
B777F	0	0	0	0	–	1	4	3
Business jets	**9**	**1**	**0**	**8**	**2.63**	**1**	**0**	**0**
Total	**461**	**228**	**112**	**121**	**6.54**	**58**	**65**	**48**

Among the aircraft set out above, the Company operated a fleet of 301 aircraft, with an average age of 6.65 years (excluding aircraft under wet leases). During the year, the Company acquired 32 aircraft and phased out 19 aircraft.

In 2012, the Company made new progress in hub construction, sales and marketing, product innovation and service enhancement.

Business Overview

HUB NETWORK

The scale of our operations at Beijing continued to expand in 2012 with continued expansions of our hub network through additions to our flights from Beijing to Wuhan, Hangzhou, Chongqing and other destinations and increasing our influence over the main routes. Our network coverage was expanded with the additions of new flights from/to Beijing to/from destinations like Gatwick, Ganzhou and Yangzhou. We also optimised the planning of our flight banks and significantly enhanced the efficiency of the correlation among our 3 flight banks in Beijing. The number of transfer passengers at the Beijing hub reached 4.48 million, among which, the number of international transfer passengers increased significantly. We added 56 slots per week at the Chengdu hub and new routes were introduced, including the Chengdu–Kathmandu and Chengdu–Mumbai routes. The number of cities served by the Chengdu hub reached 61 with additional 134 connecting flights per week becoming available. At the Shanghai gateway, we introduced the Shanghai–Paris route, and deployed a more efficient A330-200 aircraft to increase the service frequency on our Milan routes and further strengthening the compatibility between our aircraft and routes.

As of 31 December 2012, the number of passenger routes operated by the Company reached 284, among which 72 were international routes, 15 were regional routes and 197 were domestic routes, covering 145 cities in 29 countries and regions, including 45 international cities, 4 regional cities and 96 domestic cities.

MARKETING STRATEGY

We adjusted our marketing strategy on a dynamic basis in 2012. We refined our profit control, optimised the domestic/overseas sales structure of our international routes and increased the proportion of domestic sales. We stood firm on our proactive sales strategy and strengthened our efforts in identifying, cultivating and keeping customers. Our frequent flyers increased by 2.53 million reaching a total of 19.97 million. The revenue contributed by our frequent flyers reached RMB21.18 billion representing a year-on-year growth of 9%. We continued to improve our direct marketing efforts and the contribution from direct sales increased steadily, including a 39% growth on revenue from internet sales. Our sales efforts directed at identifying and keeping key customers had shown positive results

and the revenue from our key customers grew by 11% to RMB13.4 billion. We pushed forward on the joint marketing efforts with our subsidiaries and associated companies using multiple brands, built a multi-branded aviation right and flight schedule database and strengthened the management of the multi-branded network and the dynamics of flight scheduling. We started to consolidate the frequent flyers of various brands into "PhoenixMiles", and have finished the consolidation with that of Shenzhen Airlines.

PRODUCTS AND SERVICES

We focused on the need of our customers and continued to improve our product quality. We upgraded our facility, modified the business class cabin of the B777-200 and narrow-body aircraft as well as upgraded and expanded our in-flight entertainment system. We also reconfigured the waiting area of our first and business classes in Beijing, Chengdu, Shanghai, Chongqing and Lhasa. We introduced through services and direct luggage transfer services on transfer flights from Frankfurt, Milan and Stockholm to domestic cities via Beijing and improved our products and services, including value-added transfer, express customs and air-to-ground transport services. We were the first in the PRC aviation industry to introduce an IPAD application. Our customer webpage was upgraded and 13 new functions, including a series of automated services for our VIP customers such as automatic mileage re-entry, password management and email services, were introduced. Our SMS messaging platform was also upgraded and a system for automatic notification of flight irregularity within 72 hours was introduced. We also initiated the trial operation of our customer feedback management system.

COOPERATION AND ALLIANCE

We continued to strengthen our cooperation with Cathay Pacific and established a joint venture company, SIA Services Company, with Hong Kong Airport Services (a wholly owned subsidiary of Cathay Pacific), Shanghai Airport Authority and Shanghai International Airport Co., Ltd.. Our influence in the regional market was also improved with the proposed establishment of Air China Inner Mongolia Limited with the government of the Inner Mongolia Autonomous Region.

We made proactive use of the Star Alliance platform, expanded the influence of our brand, completed our transfer from Class II Member to Class I Member and successfully nominated Shenzhen Airlines to Star Alliance. Revenue attributable to Star Alliance grew by 8% through the use of the customer resources available. We deepened our bilateral and multi-lateral cooperation, expanded the areas of cooperation and entered into code sharing or joint venture arrangements with 7 other airlines, including LOT Polish Airlines.

COST CONTROL

We continued to optimise our cost structure and enhance our cost management. We managed to reduce our structural cost by optimising the compatibility between routes and aircraft. We reduced our fuel consumption by adopting a series of measures including the implemention of computerised flight planning system, control over the use of APU, despatch optimisation and increase the load volume as much as possible at airports with load limits. We further strengthened our collaboration with our associates. We significantly reduced our maintenance cost, IT cost and central procurement expenses by establishing a synergy mechanism and sharing platform with Shenzhen Airlines. We also adjusted our debt structure and reduced our capital cost by introducing various financing methods, such as, issuing RMB6 billion mid-term notes and RMB1.5 billion ultra-short commercial paper, launching the 2012 corporate bond and the non-public issuance of A shares.

ENVIRONMENTAL PROTECTION

Our Company adhered to a principle of “Sustainable Development through Green Operation” and strived to reduce the unfavourable environmental effects from our operations. We focused on introducing new aircraft with high fuel efficiency and low noise emissions and phased out old aircraft with higher fuel consumption and less functionality. We are committed to introducing and developing state-of-the-art energy conservation technology, improving our efficiency and reducing our emissions while keeping up with the latest development on international aviation and climate change so as to promote green operation internally and across the industry. In 2012, we not only conducted energy audit for the first time but also established and launched phase II of our energy and environment monitoring system, enabling us to realise a standardised statistics and monitoring of our energy consumption.

Business Overview

SOCIAL WELFARE

Our Group is fully committed to our social responsibilities and took part in a variety of social welfare undertakings together with the government, enterprises and social welfare organisations to serve the society. We offered our support for the 2012 London Olympic Games by launching direct flights between Beijing and London Gatwick and was the airline which provided the highest number of flights on the Beijing–London route. As one of the promoters of the Chinese Children Special Insurance Fund, we raised donations for the fund for 4 consecutive years. In 2012, our donations, together with the contributions from our passengers, amounted to approximately RMB929,600.

MAJOR SUBSIDIARIES AND THEIR OPERATING RESULTS

Air China Cargo

Air China Cargo was established in 2003. In 2011, Air China completed the cargo joint venture project with Cathay Pacific based on the platform of the former Air China Cargo. The registered capital of the joint venture is RMB3,235,294,118. Air China holds 51% of its equity interest.

As at 31 December 2012, Air China Cargo operated a fleet of 11 aircraft in total with an average age of 18.3 years. During the year, 1 new aircraft was introduced.

As at 31 December 2012, Air China Cargo operated 14 routes, including 2 domestic routes, 10 international routes and 2 regional routes. Air China Cargo's flights cover 17 cities in 9 countries and regions, including 5 domestic cities, 10 international cities and 2 regional cities.

In 2012, the AFTKs of Air China Cargo reached 7,836 million, representing an increase of 3.41% over 2011. It achieved RFTKs of 4,548 million, representing a year-on-year increase of 3.01%. The volume of cargo and mail carried increased by 1.83% from 2011 to 1,169,800 tonnes and the cargo and mail load factor decreased by 0.23 ppts from 2011 to 58.05% in 2012.

In 2012, Air China Cargo's turnover was RMB8,220 million, increased by 1.64% from 2011. Among which, cargo and mail transportation revenue was RMB7,696 million, representing a year-on-year decrease of 0.39%. During the year, Air China Cargo incurred net loss of RMB1,093 million, representing a year-on-year increase in loss of 18.80%.

As at 31 December 2012, total assets of Air China Cargo amounted to RMB5,851 million and its net assets amounted to RMB989 million.

Shenzhen Airlines

Shenzhen Airlines was established in 1992, with its principal operating base located in Shenzhen. Its principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is RMB812,500,000. Air China holds 51% of its equity interest.

As at 31 December 2012, Shenzhen Airlines (including Kunming Airlines) operated a fleet of 123 aircraft in total with an average age of 4.9 years. 15 aircraft were introduced and 2 aircraft phased out during the year.

As at 31 December 2012, Shenzhen Airlines (including Kunming Airlines) operated 173 routes, including 164 domestic routes, 4 international routes and 5 regional routes, covering destinations across 75 cities in 5 countries and regions, including 69 domestic cities, 3 international cities and 3 regional cities.

In 2012, the ASKs of Shenzhen Airlines (including Kunming Airlines) reached 38,529 million, representing a year-on-year increase of 12.69%. It achieved RPKs of 31,182 million, representing a year-on-year increase of 11.12%. Shenzhen Airlines (including Kunming Airlines) carried 21,474,700 passengers, representing a year-on-year increase of 9.38%. Its average passenger load factor was 80.93%, representing a decrease of 1.14 ppts from the previous year.

In terms of air cargo, the AFTKs of Shenzhen Airlines reached 560 million, representing a year-on-year increase of 5.79%. It achieved RFTKs of 433 million, representing a year-on-year increase of 6.58%. The volume of cargo and mail carried by Shenzhen Airlines was 273,300 tonnes in 2012, representing a year-on-year increase of 5.49%, while the cargo and mail load factor was 77.40%, representing an increase of 0.57 ppts from the previous year.

In 2012, Shenzhen Airlines recorded a turnover of RMB22,009 million, representing a year-on-year increase of 1.2%. Among which, air traffic revenue was RMB20,951 million, representing a year-on-year increase of 1.88%. The profit attributable to shareholders for the period was RMB1,452 million, representing a year-on-year increase of 119.87%.

As at 31 December 2012, total assets of Shenzhen Airlines amounted to RMB36,078 million and equity attributable to shareholders was RMB1,549 million.

Air Macau

Air Macau was established in 1994 and is an airline based in Macau with a registered capital of MOP 442,042,000. Air China holds 66.9% of its equity interest.

As at 31 December 2012, Air Macau operated a fleet of 13 aircraft with an average age of 12.8 years.

As at 31 December 2012, Air Macau operated 20 routes. Among which, 5 were international routes and 15 were regional routes, covering 20 cities in 5 countries and regions, including 13 domestic cities, 5 international cities and 2 regional cities.

In 2012, the ASKs and RPKs of Air Macau reached 3,902 million and 2,612 million, respectively, representing an increase of 14.88% and 16.95%, respectively, from last year. A total of 1,606,700 passengers were carried, with an average load factor of 66.93%, representing an increase of 15.89% and 1.18 ppts, respectively, as compared with the previous year.

In terms of air cargo, the AFTKs and RFTKs of Air Macau reached 59,105,700 and 19,206,200, respectively, representing a decrease of 10.44% and 23.98%, respectively, from last year. In 2012, it carried 12,437.59 tonnes of cargo and mail, representing a decrease of 31.51% from last year, and the cargo and mail load factor was 32.49%, representing a decrease of 5.79 ppts as compared with last year.

In 2012, Air Macau recorded a turnover of RMB2,513 million, representing an increase of 6.26% over last year. Among which, air traffic revenue was RMB2,329 million, representing an increase of 12.89% from last year, with a profit after tax of RMB229 million, representing an increase of 8.02% over last year.

As at 31 December 2012, total assets of Air Macau amounted to RMB2,104 million and its net assets amounted to RMB1,090 million.

Business Overview

Dalian Airlines

Dalian Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 80% of its equity interest.

As at 31 December 2012, Dalian Airlines operated a fleet of 4 aircraft with an average age of 1.9 years. 2 aircraft were introduced during the year.

As at 31 December 2012, Dalian Airlines operated 9 domestic routes covering 9 domestic cities.

In 2012, the ASKs and RPKs of Dalian Airlines reached 954 million and 752 million, respectively. A total of 655,500 passengers were carried, with an average passenger load factor of 78.84%.

In terms of air cargo, the AFTKs and RFTKs of Dalian Airlines reached 10,938,800 and 5,705,600 respectively. In 2012, a total of 5,375.90 tonnes of cargo and mail were carried, with a cargo and mail load factor of 52.16%.

In 2012, Dalian Airlines recorded a turnover of RMB565 million. Among which, air traffic revenue was RMB565 million, with a profit after tax of RMB32 million.

As at 31 December 2012, total assets of Dalian Airlines amounted to RMB1,116 million and its net assets amounted to RMB1,012 million.

Beijing Airlines

Beijing Airlines was established in 2011 with a registered capital of RMB1 billion. Air China holds 51% of its equity interest.

As at 31 December 2012, Beijing Airlines operated a fleet of 9 entrusted business jets with an average age of 2.6 years. 3 aircraft were introduced and 3 aircraft phased out during the year.

In 2012, Beijing Airlines completed 651 flights with 3,637.3 flying hours, and carried a total of 5,076 passengers.

In 2012, Beijing Airlines recorded a turnover of RMB166 million. Among which, air traffic revenue was RMB81 million, with a profit after tax of RMB25 million.

As at 31 December 2012, total assets of Beijing Airlines amounted to RMB1,110 million and its net assets amounted to RMB1,043 million.

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

The following discussion and analysis are based on the Group's consolidated financial statements and the notes prepared in accordance with the IFRSs and are designed to assist readers in further understanding the information in this announcement and to better understand the financial performance and operating results of the Group as a whole.

PROFIT ANALYSIS

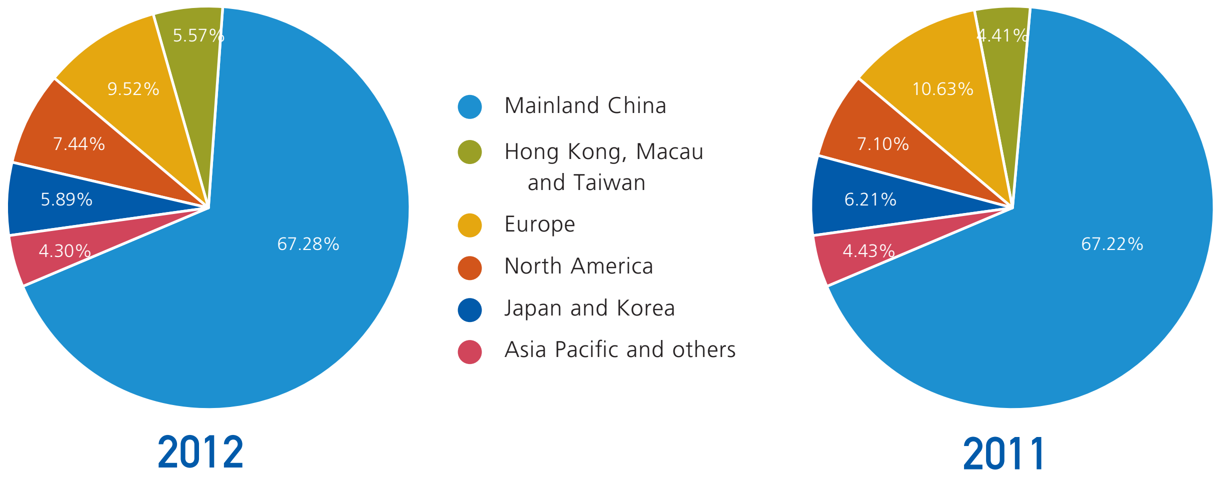
In 2012, we proactively adjusted our routes and capacity deployment, consolidated our internal and external resources, adopted innovative sales and marketing efforts and exploited cost potential. We recorded an operating profit of RMB8,209 million, representing a year-on-year increase of 31.16%, despite the continued recession of market demand, high international jet fuel prices and intensified market competition. However, profit attributable to equity holders of the Company and earnings per share decreased to RMB4,637 million and RMB0.38 respectively during the reporting period compared to RMB7,082 million and RMB0.58 respectively in the previous year, due to a year-on-year decrease in exchange gains and share of profits of associates.

TURNOVER

In 2012, the Group's total turnover (net of business taxes and surcharges of RMB1,748 million) was RMB100,838 million, representing an increase of RMB2,428 million or 2.47% as compared with that of the previous year. Revenue from our air traffic operations contributed RMB95,319 million to the total turnover, representing an increase of RMB1,976 million or 2.12% over last year, primarily due to our increased capacity deployment. Our other operating revenue was RMB5,518 million, representing a year-on-year increase of RMB452 million or 8.93%, mainly attributable to the revenue increases from aircraft repair and route subsidies during the reporting period.

REVENUE CONTRIBUTION BY GEOGRAPHICAL SEGMENTS

	2012		2011		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**67,840,084**	**67.28%**	66,154,716	67.22%	2.55%
Hong Kong, Macau and Taiwan	**5,618,394**	**5.57%**	4,335,880	4.41%	29.58%
Europe	**9,604,615**	**9.52%**	10,464,556	10.63%	(8.22%)
North America	**7,500,004**	**7.44%**	6,984,158	7.10%	7.39%
Japan and Korea	**5,941,709**	**5.89%**	6,110,530	6.21%	(2.76%)
Asia Pacific and others	**4,332,876**	**4.30%**	4,359,662	4.43%	(0.61%)
Total	**100,837,682**	**100.00%**	98,409,502	100.00%	2.47%



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

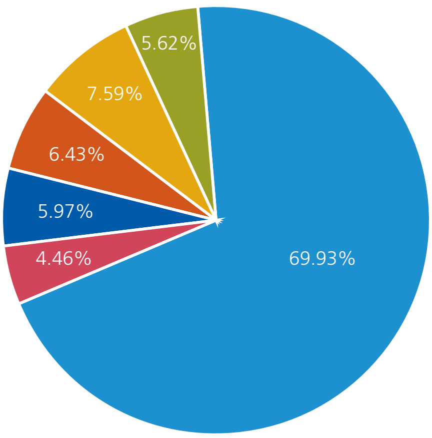
AIR PASSENGER REVENUE

In 2012, the Group recorded an air passenger revenue of RMB86,899 million, representing an increase of RMB3,389 million from 2011. Among the air passenger revenue, the increase in capacity deployment contributed to an increase of RMB5,486 million in revenue, while the decreases in passenger yield and passenger load factor resulted in a decrease in revenue of RMB935 million and RMB1,162 million, respectively. The Group's 2012 capacity deployment, passenger load factor and passenger yield per unit are as follows:

	2012	2011	Change
Available seat kilometres (million)	**161,382.14**	151,572.40	6.47%
Passenger load factor (%)	**80.41**	81.47	(1.06 ppts)
Yield per RPK (RMB)	**0.67**	0.68	(1.47%)

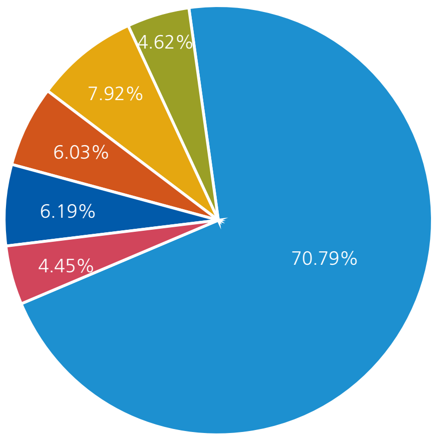
AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2012		2011		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**60,765,243**	**69.93%**	59,120,211	70.79%	2.78%
Hong Kong, Macau and Taiwan	**4,887,709**	**5.62%**	3,855,927	4.62%	26.76%
Europe	**6,594,287**	**7.59%**	6,612,011	7.92%	(0.27%)
North America	**5,584,561**	**6.43%**	5,032,417	6.03%	10.97%
Japan and Korea	**5,187,619**	**5.97%**	5,173,573	6.19%	0.27%
Asia Pacific and others	**3,879,176**	**4.46%**	3,716,184	4.45%	4.39%
Total	**86,898,595**	**100.00%**	83,510,323	100.00%	4.06%



2012

Mainland China
Hong Kong, Macau and Taiwan
Europe
North America
Japan and Korea
Asia Pacific and others



2011

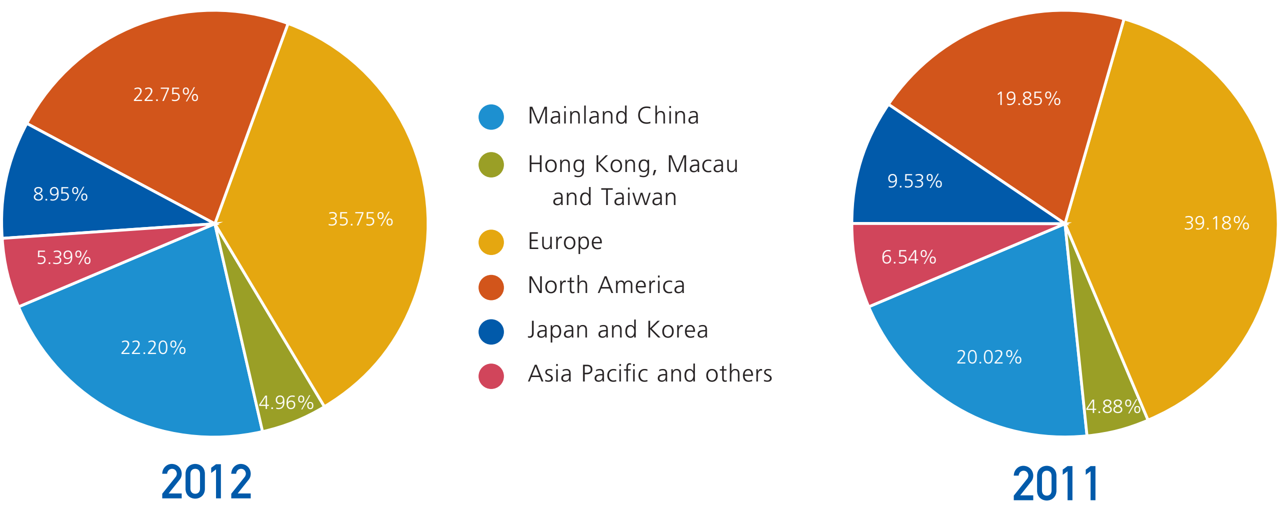
AIR CARGO REVENUE

In 2012, the Group's air cargo and mail revenue was RMB8,421 million, representing a decrease of RMB1,412 million from the previous year. Among the air cargo and mail revenue, the increase in capacity deployment contributed to an increase of RMB531 million in revenue, while the decreases in cargo and mail load factor and cargo yield resulted in a decrease in revenue of RMB1,400 million and RMB543 million, respectively. The capacity deployment, cargo and mail load factor and cargo and mail yield (per unit) in 2012 are as follows:

	2012	2011	Change
Available freight tonne kilometres (million)	**8,465.78**	8,172.91	3.58%
Cargo and mail load factor (%)	**59.14**	59.31	(0.17 ppt)
Yield per RFTK (RMB)	**1.68**	1.79	(6.15%)

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2012		2011		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Mainland China	**1,869,769**	**22.20%**	1,968,424	20.02%	(5.01%)
Hong Kong, Macau and Taiwan	**417,524**	**4.96%**	479,953	4.88%	(13.01%)
Europe	**3,010,328**	**35.75%**	3,852,545	39.18%	(21.86%)
North America	**1,915,443**	**22.75%**	1,951,741	19.85%	(1.86%)
Japan and Korea	**754,090**	**8.95%**	936,957	9.53%	(19.52%)
Asia Pacific and others	**453,700**	**5.39%**	643,478	6.54%	(29.49%)
Total	**8,420,854**	**100.00%**	9,833,098	100.00%	(14.36%)



OPERATING EXPENSES

In 2012, the Group's operating expenses were RMB92,629 million, representing an increase of 0.52% from RMB92,151 million in 2011. The breakdown of the operating expenses is set out below:

	2012		2011		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
Jet fuel costs	**35,638,494**	**38.47%**	34,703,369	37.66%	2.69%
Take-off, landing and depot charges	**9,185,453**	**9.92%**	8,740,822	9.48%	5.09%
Depreciation	**10,376,431**	**11.20%**	9,560,907	10.37%	8.53%
Aircraft maintenance, repair and overhaul costs	**3,258,627**	**3.52%**	2,612,678	2.84%	24.72%
Employee compensation costs	**13,648,191**	**14.73%**	12,270,065	13.32%	11.23%
Air catering charges	**2,843,067**	**3.07%**	2,662,984	2.89%	6.76%
Selling and marketing expenses	**5,668,305**	**6.12%**	5,480,514	5.95%	3.43%
General and administrative expenses	**897,553**	**0.97%**	2,261,549	2.45%	(60.31%)
Other	**11,112,502**	**12.00%**	13,857,953	15.04%	(19.81%)
Total	**92,628,623**	**100.00%**	92,150,841	100.00%	0.52%

Including:

- Jet fuel costs increased by RMB935 million or 2.69% in 2012 as compared to 2011. Jet fuel costs accounted for 38.47% of the operating expenses in 2012 as compared to 37.66% in 2011. The fluctuation of average jet fuel price for the reporting period was smaller than that of the previous year. The increase in jet fuel costs was primarily due to an increase of jet fuel consumption as a result of increased flight hours in the reporting period. The Group's jet fuel consumption was 4.8716 million tons in 2012, representing an increase of 149,800 tons or 3.17% over the last year.

- Take-off, landing and depot charges increased by RMB445 million from last year primarily due to an increase in the number of take-offs and landings.

- Depreciation expenses increased due to an increase in the number of self-owned and leased aircraft during the year.

- Aircraft maintenance, repair and overhaul costs recorded a year-on-year increase of RMB646 million or 24.72% due to the expansion of fleet size.

- Employee compensation costs increased by RMB1,378 million, largely due to an adjustment in remuneration standards and an increase in the number of employees.

- Air catering charges increased by RMB180 million, mainly due to an increase in the number of passengers carried, enhancement of service quality and a rise in raw materials prices.

- Sales and marketing expenses increased by RMB188 million as compared to the previous year due to the consequential increase in sales commission resulting from the increase in sales revenue.

- General and administrative expenses decreased by RMB1,364 million as compared to the previous year due to the reversion of provision made in the previous years for bad debts of RMB800 million, as well as less provision made in the reporting period for other impairment losses than that for the previous year.

- Other operating expenses mainly included aircraft and engines operating lease expenses, contributions to the civil aviation infrastructure construction fund and ordinary expenses arising from our core air traffic business not included in the aforesaid items. Other operating expenses decreased by 19.81% from the previous year, mainly due to a significant decrease in provision made for impairment losses of fixed assets based on the results of impairment test in the reporting period.

FINANCIAL REVENUE AND FINANCIAL COSTS

In 2012, the Group recorded a net exchange gain of RMB124 million, representing a decrease of RMB2,994 million or 96.04% as compared to the previous year, which was mainly due to a slow down in the appreciation of RMB against US dollars. The Group also incurred an interest expense (excluding the capitalised portion) of RMB2,407 million, representing a year-on-year increase of RMB854 million, primarily due to the growth in interest-bearing liabilities and finance costs of the Group.

SHARE OF PROFITS OF ASSOCIATES

In 2012, the Group's share in the profits of its associates was RMB403 million, representing a decrease of RMB926 million from that of 2011, mainly because all its associates in airline business invested by the Group recorded a decrease in profits in the reporting period, among which the Group's recognition of gains on investment in Cathay Pacific decreased to RMB88 million in the reporting period from RMB959 million in 2011.

ANALYSIS OF ASSETS STRUCTURE

As at 31 December 2012, the total assets of the Group amounted to RMB187,591 million, representing an increase of 6.68% from the previous year, among which current assets accounted for RMB22,440 million or 11.96% of the total assets, while non-current assets accounted for RMB165,151 million, or 88.04% of the total assets.

Among the current assets, cash and cash equivalents were RMB12,048 million, accounting for 53.69% of the current assets and representing a decrease of 22.06% from the beginning of the year, mainly because at the beginning of the year, provision was made for the RMB3,000 million corporate bonds that became mature in the first quarter of the year in addition to the capital demand of normal operation. Prepayments, deposits and other receivables amounted to RMB3,975 million, representing an increase of 47.39% from the previous year, largely due to the increase in rebates due from aircraft manufacturers as a result of the delivery of several aircraft and the partial reversion of provision made for bad debts of subsidiaries in the year.

Among the non-current assets, the net book value of property, plant and equipment was RMB125,370 million, accounting for 75.91% of the non-current assets and representing an increase of 11.54% from the previous year, which was primarily attributable to the increase in the number of self-owned and leased aircraft.

ASSETS MORTGAGE

As at 31 December 2012, the Group, pursuant to certain bank loans and finance leasing agreements, has mortgaged certain aircraft and premises with an aggregate net book value of approximately RMB80,523 million (approximately RMB72,244 million as at 31 December 2011), a number of shares in its associates with a market value of approximately RMB4,604 million (approximately RMB4,312 million as at 31 December 2011) and land use rights with a net book value of approximately RMB38 million (approximately RMB40 million as at 31 December 2011). At the same time, the Group had approximately RMB803 million (approximately RMB133 million as at 31 December 2011) in bank deposits pledged as partial security for certain bank loans, operating leases and financial derivatives of the Group.

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

CAPITAL EXPENDITURE

In 2012, the Company's capital expenditure amounted to RMB25,142 million, of which the total investment in aircraft and engines was RMB16,690 million, including prepayments of RMB7,900 million for aircraft to be introduced from 2013 onwards.

Other capital expenditure amounted to RMB8,452 million, which was mainly spent on high-cost rotables, aircraft modifications, flight simulators, infrastructure construction, information system building, ground equipment purchase and cash component of the long-term investments.

EQUITY INVESTMENT

As at 31 December 2012, the Group's equity investment in its associates totalled RMB14,037 million, representing an increase of 4.78% from the beginning of the year, mainly due to the Group's share of profits of associates and joint ventures and its investment in Tibet Airlines Company Limited in the reporting period. We have equity investment balances of RMB11,987 million in Cathay Pacific, RMB896 million in Shandong Aviation and RMB549 million in Shandong Airlines, and these companies recorded a profit of RMB743 million, RMB300 million and RMB537 million in 2012, respectively.

DEBT STRUCTURE ANALYSIS

As at 31 December 2012, the Group's total liabilities were RMB135,313 million, representing an increase of 6.11% from the previous year, among which current liabilities accounted for RMB59,346 million and non-current liabilities accounted for RMB75,967 million, representing 43.86% and 56.14% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank and other loans, obligations under finance leases and bills payable) amounted to RMB34,168 million, representing an increase of 10.85% from the beginning of the year, mainly due to an increase in short-term financing in the reporting period. Other advances and payables decreased by 17.47% from the previous year to RMB25,178 million, which was mainly due to the centralised payment arrangement under the annuity scheme, the decrease in turnover tax payables resulting from the implementation of the policy to substitute value-added tax for business tax and the payment of enterprise income tax for the previous year in the reporting period.

Among the non-current liabilities, interest-bearing debts (including bank and other loans, corporate bonds and obligations under finance leases) amounted to RMB67,731 million, representing an increase of 15.60% from the beginning of the year, mainly due to the impact of introduction of financial leased aircrafts and the issuance of bonds in the reporting period.

Details of interests-bearing debts of the Group by currency are set out below:

	2012		2011		Change
(RMB'000)	**Amount**	**Percentage**	Amount	Percentage	
US dollars	**74,418,002**	**73.03%**	66,323,072	74.17%	12.21%
Hong Kong dollars	**340,557**	**0.33%**	5,112,274	5.72%	(93.34%)
RMB	**26,967,549**	**26.46%**	17,795,620	19.90%	51.54%
Other	**172,924**	**0.18%**	184,613	0.21%	(6.33%)
Total	**101,899,032**	**100.00%**	89,415,579	100.00%	13.96%

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

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the amounts payable in the next few years for purchasing certain aircraft and related equipments, decreased from RMB96,199 million as at 31 December 2011 to RMB75,111 million as at 31 December 2012. The Group's commitments under operating leases, which mainly consisted of the amounts payable in the next few years for leasing certain aircrafts, offices and related equipments, amounted to RMB27,312 million as at 31 December 2012, representing an increase of 61.55% as compared to the previous year. The Group also had investment commitments of RMB35 million as at 31 December 2012, which remained the same as that as at 31 December 2011, consisting mainly of the investment commitments made by Shenzhen Airlines to its associates.

Details of the Group's contingent liabilities are set out in note 47 to the Group's 2012 financial statements.

GEARING RATIO

As at 31 December 2012, the Group's gearing ratio (total liabilities divided by total assets) was 72.13%, representing a decrease of 0.39 ppt from 72.52% as at 31 December 2011, which was mainly attributable to the increase in shareholders' equity as a result of the Group's profits in 2012. Considering that high gearing ratios are common among aviation enterprises, the Group continued to maintain a relatively reasonable gearing ratio and its long-term insolvency risks are also within control.

WORKING CAPITAL AND ITS SOURCES

As at 31 December 2012, the Group's net current liabilities (current liabilities minus current assets) were RMB36,905 million, representing a decrease of RMB1,073 million as compared to the previous year. The current ratio (current assets divided by current liabilities) was 0.38, maintaining the same level as at 31 December 2011. The decrease in net current liabilities was due to the decrease in turnover tax payables resulting from the implementation of the policy to substitute value-added tax for business tax since September 2012 and the payment of enterprise income tax for the previous year.

The Group meets its working capital needs mainly through its operating activities and external financing activities. In 2012, the Group's net cash inflow from operating activities was RMB9,460 million, representing a decrease of 51.91% from RMB19,670 million in 2011, mainly due to the increase in cash outflow from operating activities in the reporting period. Net cash outflow from investment activities was RMB11,529 million, representing a decrease of 46.79% from RMB21,669 million in 2011, mainly due to the decrease in the balance of purchase prices upon the delivery of aircraft and the cash prepayment for the purchase of aircraft from the previous year. The Group's net cash inflow from financing activities was RMB1,676 million, representing an increase of RMB3,108 million from the net cash outflow of RMB1,432 million in 2011. In 2012, the Group's balance of cash and cash equivalents was RMB10,329 million, representing a decrease of approximately RMB454 million from the previous year. The Company has obtained bank facilities of RMB139,152 million from a number of banks in the PRC, among which approximately RMB47,126 million has been utilised, sufficient to meet our demand on working capital and future capital commitments.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to fluctuations in jet fuel prices in its daily operation. International jet fuel prices are subject to market volatility and fluctuation in supply and demand. The Group's strategy for managing jet fuel price risk aims at controlling the risk arising from the rise in fuel price. 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. As at 30 November 2011, the fuel derivative contracts of the Company all expired, and no new position has been established. Considering the volatility of international prices and cost sensitivity, the Company will continue to develop its fuel hedging business in compliance with the regulatory requirements so as to cope with changes in the jet fuel market.

As at 31 December 2012, the interest-bearing debts of the Group totalled RMB101,899 million, accounting for 75.31% of the Group's total liabilities, most of which were debts denominated in US dollars. In addition, the Group also had sales revenues and expenses denominated in foreign currencies. The Group endeavoured to minimise any risks relating to foreign exchange rate and interest rate by adjusting the interest rates and denominating currencies structure of its debt and by making use of financial derivatives.

Details of the other financial risk management objectives and polices of the Group's operations are set out in note 52 to the Group's 2012 financial statements.

Corporate Governance Report

The Company has been maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency and deliver long-term return to its shareholders. The Company has complied with all code provisions as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012) (the "Code"), as applicable, during the year ended 31 December 2012. The Company's corporate governance practices in 2012 are summarised and discussed below.

GOVERNANCE STRUCTURE

Board of Directors of the Company

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

Specialised Committees under the Board

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

MAJOR CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Directors

Independent non-executive directors shall comprise one third of the Board

- As at 31 December 2012, the Board comprised 12 Directors, out of which 4 were independent non-executive directors. The Directors are elected at the shareholders' general meeting for a 3-year term of office, and are eligible for re-election upon expiry of the term.

- Pursuant to the Listing Rules, each of the independent non-executive directors has confirmed his or her independence with the Hong Kong Stock Exchange. As at 31 December 2012, the Company had already received from all independent non-executive directors the annual statements concerning their independence in which each of the independent non-executive directors re-confirmed his or her independence. The Company considers all independent non-executive directors as independent within the meaning of Rule 3.13 of the Listing Rules.

The Directors shall have a balance of skills and experience appropriate for the requirements of the business of the Company

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

- The list of the Directors and their biographical details and respective roles on the Board and specialised committees under the Board are set out in this annual report and published on the websites of the Company and Hong Kong Stock Exchange.

- Besides the work relationships in the Company, there was no financial, business, family relationship or other material relationships among the Directors, Supervisors and senior management.

Distinguished roles of the Chairman and President

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

- The Chairman shall be elected and dismissed by a majority of the Directors. The term of office of the Chairman shall be 3 years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term.

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

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

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

- The term of office of the existing non-executive directors is 3 years upon election at the shareholders' general meeting.

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

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

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

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

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

The management shall be responsible for formulating and implementing the Company's business plans and board resolutions and shall be accountable to the Board

The management shall be accountable to the Board and its main responsibilities are: to formulate the strategic development plans and decide the establishment of the Company's internal bodies; to formulate and implement annual business plans, investment proposals, annual financial budgets and final accounts; to set up general management systems regarding employment, remuneration and other basic internal rules and regulations; to make decision on major issues such as safety operation and business management; to make decision on transactions relating to the Company's main business and the value of which shall not exceed a certain amount or a certain proportion of the Company's latest audited net asset value; to organise the implementation of board resolutions and exercise such other authorities as granted by the Board.

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

- Board meetings are held regularly throughout the year and generally include annual meetings, interim meetings and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and address to convene the Board meeting as well as financial reports to be considered at such regular meetings, and shall inform all Directors of such plans in the beginning of the year. Board meetings shall be convened by the Chairman and a 14-day notice shall be served to all Directors before each meeting. The meetings may be attended through personal participation or other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the secretary to the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of such proposal, and the relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least 3 days in advance.

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

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

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

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

- All Directors have actively participated in the business operations of the Company. Attendance of all Directors at Board meetings in 2012 was as follows:

No. of meetings	**14**
Non-executive directors	
Wang Changshun *(Chairman) (appointment effective from 20 January 2012)*	13/13
Kong Dong *(former Chairman) (resignation effective from 20 January 2012)*	1/1
Wang Yinxiang	12/14
Cao Jianxiong	13/14
Sun Yude	12/14
Christopher Dale Pratt	9/14
Ian Sai Cheung Shiu	14/14
Executive directors	
Cai Jianjiang *(President)*	14/14
Fan Cheng	14/14
Independent non-executive directors	
Fu Yang	13/14
Li Shuang	14/14
Han Fangming	12/14
Yang Yuzhong	14/14

For the year ended 31 December 2012, the number of Board meetings held, the convening procedures, minutes and record, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rate that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

- All Directors have actively participated in the general meetings of the Company. Attendance of all Directors at general meetings in 2012 was as follows:

No. of meetings	**4**
Non-executive directors	
Wang Changshun *(Chairman) (appointment effective from 20 January 2012)*	2/3
Kong Dong *(former Chairman) (resignation effective from 20 January 2012)*	1/1
Wang Yinxiang	1/4
Cao Jianxiong	1/4
Sun Yude	0
Christopher Dale Pratt	0
Ian Sai Cheung Shiu	1/4
Executive directors	
Cai Jianjiang *(President)*	3/4
Fan Cheng	4/4
Independent non-executive directors	
Fu Yang	3/4
Li Shuang	4/4
Han Fangming	1/4
Yang Yuzhong	3/4

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

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

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

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

- During 2012, the Company delivered to all Directors the latest edition of "A Guide on Directors' Duties" published by the Hong Kong Companies Registry, and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" published by the Hong Kong Institute of Directors, and encouraged them to read such guides in order to get acquainted with the general duties of directors and the required standard of care, skill and due diligence in the performance of their functions and exercise of their powers as Directors. The Directors confirmed that they have complied with code provision A.6.5 of the Code which came into effect on 1 April 2012 in relation to training of directors. All Directors have participated in continuous professional development by attending trainings and programmes or reading relevant materials to upgrade and refresh their knowledge and skills, and have provided their training records to the Company.

The Company shall arrange appropriate insurance in respect of potential legal actions against its Directors

- The Company has purchased liability insurance for the Directors, Supervisors and senior management.

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

- After making specific enquiries, the Company confirmed that each Director and each Supervisor has complied with the required standards under the Model Code as set out in Appendix 10 to the Listing Rules throughout 2012.

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

Corporate Governance Functions

- The Board shall be responsible for performing the following corporate governance duties: to develop and review the Company's policies and practices on corporate governance, and provide recommendations in this regard; to review and monitor the training and continuous professional development of the Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and to review the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report. During the year, the Board has duly performed the above corporate governance duties. Please refer to the disclosure in the Corporate Governance Report for details of the implementation in this regard.

B. Remuneration of Directors and Senior Management

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

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

- The majority of the members of the nomination and remuneration committee are independent non-executive directors. As at 31 December 2012, the members of the nomination and remuneration committee were Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming, Mr. Wang Changshun and Ms. Wang Yinxiang, with Mr. Fu Yang acting as the Chairman. Due to expiry of the term of office of Mr. Kong Dong (being a former non-executive director and former Chairman) on 20 January 2012, Mr. Wang Changshun (being a non-executive director) has filled the vacancy on the nomination and remuneration committee.

- Attendance at the meetings of the nomination and remuneration committee in 2012 was as follows:

No. of meetings	**5**
Fu Yang *(Chairman)*	5/5
Li Shuang	5/5
Han Fangming	5/5
Kong Dong *(resignation effective from 20 January 2012)*	1/1
Wang Changshun *(appointment effective from 20 January 2012)*	4/4
Wang Yinxiang	5/5

- A shareholder holding 3% or more of the total shares of the Company is entitled to nominate a Director through the nomination and remuneration committee, which will review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and submit a report to the Board.

- During the reporting period, the nomination and remuneration committee was mainly responsible for performing the following duties:

  – to review the remuneration adjustment proposal for the year 2012;

- to propose the appointment of Mr. Wang Changshun as the Chairman of the third session of the Board and a member of the strategy and investment committee as well as the nomination and remuneration committee;

- to consider the appointment of Mr. Chai Weixi and Mr. Chen Zhiyong as Vice Presidents, Mr. Xu Chuanyu as Safety Controller, Ms. Long Qiang as Service Controller and Mr. Shao Bin as Assistant to the President of the Company and recommend the Board to approve the appointment of the abovementioned senior management personnel; and

- to approve the revised "Working Rules for the Nomination and Remuneration Committee of the Board of Directors" and assess the performance and remuneration packages of the Directors and senior management personnel.

• The nomination and remuneration committee under the Board made recommendations to the Board on the remuneration packages of individual executive directors and senior management. Remuneration payable to the Directors and senior management shall be determined according to the terms of their respective appointment contracts, if any, and the recommendation of the nomination and remuneration committee. Details of the remuneration of the Directors and senior management are disclosed in note 9 to the financial statements of this annual report.

C. Accountability and Audit

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

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

• The Company has published its annual and interim results in accordance with the requirements of the Listing Rules and other relevant laws and regulations in a timely manner, i.e. within 3 months and 2 months, respectively, after the end of the relevant periods.

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

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

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

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

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

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

- As at 31 December 2012, the audit and risk control committee comprised 2 independent non-executive directors, Mr. Li Shuang and Mr. Fu Yang, and a non-executive director, Mr. Cao Jianxiong, with Mr. Li Shuang acting as the chairman.

- Attendance at the meetings of the audit and risk control committee in 2012 was as follows:

No. of meetings	**11**
Li Shuang *(Chairman)*	11/11
Fu Yang	11/11
Cao Jianxiong	10/11

- During the reporting period, the audit and risk control committee was mainly responsible for performing the following duties:

  – to review the annual report and annual results as well as profit distribution plan for the year 2011, the first and third quarterly reports as well as interim report for the year 2012, and recommend the same to the Board for approval;

  – to review the financial plan, cash flow and fund raising and financing plans for the year 2012;

  – to review an impairment loss provision made for the disposal of aircraft and related assets, and the partial reversal of bad debt provision by Shenzhen Airlines;

  – to discuss the re-appointment of our external auditor for the year 2012, consider the appointment of internal control auditor and recommend the same to the Board for approval;

  – to receive and consider the self-assessment report on internal control of the Company for the year 2012 introduced by the audit department and the audit plan on internal control of the Company for the year 2012 submitted by the internal control auditor;

  – to review the non-public issue of A shares, the joint establishment of SIA Services Company by the Company and its substantial shareholder, Cathay Pacific, the connected transactions entered into by the Company, CNAHC and certain of its subsidiaries in relation to the signing of framework agreements and adjustment of relevant annual caps from 2013 to 2015, and recommend the same to the Board for approval;

  – to review the amendments to the Company's basic management system of fuel hedging business; and

  – to review the proposed amendments to the terms of reference made by the audit and risk control committee, and recommend the same to the Board for approval.

- The annual report of the Company for the year ended 31 December 2012 had been reviewed by the audit and risk control committee.

The responsibility of the Directors in relation to the financial statements

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

- *Annual reports and accounts*

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

- *Accounting policy*

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

- *Accounting records*

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

- *Ongoing operation*

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

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

Auditors' remuneration

The international and domestic auditors of the Company are Ernst & Young and Ernst & Young Hua Ming (Special General Partnership), respectively. Breakdown of the remuneration to the Company's external auditors for providing audit services and non-audit service assignments for the year ended 31 December 2012 is as follows:

- *Audit services*

  RMB12 million (including income tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2012 and for the audit of the Group's financial statements for the year ended 31 December 2012, an aggregate amount of approximately RMB2,573,517 (including income tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2012 and RMB0.6 million (including income tax) was charged for other audit services.

- *Non-audit services*

  An aggregate amount of approximately RMB2,833,811 (including income tax) was charged for the provision of tax consulting services to the Group.

D. Delegation by the Board

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

- The Articles of Association has provided for the authorities and authorisations of the Board and the President, details of which are set out in the "Rules and Procedure for Board Meetings" and "Rules and Procedures for Senior Management Meetings".

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

- The primary duties of the nomination and remuneration committee are: to study and make proposals to the Board on the criteria and procedures for selecting candidates for the Company's directors and senior management personnel and make recommendations to the Board; to make recommendations to the Board on the candidates to fill casual vacancies on the Board, and make recommendations to the Board on directors' remuneration; to evaluate the performance of the senior management personnel of the Company and determine their remuneration structure; to make recommendations to the Board on the remuneration policy and structure for the directors and senior management personnel and on the establishment of a set of formal and transparent procedures for formulating remuneration policy, and supervise the implementation of the remuneration policy of the Company; to assess the independence of the independent non-executive directors of the Company; to formulate the proposal of the Company's share incentive plan, verify the compliance of relevant regulations on granting entitlements and fulfillment of exercise conditions, and make recommendations to the Board for consideration; and to fulfill other duties authorised by the Board.

- The primary duties of the strategy and investment committee are: to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; to make decisions on the establishment, merger and dissolution of branches of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2012, the strategy and investment committee was formed by Mr. Wang Changshun, Mr. Cao Jianxiong, Mr. Sun Yude and Mr. Cai Jianjiang, with Mr. Cai Jianjiang acting as the chairman.

- The primary duties of the aviation safety committee are: to receive the safety report of the Company on a regular basis and report to the Board; to study and deal with significant problems in relation to aviation safety work of the Company; to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, facilities and materials to fulfill the needs of safety operation of the Company; and to fulfill other duties authorised by the Board. As at 31 December 2012, the aviation safety committee was formed by Mr. Cao Jianxiong and Mr. Cai Jianjiang, with Mr. Cao Jianxiong acting as the chairman.

- The supervisory committee is responsible for: monitoring the Company's financial matters and supervising the conduct of the Board and our management. The functions and authority of the supervisory committee include: reviewing the financial reports and other financial information prepared by the Board and proposed to be tabled before the shareholders' general meeting; supervising the work of the Directors, President, Vice President and other senior management and preventing the abuse of power or conducts detrimental to the Company's interests. The current members of the supervisory committee are Mr. Li Qinglin, Mr. Zhang Xueren, Mr. Zhou Feng, Ms. Xiao Yanjun and Mr. Su Zhiyong, with Mr. Li Qinglin acting as the chairman. In the event that any Director has a conflict of interests with the Company, a Supervisor may negotiate with the Director concerned or bring the case to court on behalf of the Company. Resolution of meetings of the supervisory committee shall be passed by at least two-thirds of all Supervisors.

E. Communication with shareholders

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

- The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the Company's website.

- The Company has implemented the "Measures of Investors Relation Management" to regulate and strengthen its communication with the shareholders and investors, so as to optimise its corporate governance and enhance its corporate image.

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

- At the annual general meeting, the Board shall report to the shareholders and announce the implementation progress of the matters set out in the resolutions which were passed since the previous annual general meeting and which were implemented by the Board.

- Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions before the annual general meeting.

- Other than the annual general meeting, the Company would also hold extraordinary general meeting ("EGM") as required. In accordance with articles 65 and 91 of the Articles of Association, shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company may request the Board to convene an EGM by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an EGM, it shall within 5 days of the board resolution resolving to hold an EGM issue a notice of EGM convening an EGM within 2 months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within 10 days of the receipt of such written request(s), such shareholder(s) shall request the supervisory committee to convene an EGM by written request(s). If the supervisory committee fails to issue a notice for convening a meeting within 5 days of the receipt of such written request(s), shareholder(s), individually or in the aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

- For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in article 67 of the Articles of Association which provides that shareholder(s), individually or in the aggregate, holding more than 3% of the shares of the Company may put forward proposal(s) by providing a written request to the convener of the meeting not less than ten days before the meeting. The convener of the meeting shall, within 2 days of the receipt of such written request, give supplemental meeting notice to each shareholder which specifies information on such proposal(s).

- The Board values the views and input of shareholders. Shareholders, may at any time, send their enquiries and concerns to the Board by addressing them to the Company Secretary, whose contact details are as follows:

Address:	Air China Headquarter, 30 Tian Zhu Road, Tianzhu Airport Economic Development Zone, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61461959
Fax number:	86-10-61462805

The Company shall ensure that shareholders are familiar with the detailed procedures for conducting a poll

- The chairman of a meeting shall, at the commencement of the meeting, ensure that an explanation of the detailed procedures for conducting a poll is provided and subsequently, any questions from shareholders in relation to voting by way of a poll are answered.

F. Joint Company Secretaries

Joint company secretaries shall attend relevant professional training for no less than 15 hours

- Joint company secretaries (Ms. Rao Xinyu and Ms. Tam Shuit Mui) are responsible for facilitating the rules of procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the joint company secretaries are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. In 2012, each joint company secretary attended over 15 hours of professional training to update her skill and knowledge.

G. Amendments to the Articles of Association

In 2012, the Board proposed certain amendments to the Articles of Association in connection with profit distribution and other relevant articles. The shareholders of the Company approved the amendments to the Articles of Association at the extraordinary general meeting the Company held on 20 December 2012. For details of the amendments to the Articles of Association, please refer to the circular of the Company dated 5 November 2012.

Report of the Directors

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing security management, continue to advance the implementation of its strategies, optimise the allocation of its core resources to improve the efficiency of resource utilization; accelerate the transformation of marketing model to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience, with an aim to seize market opportunities to ensure sound operation and bring better returns to its shareholders and investors.

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2012 and the financial positions of the Group and the Company as at the same date are set out in the audited financial statements on pages 63 to 167 of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The summary of the Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2012 are set out on pages 3 and 4 of this annual report.

SHARE CAPITAL

As at 31 December 2012, the total share capital of the Company was RMB12,891,954,673, divided into 12,891,954,673 shares with a par value of RMB1.00 each. The following table sets out the share capital structure of the Company as at 31 December 2012:

Category of Shares	Number of shares	Percentage of the total share capital
A Shares	8,329,271,309	64.61%
H Shares	4,562,683,364	35.39%
Total	12,891,954,673	100%

Note:

On 30 January 2013, the Company completed a non-public issuance of 192,796,331 A shares to CNAHC. Upon completion, the number of A shares increased to 8,522,067,640 and the total share capital of the Company increased to RMB13,084,751,004. For details, please refer to the circular dated 8 May 2012 and the announcement dated 31 January 2013 of the Company, respectively.

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

As at 31 December 2012, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) who have an interest 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 are as follows:

Name	Type of interests	Type and number of shares of the Company concerned	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short
CNAHC	Beneficial owner	5,233,739,762 A share	40.60%	62.84%	–	–
CNAHC[1]	Attributable interests	1,332,482,920 A share	10.34%	16.00%	–	–
CNAHC[1]	Attributable interests	223,852,000 H share	1.74%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A share	10.34%	16.00%	–	–
CNACG	Beneficial owner	223,852,000 H share	1.74%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,523,011,455 H share	19.57%	–	55.30%	–
Swire Pacific Limited[2]	Attributable interests	2,523,011,455 H share	19.57%	–	55.30%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	2,523,011,455 H share	19.57%	–	55.30%	–
John Swire & Sons Limited[2]	Attributable interests	2,523,011,455 H share	19.57%	–	55.30%	–

Notes:

Based on the information available to the Directors, Supervisors and chief executive of the Company (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as the Directors, Supervisors and chief executive are aware, as at 31 December 2012:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A shares and 223,852,000 H shares of the Company directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 44.99% equity interest and 59.43% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at 31 December 2012, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,523,011,455 H shares of the Company directly held by Cathay Pacific.

Save as disclosed above, as at 31 December 2012, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person (other than a Director, Supervisor or chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to the SFO.

PUBLIC FLOAT

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

DIVIDEND

Based on the 2012 profit distribution plan of the Company, the Board recommends the appropriation of 10% of the discretionary surplus reserve and to distribute a cash dividend of approximately RMB0.777 billion, or RMB0.5935 for every ten shares (including tax) based on the current total number of 13,084,751,004 shares of the Company, for the year 2012.

The proposed payment of the final dividends is subject to shareholders' approval at the forthcoming annual general meeting. Dividends payable to the Company's shareholders shall be denominated and declared in RMB. Dividends payable to the holders of A shares shall be paid in RMB while dividends payable to the holders of H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average of the middle rate of RMB to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to the declaration of the final dividends (if approved) at the annual general meeting.

TAXATION ON DIVIDEND

In accordance with the "Enterprise Income Tax Law of the People's Republic of China" and the "Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China", both implemented on 1 January 2008 and the "Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Enterprises to Offshore Non-resident Enterprise Holders of H Shares" (Guo Shui Han [2008] No. 897) promulgated on 6 November 2008, the Company is obliged to withhold and pay PRC enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% from 2008 onwards when the Company distributes any dividends to non-resident enterprise shareholders whose names appear on the register of members of H shares of the Company. As such, any H shares of the Company which are not registered in the name(s) of individual(s) (which, for this purpose, includes shares registered in the name of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from any dividends payable thereon. Non-resident enterprise shareholders may wish to apply for a tax refund (if any) in accordance with the relevant requirements, such as tax agreements (arrangements), upon receipt of any dividends.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994] No.020) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, as an interim measure, exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the final dividends for the year 2012 to individual shareholders whose names appear on the register of members of H shares of the Company.

Shareholders are recommended to consult their tax advisors regarding the ownership and disposal of H shares of the Company in the PRC and in Hong Kong and other tax effects.

PURCHASES, SALES OR REDEMPTION OF SHARES

Save as disclosed otherwise, for the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules), without taking into account any issuance of new securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Director
Wang Changshun	55	Chairman and non-executive director	Appointed on 20 January 2012
Kong Dong	64	Former Chairman and non-executive director	Resigned on 20 January 2012
Wang Yinxiang	57	Vice chairman and non-executive director	Appointed on 28 October 2010
Cao Jianxiong	53	Non-executive director	Appointed on 28 October 2010
Sun Yude	58	Non-executive director	Appointed on 28 October 2010
Christopher Dale Pratt	56	Non-executive director	Appointed on 28 October 2010
Ian Sai Cheung Shiu	58	Non-executive director	Appointed on 28 October 2010
Cai Jianjiang	49	Executive director and president	Appointed on 28 October 2010
Fan Cheng	57	Executive director, vice president and chief accountant	Appointed on 28 October 2010
Fu Yang	63	Independent non-executive director	Appointed on 28 October 2010
Li Shuang	68	Independent non-executive director	Appointed on 28 October 2010
Han Fangming	46	Independent non-executive director	Appointed on 28 October 2010
Yang Yuzhong	68	Independent non-executive director	Appointed on 26 May 2011

Supervisors

Name	Age	Position in the Company	Date of Appointment and if applicable, Resignation as Supervisor
Li Qinglin	58	Chairman of the Supervisory Committee	Appointed on 28 October 2010
Zhang Xueren	60	Supervisor	Appointed on 28 October 2010
Zhou Feng	51	Supervisor	Appointed on 25 November 2011
Xiao Yanjun	48	Supervisor	Appointed on 16 June 2011
Su Zhiyong	50	Supervisor	Appointed on 16 June 2011

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

At no time during the year ended 31 December 2012 had the Company granted its Directors, Supervisors or their respective spouses or children under the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its other associated corporations, and no such rights for the subscription of shares or debentures were exercised by them.

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

As at 31 December 2012, the Company's Directors, Supervisors or chief executive 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 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 Hong Kong Stock Exchange pursuant to the Model Code:

Name of associated corporation and relevant shareholder	Number of Shares: Personal interest	Interest of children under the age of 18 or spouse	Corporate interest	Total	Shareholding percentage as at 31 December 2012
Cathay Pacific Airways Limited					
Ian Sai Cheung Shiu	1,000	–	–	1,000	0.00%
Air China Limited					
Zhou Feng	10,000 (A Shares)	–	–	10,000 (A Shares)	0.00%

Save as disclosed above, as at 31 December 2012, none of the Directors, Supervisors or chief executive 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.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. All Directors of the Company shall serve a term of 3 years.

None of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within 1 year without payment of compensation (other than statutory compensation).

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting as at 31 December 2012 and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive director of the Company and is concurrently the chairman and executive director of Cathay Pacific. Mr. Ian Sai Cheung Shiu is a non-executive director of the Company and concurrently the director of Cathay Pacific and Dragonair. Cathay Pacific is a substantial shareholder of the Company, holding 2,523,011,455 H shares in the Company as at 31 December 2012, 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 Dragonair. Mr. Wang Changshun, who is the chairman and a non-executive director of the Company, Mr. Cai Jianjiang and Mr. Fan Cheng, who are both executive directors of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

EMPLOYEES

As at 31 December 2012, the Company had 25,269 employees and its subsidiaries and joint ventures had 34,059 employees. The categories of employees of the Company are as follows:

Professional Categories	As at 31 December 2012	As at 31 December 2011	Increase/ (decrease)
Management	6,276	6,065	211
Marketing and Sales	1,875	1,881	(6)
Operation	1,421	1,393	28
Ground Handling	4,062	4,114	(52)
Cabin Service	2,235	1,816	419
Logistics and Support	1,464	1,446	18
Flight Crew	3,702	3,363	339
Engineering and Maintenance	2,800	2,754	46
Information Technology	331	311	20
Others	1,103	1,331	(228)
Total	25,269	24,474	795

REMUNERATION POLICY

In order to meet the needs of the Company's talent development strategy, establish an effective incentive and control mechanism and promote the sustainable development of the Company, the Company adheres to the principles of combining incentives with control and aligning the improvement in performance with the increase in wages, and upholds a remuneration concept of "pay salary with reference to the value of job, personal ability as well as performance appraisal" in developing and implementing the remuneration policies primarily based on the value of job. The Company improved the standards of remuneration and benefits in 2012.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

294 employees of the Company retired in 2012. These retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments. Details of the staff pension scheme and other welfare are set out in note 10 to the audited financial statements.

STOCK APPRECIATION RIGHTS

The Directors and Senior Management Stock Appreciation Rights Handbook of the Company was considered and approved at the general meeting held on 28 December 2006. The first grant of the stock appreciation rights was implemented by the Company on 15 June 2007 under which a total of approximately 14.94 million stock appreciation rights were granted. Details of the stock appreciation rights programme are set out in note 44 to the audited financial statements of this annual report.

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

In November 2010, the Company submitted a proposal through CNAHC to the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), regarding proposed amendments to the first grant of the stock appreciation rights programme and relevant administration measures in accordance with the relevant regulations, and intended to resume the first grant of the stock appreciation rights programme of the Company. The resolution in relation to the resumption of the first grant of the stock appreciation rights programme of the Company would be resolved at the annual general meeting.

On 26 May 2011, the revised "Measures on Management of the Stock Appreciation Rights of Air China Limited" proposed by the Company and the resumption of the first grant of the stock appreciation rights programme in accordance with the revised management measures were approved by shareholders at the 2010 annual general meeting of the Company.

The Board determined that 70% of the first grant of the stock appreciation rights already vested should be exercisable at a settlement price of HK$7.85 during the specified period from 19 to 22 July and 25 July 2011.

The average closing prices of the two specified periods for exercise of the remaining 30% of the first grant of the stock appreciation rights did not exceed the exercise price of HK$5.70, therefore, no gains were cashed from the remaining 30% of the first grant of the stock appreciation rights. As of 31 December 2012, the first grant of the stock appreciation rights had been completed.

On 5 December 2012, SASAC issued the "Reply to Air China Limited in relation to implementation of the second grant of the stock appreciation rights incentive plan (GUO ZI FEN PEI [2012] No. 1100)", approving the Company's plan for the second grant of stock appreciation rights.

On 6 February 2013, the 33rd meeting of the third session of the Board of the Company approved the "Measures on Management of the Stock Appreciation Rights of Air China Limited (Revised)" and the "Proposal of Second Grant of the Stock Appreciation Rights of Air China Limited "and proposed to submit the aforementioned documents for consideration and approval by the shareholders at the 2012 annual general meeting of the Company.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associates of the Company as at 31 December 2012 are set out respectively in notes 20 and 22 to the audited financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in note 37 to the audited financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2012 are set out in note 15 to the audited financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2012 are set out in note 8 to the audited financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 43 to the audited financial statements of this annual report.

DONATIONS

For the year ended 31 December 2012, the Company made donations for charitable and other purposes amounting to RMB1.447 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the purchases from the largest supplier accounted for 23.42% of the total purchases of the Group, while the purchases from the 5 largest suppliers accounted for 50.88%. None of the Directors or Supervisors of the Company, their associates, nor any shareholder, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the 5 largest suppliers of the Company.

For the year ended 31 December 2012, the sales of the Group to the 5 largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

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

MATERIAL LEGAL PROCEEDINGS

Save as disclosed in note 47 to the audited financial statements of this annual report, the Company was not involved in any significant litigation or arbitration as at 31 December 2012. To the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into a number of connected transaction agreements with CNAHC and its associates (as defined under the Listing Rules) (for the purpose of this section "Report of the Directors", hereinafter referred to as "CNAHC Group") and other connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules in force from time to time.

The Company expected certain continuing connected transactions expired on 31 December 2012 would continue afterwards and as such has entered into new agreements in respect of such continuing connected transactions in accordance with the Listing Rules. Description of the new agreements for the continuing connected transactions, which are not exempt under Rule 14A.33 of the Listing Rules, was set out in the Company's circular dated 4 December 2012 and the entering of the new agreements for such continuing connected transactions was approved in the extraordinary general meeting of the Company held on 20 December 2012.

I. Connected Transactions Between the Group and CNAHC Group

Continuing Connected Transactions

As CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between CNAHC and the Company described in paragraphs (a) to (d) below constitute continuing connection transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

(a) Property Leasing

The Company entered into a properties leasing agreement with CNAHC on 27 October 2009 (the "Properties Leasing Agreement").

Pursuant to the Properties Leasing Agreement, the Company leased from CNAHC Group a number of properties for various uses including business premises, offices and storage facilities.

The Company also leased to CNAHC Group a number of properties for various uses including business premises and offices.

The rent payable under the Properties Leasing Agreement was determined in accordance with the relevant PRC laws and regulations or market rates and by entering into specific properties leasing agreements. In principle, the annual increase in rental rate is not expected to exceed 5%.

The Properties Leasing Agreement expired on 31 December 2012.

The Company expected the transactions under the Properties Leasing Agreement would continue after 31 December 2012 and had (for itself and on behalf of its subsidiaries) entered into a new agreement with CNAHC (and on behalf of CNAHC Group) on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

(b) Sales Agency Services of Airline Tickets and Cargo Space

The Company entered into a sales agency services framework agreement (the "Sales Agency Services Framework Agreement") with CNAHC on 27 October 2009.

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents ("Sales Agency Companies"):

- procured purchasers for the Company's air tickets and cargo spaces on a commission basis; or
- purchased air tickets (other than domestic air tickets) and cargo spaces from the Company and resold such air tickets and cargo spaces to end customers.

Regarding the air passenger agency services, the Company continued to comply with the existing fee standards for air passenger sales agency services before the relevant competent authority promulgates administrative regulations on the fee range allowed for air passenger sales agency services. After the promulgation of such administrative regulations, the Company would consult with the Sales Agency Companies on a fair and voluntary basis and determine the agency service fee standards within the stipulated floating range. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding incentive plans for achieving such targets to the extent permitted by law and in accordance with the industry practice.

Regarding the air cargo agency services, the Company and the Sales Agency Companies discussed and determined the applicable transportation prices based on the prevailing market prices, and the Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to its customers) based on the aforesaid transportation prices, with the differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

The Sales Agency Services Framework Agreement expired on 31 December 2012.

The Company expected the transactions under the Sales Agency Services Framework Agreement would continue after 31 December 2012 and had (for itself and on behalf of its subsidiaries) entered into a new agreement with CNAHC (and on behalf of CNAHC Group) on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

(c) Comprehensive Services

The Company entered into a comprehensive services agreement with CNAHC on 27 October 2009 (the "Comprehensive Services Agreement").

Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned and controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business ("Ancillary Business Companies"), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, primarily provided the following services to the Company as suppliers to the Company in respect of the Company's ancillary production and supply services:

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

  (ii) manufacturing and repair of aviation-related ground equipment and vehicles;

  (iii) cabin decoration and equipment;

  (iv) properties management services;

  (v) warehousing services;

  (vi) airline catering services; and

  (vii) printing of air tickets and other publications.

- The Company accepted the commission of CNAHC and provided welfare-logistics services for CNAHC's retired employees.

The charges of the services provided by the Ancillary Business Companies to the Company were based on the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate was available, a fair and reasonable price was adopted through arm's length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services were settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

The Comprehensive Services Agreement expired on 31 December 2012.

The Company expected the transactions under the Comprehensive Services Agreement would continue after 31 December 2012 and had (for itself and on behalf of its subsidiaries) entered into a new agreement with CNAHC (and on behalf of CNAHC Group) on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

(d) Subcontracting of Charter Flight Services

The Company entered into a government charter flight service framework agreement with CNAHC on 27 October 2009 (the "Charter Flight Service Framework Agreement").

Pursuant to the Charter Flight Service Framework Agreement, CNAHC resorted to the Company's charter flight services so as to fulfill the government charter flight assignment. The Company's hourly rate of the charter flight service fee was calculated on the basis of the following formula:

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

Total cost per flight hour includes direct costs and indirect costs.

The Charter Flight Service Framework Agreement expired on 31 December 2012.

The Company expected the transactions under the Charter Flight Service Framework Agreement would continue to be conducted after 31 December 2012 and has entered into a new agreement with CNAHC on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

Media and Advertising Services

The Company entered into an advertising services framework agreement with CNAMC on 27 October 2009 (the "Advertising Services Framework Agreement").

As CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAMC and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Advertising Services Framework Agreement, CNAMC had the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;
- an exclusive operation right of the specific media of the Company, including the flight boarding passes, aircraft seat pillow sheets, paper cups, in-flight entertainment system and flight schedules;
- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;
- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (1) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the international e-commerce network check-in system and ticket envelops (including air ticket envelops and boarding pass envelops)) and (2) advertisements designed, produced and published by CNAMC, as commissioned by the Company directly or through public tender; and
- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

As a consideration, CNAMC agreed to:

- pay the Company RMB23.81 million, RMB25.00 million and RMB26.25 million, respectively, for each of the three years ended 31 December 2010, 2011 and 2012 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company at nil charge with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes, pillow sheets, flight schedules, and paper cups that meet the Company's requirements; and
- pay the Company 20% of any revenue from any new advertising media of the Company which was not mentioned in the Advertising Services Framework Agreement but proposed to be developed by CNMAC on a case-to-base basis.

The Company agreed to pay immediately and directly to the independent entertainment programmes providers the purchasing price for those in-flight entertainment programmes provided or purchased by CNAMC for the Company. In the event that the relevant entertainment programmes were produced by CNAMC at the request of the Company, the Company would pay the corresponding production costs and expenses to CNAMC.

The Advertising Services Framework Agreement expired on 31 December 2012.

The Company expected the transactions under the Advertising Services Framework Agreement would continue after 31 December 2012 and had entered into a new agreement with CNAMC on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

Tourism Co-operation Services

The Company entered into a tourism services cooperation agreement with China National Aviation Tourism Company ("CNATC") on 27 October 2009 (the "Tourism Cooperation Agreement").

As CNATC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNATC and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

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

- Package tours services: The Company and CNATC design, and the Company sells, the competitive "Air Tickets and Hotel" product combining discounted airline tickets for certain routes offered by the Company and accommodation at hotels owned and operated by CNATC at preferential group rates. Out of the proceeds from package tours, the Company pays CNATC for the hotel fee portion of the packages.

- Reciprocal frequent-flyer programme ("FFP") co-operation services: CNATC joins the Company's FFP under which our companion card members are encouraged to stay at CNATC's hotels by receiving mileage credits for such stay. As a consideration, CNATC pays us the equivalent value represented by those mileage credits at market rates.

- Commercial charter flight services: The Company provides commercial charter services to customers procured by CNATC at market rates.

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

- FFP co-operation services: Under the FFP, our frequent flyers may redeem their mileage credits for discounted stay at CNATC's hotels, and the Company makes payment settlement with CNATC for the discount portion of such redemption according to similar pricing arrangements with our other FFP partners.

- Hotel accommodation services: CNATC provides temporary hotel accommodation services to the Company's employees on duty and passengers affected by our flight delays, for which services the Company pays hotel accommodation fees to CNATC as scheduled and at the actual amount incurred.

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

The Tourism Cooperation Agreement expired on 31 December 2012.

The Company expected the transactions under the Tourism Cooperation Agreement would continue after 31 December 2012. Due to the reorganization of CNATC, the transactions set forth in the Tourism Cooperation Agreement would be carried under the renewed comprehensive services agreement as mentioned in (c) above from 1 January 2013.

Financial Services

The Company entered into a financial services agreement with China National Aviation Finance Co., Ltd. ("CNAF") on 27 October 2009 (the "Financial Services Agreement").

As CNAF is a 75.54% held subsidiary of CNAHC and therefore a connected person of the Company, the transactions between CNAF and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Financial Services Agreement, CNAF agreed to provide the Company with a range of financial services including the following:

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

In particular, CNAF was paid to provide the Company with bills acceptance services, letter of credit services, guarantee services, internet banking services, finance leasing services, discounting services and ticket collection services and charges fees incurred thereon. Such fees were charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China ("PBOC") or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company for financial services of similar type were not higher than those generally charged by commercial banks from the Company and those charged by CNAF to other group members.

With respect to the deposit and loan services, both parties agreed:

- the interest rate applicable to the Company for its deposits with CNAF would not be lower than the minimum interest rate specified by the PBOC for deposits of similar type. In addition, the interest rate for the Company's deposits with CNAF would not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and would not be lower than the interest rate for similar type of deposit services provided by commercial banks to the Company generally; and

- the interest rate for loans (including other credit business) granted to the Company by CNAF would not be higher than the maximum interest rate specified by the PBOC for loans of similar type. In addition, the interest rate for loans granted to the Company by CNAF would not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by commercial banks to the Company generally. The Company agreed that it would under the same conditions accord priority to and use the financial services provided by CNAF. CNAF had treated the Company as its major client and undertook to provide financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company at the same time.

In order to ensure the security of the Company's capital, CNAF was not allowed, at any time, to make use of the deposits of the Company other than making external loans. The prohibited use of the deposits of the Company included, but not limited to, investment activities in equity securities and corporate bonds. CNAF, as a non-banking financial institution approved by the CBRC, should strictly comply with the regulatory targets and other requirements of the CBRC to conduct its operation and business, establish effective and complete internal control and risk management systems and set up the credit review committee and investment committee in order to effectively manage risks and ensure the safety of all capital. If the Company intends to inspect the accounts of CNAF, CNAF should make arrangement for such an inspection within 10 days thereof. Pursuant to provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergent event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, should increase the capital of CNAF accordingly to meet the actual need to overcome such financial difficulties in making payments.

The unpaid services provided by CNAF to the Company include settlement services and financial information services ("Unpaid Services").

In addition to the specific services set out in the Financial Services Agreement, CNAF also explored and developed other licensed financial services and provided new financial services to other members of CNAHC Group ("New Financial Services").

The fees and charges payable by the Group to CNAF for the Unpaid Services and New Financial Services were determined with reference to the standards stipulated by the PBOC or the CBRC for services of similar type and were not higher than those charged by commercial banks to the Company for similar type of financial services and those charged by CNAF to other members of CNAHC Group.

The Financial Services Agreement expired on 31 December 2012.

The Company expected the transactions under the Financial Services Agreement would continue after 31 December 2012 and had (on behalf of its subsidiaries) entered into a new agreement with CNAF on 20 November 2012 with a term from 1 January 2013 to 31 December 2015.

Non-public Issuance of A Shares

On 26 April 2012, the Company entered into the share subscription agreement with CNAHC under which CHAHC committed RMB1,050.74 million in cash to subscribe for 188,642,729 new A shares of the Company at the issue price of RMB5.57 per A share, details of which were set out in the circular of the Company dated 8 May 2012. As a result of the distribution of the final dividend of the Company for the year 2011 on 23 July 2012, the issue price was adjusted to RMB5.45 per A share and accordingly, the number of new A shares to be issued to CNAHC was adjusted to 192,796,331. For details, please refer to the announcement of the Company dated 24 July 2012.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A shares to CNAHC pursuant to the share subscription agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. The issuance of such new A shares was approved by the shareholders at the extraordinary general meeting of the Company held on 26 June 2012 and the issuance was completed on 30 January 2013.

II. Continuing Connected Transactions between the Group and CNACG

The Company entered into a framework agreement with CNACG on 26 August 2008 which was renewed on 10 September 2010 (the "CNACG Framework Agreement").

As CNACG is a substantial shareholder of the Company and therefore a connected person of the Company, the transactions between CNACG and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

The CNACG Framework Agreement provides a framework for relevant agreements between the Group and CNACG Group covering transactions relating to ground handling and engineering services, management services and other services and transactions as may be agreed by parties to be undertaken under the CNACG Framework Agreement excluding those transactions which have been contemplated by the Properties Leasing Agreement, Sales Agency Services Framework Agreement, Comprehensive Services Agreement, Charter Flight Service Framework Agreement, Tourism Cooperation Agreement and the Financial Services Agreement.

The term of the CNACG Framework Agreement is from 1 January 2011 to 31 December 2013, which is renewable for successive periods of 3 years unless either party gives to the other party a notice of termination of not less than 3 months expiring on any 31 December. For further details of the CNACG Framework Agreement, please refer to the Company's announcements dated 26 August 2008 and 10 September 2010.

III. Connected Transactions between the Group and Cathay Pacific

Continuing Connected Transactions

The Company entered into a framework agreement with Cathay Pacific on 26 June 2008 which was renewed on 1 October 2010 (the "Cathay Pacific Framework Agreement").

As Cathay Pacific is a substantial shareholder and therefore a connected person of the Company, the transactions between the Company and Cathay Pacific Group (Cathay Pacific and its subsidiaries, including Dragonair) constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

The Cathay Pacific Framework Agreement provides the framework under which relevant agreements (the "Cathay Pacific Relevant Agreements") between members of the Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. The transactions under the Cathay Pacific Relevant Agreements are transactions between members of the Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement.

The term of the Cathay Pacific Framework Agreement is from 1 January 2011 to 31 December 2013, which is renewable for successive periods of 3 years unless either party gives to the other party a notice of termination of not less than 3 months to terminate the Cathay Pacific Framework Agreement on any 31 December. For further details of the Cathay Pacific Framework Agreement, please refer to the Company's announcements dated 26 June 2008 and 10 September 2010.

Establishment of Air Ground Handling Joint Venture

On 30 March 2012, the Company and Hong Kong Airport Services Limited, a company wholly owned by Cathay Pacific, entered into the joint venture agreement (the "Joint Venture Agreement") with Shanghai Airport Authority and Shanghai International Airport Co., Ltd. for the establishment of SIA Services Company as a joint venture company in Shanghai, the PRC (the "Joint Venture Company") for provision of airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport (the "Joint Venture Transaction"). Pursuant to the Joint Venture Agreement, the Company would pay its contributions of RMB86,400,000 to the registered capital of Joint Venture Company in cash in RMB or USD equivalent in respect of its 24% shareholding in the Joint Venture Company within 3 months after the establishment date. For further details of the Joint Venture Agreement, please refer to the Company's announcement dated 30 March 2012. The Joint Venture Company was duly established in 23 November 2012. Pursuant to the Joint Venture Agreement, the contributions of RMB86,400,000 to the Joint Venture Company was completed by 22 February 2013.

Cathay Pacific is a substantial shareholder of the Company. Hong Kong Airport Services Limited, being a wholly owned subsidiary of Cathay Pacific, is therefore a connected person of the Company. The Joint Venture Transaction constituted a connected transaction for the Company under Rule 14A.13 of the Listing Rules. As the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) in respect of the Joint Venture Transaction is more than 0.1% but less than 5%, the Company has to comply with the announcement and reporting requirements under Rule 14A.32 of the Listing Rules, but exempt from the independent shareholders' approval requirement.

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

The Company has entered into various transactions with Lufthansa and its associates (collectively, the "Lufthansa Group") in the ordinary course of its business pursuant to several agreements signed in different periods (some were over 3 years) respectively, including, among others:

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

Lufthansa holds 40% equity interest in, and is a substantial shareholder of, Aircraft Maintenance and Engineering Corporation (Beijing), a joint venture of the Company, and is therefore a connected person of the Company under the Listing Rules. As such, the transactions between Lufthansha Group and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

For further details of the transactions between the Company and Lufthansa Group, please refer to the Company's circular dated 6 November 2009 and the Company's announcement dated 10 September 2010.

V. Continuing Connected Transactions between the Group and Air China Cargo

The Company entered into a framework agreement with Air China Cargo on 27 October 2011 (the "Cargo Framework Agreement").

Air China Cargo is a connected person of the Company by virtue of being a non-wholly owned subsidiary of the Company in which Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the voting rights through Cathay Pacific China Cargo Holdings Limited, a wholly-owned subsidiary of Cathay Pacific. As such, transactions between Air China Cargo and the Company constitute continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules and are subject to the requirements under Rules 14A.35, 14A.36 and 14A.37 of the Listing Rules.

Pursuant to the Cargo Framework Agreement, the Group has agreed to provide the following services to Air China Cargo:

- the provision of bellyhold space of the passenger aircraft operated by the Company;
- ground support and aircraft maintenance engineering including, among others, the repair and maintenance of aircraft and engines; and
- other services to Air China Cargo including, among others, labour management and import and export agency services.

Pursuant to the Cargo Framework Agreement, Air China Cargo has agreed to provide the following services to the Group:

- ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and
- other services provided to the Group.

The consideration of specific continuing connected transactions under the Cargo Framework Agreement shall be agreed between the Company and Air China Cargo on a case-by-case basis.

The term of the Cargo Framework Agreement is three years, ending on 31 December 2013, which is renewable unless being terminated by either party to the Cargo Framework Agreement. For further details of the Cargo Framework Agreement, please refer to the Company's circulars dated 8 April 2010 and 10 November 2011 as well as the announcements dated 29 March 2011 and 27 October 2011.

VI. Transaction Caps and Actual Transaction Amounts in 2012

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions during the year ended 31 December 2012 are as follows:

	Currency	Aggregate amount of transactions for the year ended 31 December 2012 Cap *(in millions)*	Actual Amount *(in millions)*
Transactions with the CNAHC Group:			
Properties leasing	RMB	154	78
Aggregate sales of airline tickets and cargo space to the CNAHC Group	RMB	389	110
Comprehensive services	RMB	862	816
Subcontracting of charter flight services	RMB	900	504
Media and advertising services	RMB	120	72
Tourism co-operation services	RMB	69	–
Financial services			
Maximum daily outstanding deposits with CNAF *(note 1)*	RMB	7,000	3,748
Maximum daily outstanding loans from CNAF	RMB	3,000	2,437
Transactions with the CNACG Group:			
Ground handling, engineering, management and other services	RMB	350	233
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Company to Cathay Pacific Group	HK$	900	244
Aggregate amount payable/paid by Cathay Pacific Group to the Company	HK$	900	321
Transactions with the Lufthansa Group:			
Aggregate amount payable/paid by the Company to the Lufthansa Group	RMB	1,400	714
Aggregate amount payable/paid by the Lufthansa Group to the Company	RMB	1,400	357
Transactions with Air China Cargo:			
Aggregate amount payable/paid by the Company to Air China Cargo	RMB	46	1
Aggregate amount payable/paid by Air China Cargo to the Company *(note 2)*	RMB	6,300	4,076

Note 1: The Company undertook in August 2010 that the actual daily outstanding deposits of the Company and its subsidiaries placed with CNAF would not exceed RMB4 billion.

Note 2: The aggregate amount paid by Air China Cargo to the Group (excluding Air China Cargo) included an amount derived from the provision of bellyhold services ("Bellyhold Revenue") of approximately RMB3,663 million. From 1 January 2012 to 31 August 2012, Bellyhold Revenue of approximately RMB2,449 million was subject to business tax and was recognised as an amount paid by Air China Cargo to the Group on a net basis by setting off against the commission paid by the Group to Air China Cargo. Pursuant to the changes in the relevant tax rules and regulations in Mainland China, Bellyhold Revenue has become revenue subject to value-added tax with effect from 1 September 2012. Under the new tax rules and regulations, the gross amount of Bellyhold Revenue of RMB1,440 million was recognised as an amount paid by Air China Cargo to the Group while commission of RMB226 million was recognised as an amount paid by the Group to Air China Cargo for the period from 1 September 2012 to 31 December 2012. For the purpose of disclosed continuing connected transactions calculation, the amount paid by the Group to Air China Cargo and the amount paid by Air China Cargo to the Group for the period from 1 September 2012 to 31 December 2012 are restated as if they were transacted during the period from 1 January 2012 to 31 August 2012.

VII. Confirmation from Independent Non-executive directors

The independent non-executive directors of the Company have confirmed that all continuing connected transactions in the year ended 31 December 2012 to which the Company was a party have been entered into:

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

2. either:

   (i) on normal commercial terms; or

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

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

VIII. Confirmation from the Auditor

The Company's external auditor, Ernst & Young, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountant. The external auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions described in pages 41 to 50 of this annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the letter has been provided to the Hong Kong Stock Exchange confirming that the continuing connected transactions above:

1. have been approved by the Board;

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

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

4. have not exceeded the maximum aggregate annual value disclosed in the Company's announcements dated 27 October 2009, 10 September 2010 and 27 October 2011.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2012 are set out in note 53 to the audited financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

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

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming (Special General Partnership) as its international auditors and domestic auditors respectively for the year ended 31 December 2012. Ernst & Young has audited the attached financial statements prepared in accordance with IFRSs. The Company has retained Ernst & Young and Ernst & Young Hua Ming since the date of its listing. Since the number of years the Company has engaged Ernst & Young and Ernst & Young Hua Ming (Special General Partnership) has exceeded the time limit prescribed by relevant authorities, Ernst & Young and Ernst & Young Hua Ming (Special General Partnership) will retire as the auditors of the Company with effect from the close of the forthcoming 2012 annual general meeting of the Company to be convened in 2013 and will not be re-appointed. The resolution regarding the appointment of KPMG and KPMG Huazhen (Special General Partnership) as the Company's international and domestic auditors for the year ending 31 December 2013 will be proposed at the forthcoming 2012 annual general meeting of the Company.

Profile of Directors, Supervisors and Senior Management

As at the date of this annual report,

1. DIRECTORS

Mr. Wang Changshun, aged 55, is the Chairman and a non-executive director of the Company. Mr. Wang joined the Group in January 2012. He graduated from the University of Science and Technology of China with a Ph.D. degree in management science and engineering. Mr. Wang was previously the Secretary of Communist Party Committee and Deputy Director of Xin Jiang Regional Administration and had served as Deputy General Manager, a Member of the Standing Committee to the Communist Party Committee and Secretary of Communist Party Committee of Xinjiang Airlines. From October 2000 to September 2002, Mr. Wang worked as General Manager, Deputy Chairman of the Board and Deputy Secretary of Communist Party Committee of China Southern Airlines Company Limited. Mr. Wang served as Deputy General Manager and a Member of Communist Party Committee of China Southern Air Holding Company and General Manager, Deputy Chairman of the Board and Deputy Secretary of Communist Party Committee of China Southern Airlines Company Limited from September 2002 to August 2004. Mr. Wang became Deputy Director and a Member of Communist Party Committee of General Administration of Civil Aviation of China from August 2004 to March 2008. Mr. Wang served as a Member of Communist Party Committee and Deputy Director of Civil Aviation Administration of China ("CAAC") and Secretary of Communist Party Committee of the department directly administered by CAAC and Chairman of National Labour Union of Civil Aviation from March 2008 to October 2011. Mr. Wang has served as General Manager and Deputy Secretary of Communist Party Committee of CNAHC since October 2011. Mr. Wang has been serving as the Chairman of the Company since January 2012.

Ms. Wang Yinxiang, aged 57, is the Vice Chairman and a non-executive director of the Company. Ms. Wang joined the Group in July 1988. She graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management. Ms. Wang is a senior engineer of political work and a senior flight attendant. Ms. Wang served several positions at Air China International Corporation, including Vice Captain of the in-flight service team of the Chief Flight Team, Deputy Manager of the in-flight service division, Deputy Manager of the passenger cabin service division and Deputy Secretary of the Communist Party Committee. In October 2002, Ms. Wang served several positions in CNAHC, including Deputy General Manager, Head of the Disciplinary and Supervisory Committee of the Communist Party Group and Secretary of the Communist Party Committee of CNAHC. Since March 2008, Ms. Wang has been serving as Secretary of the Communist Party Group, Deputy General Manager and Secretary of the Communist Party Committee of CNAHC, and was appointed as President of the Labour Union of CNAHC from July 2003 to July 2009. Ms. Wang has been serving as the Vice Chairman of the Company since October 2008.

Mr. Cao Jianxiong, aged 53, is a non-executive director of the Company. He joined the Group in June 2009. Mr. Cao holds a master degree in economics from the Eastern China Normal University and is a senior economist. He was appointed as the Deputy General Manager and Chief Financial Officer of China Eastern Airlines Corporation Limited in December 1996. In September 1999, he was appointed as the Vice President of China Eastern Airlines Group Corporation. Commencing from September 2002 till December 2008, he served as Vice President and a member of Communist Party Group of China Eastern Airlines Group Corporation and was also Secretary of the Communist Party Committee of China Eastern Airlines Northwest Company from December 2002 to September 2004. From October 2006 to December 2008, he served as the President and the Deputy Party Secretary of the Communist Party Committee of China Eastern Airlines Corporation Limited. Since December 2008, Mr. Cao has been serving as the Deputy General Manager and a member of Communist Party Group of CNAHC. Mr. Cao has been serving as a non-executive director of the Company since June 2009.

Profile of Directors, Supervisors and Senior Management

Mr. Sun Yude, aged 58, is a non-executive director of the Company. He joined the Group in October 2002. Mr. Sun graduated from China Civil Aviation Institute majoring in economic management. He started his career in China's civil aviation industry in 1972 and served various positions such as Deputy Head of CAAC Taiyuan Terminal and Head of its Ningbo Terminal, as well as General Manager of CNAC Zhejiang Airlines. In October 2002, Mr. Sun was appointed Vice President of Air China International Corporation, and concurrently took up the position of General Manager of its Zhejiang branch, and was appointed as Vice President of the Company in September 2004. Mr. Sun was appointed as Chairman in November 2004, and President and Deputy Secretary of the Communist Party Committee in December 2005, of Shandong Aviation, and has also served as Director and President of CNACG from March 2007 to September 2011. Mr. Sun served as Secretary of the Communist Party Committee of CNACG from April 2007 to December 2009. Since May 2009, he has been serving as Deputy General Manager and a member of the Communist Party Group of CNAHC. Mr. Sun has been serving as a non-executive director of the Company since October 2010.

Mr. Christopher Dale Pratt, aged 56, is a non-executive director of the Company. He joined the Group in June 2006. Mr. Pratt has an honours degree in modern history from the University of Oxford. He joined John Swire & Sons Limited in 1978 and has worked with the Swire Group in its offices in Hong Kong, Australia and Papua New Guinea. He is also the Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Pratt has been serving as a non-executive director of the Company since June 2006.

Mr. Ian Sai Cheung Shiu, aged 58, is a non-executive director of the Company. He joined the Group in October 2010. He holds a bachelor's degree in business administration from University of Hawaii and an MBA degree from the University of Western Ontario. Mr. Shiu worked at offices of Cathay Pacific in Hong Kong, the Netherlands, Singapore and the United Kingdom. He has been a director of Cathay Pacific and Hong Kong Dragon Airlines Limited since October 2008. He has also been a director of John Swire & Sons (H.K.) Limited since July 2010. He has been serving as a director of Swire Pacific Limited since August 2010. Mr. Shiu has been serving as a non-executive director of the Company since October 2010.

Mr. Cai Jianjiang, aged 49, is the President and an executive director of the Company. He joined the Group in 2001. Mr. Cai graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently was appointed as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He has been serving as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC since February 2007. Since May 2010, he has been serving as the Chairman of Shenzhen Airlines. Mr. Cai has been serving as an executive director of the Company since October 2004.

Mr. Fan Cheng, aged 57, is the Vice President and an executive director of the Company. He joined the Group in September 2004. Mr. Fan graduated from Nanjing Institute of Chemistry and Chemical Engineering with a major in organic fertilizer and has an MBA degree from Guanghua School of Management, Peking University. Mr. Fan is a senior accountant, senior engineer and Certified Public Accountant. Mr. Fan was appointed as Deputy General Manager of China New Technology Venture Capital Company in 1996. He started his career in China's civil aviation industry in 2001, and served as General Manager of the corporate management department and capital management department of CNAHC in October 2002 and Chief Financial Officer of the Company in September 2004. Since October 2006, he has been serving as Vice President and Chief Financial Officer of the Company. From December 2009 to May 2010, he served as Secretary of the Communist Party Committee of Shenzhen Airlines. From March 2010 to April 2010, he served as President of Shenzhen Airlines and from March 2010 to May 2010, he served as the Chairman of Shenzhen Airlines. Since January 2011, he has been serving as Director and Chairman of Beijing Airlines Company Limited. Since February 2011, he has been serving as Secretary of the Communist Party Committee of the Company. Since April 2011, he has been serving as Chairman of Air China Cargo Co., Ltd. Mr. Fan has been serving as an executive director of the Company since October 2004.

Profile of Directors, Supervisors and Senior Management

Mr. Fu Yang, aged 63, is an independent non-executive director of the Company. Mr. Fu previously served as Deputy Director of the Economic Law Office of the National People's Congress Law Committee, Vice President of the third, fourth and fifth sessions of the All China Lawyers Association, a visiting professor of Center for Environment Law at the Law School of Renmin University of China. He is a partner and the director of Kang Da Law Firm in Beijing. He is also an arbitrator of China International Economic and Trade Arbitration Commission. Mr. Fu has been serving as an independent non-executive director of the Company since June 2009.

Mr. Li Shuang, aged 68, is an independent non-executive director of the Company. He is a professor of accounting and a tutor to doctorate students. Mr. Li graduated from the Foreign Language Department of Beijing Normal University in 1968. In 1982, he obtained a master's degree in economics from the Research Institute for Fiscal Science of the Ministry of Finance, and in October of the same year lectured at Central Institute of Finance & Banking (currently known as Central University of Finance and Economics) where he served various positions including the Head of the accounting department, director of the academic affair office, Dean and Vice President. From 1994 to 1997, he had been invited to the United States twice as a visiting scholar. In October 1996, he was entitled to the special allowance granted by the State Council. From 1999 to 2004, he worked as a Deputy Secretary-in-General and Adviser of the Chinese Institute of Certified Public Accountants. From May 2001 to June 2010, he served as an independent non-executive director of Da Cheng Fund Management Co., Ltd., China Minmetals Non-ferrous Metals Co. Ltd., Zhong Bao Ke Kong Investment Co., Ltd., Beijing Centergate Technologies (Holding) Co., Ltd., Shenyin & Wanguo Securities Investment Co., Ltd., Chengde Xinxin Vanadium and Titanium Co., Ltd. and Beijing Wangfujing Department Store (Group) Co., Ltd., respectively. Mr. Li had served as a non-executive director of China Shoto plc. from January 2005 to June 2011. He has been serving as an independent non-executive director of the Company since October 2010.

Mr. Han Fangming, aged 46, is an independent non-executive director of the Company. Mr. Han graduated from Peking University with a Ph.D degree. Mr. Han was a member of the 10th, 11th and 12th of National Committee of the Chinese People's Political Consultative Conference ("CPPCC") and is currently a Deputy Chairman of the Foreign Affairs Committee of CPPCC and the convener of the Public Diplomacy Team, the Deputy Chief Editor and Head of the editorial department of "Public Diplomacy Quarterly", Executive Member of the Chinese-African People's Friendship Association, Executive Member of the Chinese People's Association for Friendship with Foreign Countries, Executive Member of China Economic and Social Council, chairman of China-Africa Economic and Technological Cooperation Committee, Deputy director of China Overseas-Educated Scholars Development Foundation, Vice President of China Society for Southeast Asian Studies and founding chairman of the Charhar Institute under the Think-Tank for Foreign Policy and International Relationship, a researcher at the Center for Studies of World Modernisation Process of Peking University, a visiting professor at Tibet University and an arbitrator of the China International Economic and Trade Arbitration Commission. In 1999, he joined TCL Group and was appointed as an independent non-executive director of TCL Multimedia Technology Holdings Limited. He has been serving as an executive director of TCL Corporation from 2006 to June 2011. He has served as Vice Chairman of TCL Corporation since June 2011. Mr. Han has been serving as an independent non-executive director of the Company since October 2010.

Mr. Yang Yuzhong, aged 68, is an independent non-executive director of the Company. He graduated from Beijing Aeronautical Institute majoring in aircraft design and manufacturing. From July 1999 to July 2006, Mr. Yang served as the Deputy General Manager of China Aviation Industry Corporation I, during which period he was also the head of Chinese Aeronautical Establishment and the chairman of AVIC1 Commercial Aircraft Co., Ltd.. Mr. Yang has been a consultant of Aviation Industry Corporation of China since August 2006. He served as an independent non-executive director of China National Materials Company Limited from June 2007 to December 2009. Mr. Yang has been an independent non-executive director of China South Locomotive & Rolling Stock Corporation Limited since December 2007 and an external director of China National Materials Group Corporation Ltd. since December 2009. Mr. Yang has been serving as an independent non-executive director of the Company since May 2011.

2. SUPERVISORS

Mr. Li Qinglin, aged 58, is the chairman of the supervisory committee of the Company. He joined the Group in October 2010. Mr. Li graduated from Beijing Television University majoring in Chinese and Zhongnanhai Amateur University majoring in administrative management, and is a senior engineer of political work. Mr. Li served various positions, including a Section Chief, Deputy director, director, Vice Director-General and Director-General, as well as the Chairman of the Labour Union, of the Government Office Administration of the State Council. From 1998 to 2000, he served as a Deputy director of the Hebei Leading Group Office of Poverty Alleviation and Development. Since 2000, he had served different positions, including a Deputy director of the Work Department under the Supervisory Committee of Central Enterprises Working Commission, Deputy director of the Office of Central Enterprises Working Commission, Deputy director and Inspector of the General Office of the SASAC and a director of the Office of the Stability Preservation Leading Team of the SASAC. In September 2008, he was appointed as the Head of the Disciplinary and Supervisory Committee and a member of the Communist Party Group of CNAHC. Mr. Li has been serving as a supervisor of the Company since October 2010.

Mr. Zhang Xueren, aged 60, is a supervisor of the Company. He joined the Group in July 1988. Mr. Zhang graduated from Sichuan International Studies University majoring in English, and enrolled in the MBA programme of Peking University. Mr. Zhang holds the title of Senior Economist. He started his career in China's civil aviation in 1975 and served as a Section Chief and then a director of the operations department of Beijing Administrative Bureau of CAAC, the Head of the cargo department of Air China International Corporation, the General Manager of Tianjin branch of Air China International Corporation and Vice President of Air China International Corporation. In 2004, he served as a director and Vice President of CNACG. From December 2009 to February 2013, he has been serving as the director, Secretary of the Communist Party Committee and Vice President of China National Aviation Corporation (Group) Limited. Mr. Zhang has been serving as a supervisor of the Company since October 2010.

Mr. Zhou Feng, aged 51, is a supervisor of the Company. Mr. Zhou joined the Group in February 1997. He obtained a master's degree in economics from Shanghai University of Finance and Economics. He held various positions, including the Accountant, the Deputy Division Head, the Division Head of the finance division and the director of the finance and audit department of the CAAC, Zhejiang Bureau; the director, the Chief Accountant of finance department of CNAC Zhejiang Airlines; the Assistant General Manager of China National Aviation Corporation (Macau) Company Limited; the Deputy General Manager, the Chief Accountant and a member of the party committee of China National Aviation Finance Co., Ltd. ("CNAF"), the director, the Executive Vice President of Samsung Air China Life Insurance Co., Ltd.. Mr. Zhou has been Secretary of the Communist Party Committee and the Deputy General Manager of CNAF since August 2010. He has also been the General Manager of the finance department of CNAHC since April 2011. Mr. Zhou has been serving as a supervisor of the Company since November 2011.

Ms. Xiao Yanjun, aged 48, is a supervisor of the Company. Ms. Xiao joined the Group in July 1988. She obtained a Juris Master from Renmin University of China and an EMBA degree from Tsinghua University and is a professional of political work. From July 1988 to April 2002, Ms. Xiao held various positions in Air China International Corporation, including an Instructor at the Training Department, the Secretary of the Communist Party Committee, an Organisor at division level, Secretary of the Party branch and Head of Officer Training. She served as the Training Manager of the Human Resource Department of Air China Limited from April 2002 to March 2008 and Deputy director of the Labour Union of the Company from March 2008 to November 2012. She has been Director of the Labour Union of the Company since November 2012. Ms. Xiao has been serving as a supervisor of the Company since June 2011.

Mr. Su Zhiyong, aged 50, is a supervisor of the Company. He joined the Group in July 1988. Mr. Su graduated from Party School of the Central Committee of Communist Party Committee majoring in economics and management. Mr. Su started his career in China's civil aviation industry in 1983 and served as Officer and Personnel Clerk of the Communist Party Committee of the equipment management division, Secretary of the vehicle maintenance office (team II) of ground services department, and, starting from September 2006, Deputy Manager and Manager of the vehicle maintenance centre of ground services department of Air China International Corporation. Since August 2007, he has been serving as Senior Manager of the station operation centre of ground services department of the Company. Mr. Su has been serving as a supervisor of the Company since August 2009.

Profile of Directors, Supervisors and Senior Management

3. OTHER SENIOR MANAGEMENT

Mr. Feng Gang, aged 49, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984 and served various positions including Cadre of the political department and Dispatcher of the scheduling office in Chengdu Civil Aviation Authority, Manager of Guangzhou Sales Department, Deputy Manager of Operating Department, Manager of Development and Service Department, Deputy Manager of Marketing Department, Manager of the Cargo Logistics Company of China Southwest Airlines, Deputy General Manager of China Southwest Airlines, Assistant to President of Air China International Corporation, General Manager and Party Secretary of China National Aviation Holding Assets Management Company. He served as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation from May 2007 to April 2010. Mr. Feng has been serving as Vice President of the Company since April 2010. He has also served as a director, President and Deputy Secretary of the Communist Party Committee of Shenzhen Airlines since May 2010.

Mr. Ma Chongxian, aged 47, graduated from Inner Mongolia University majoring in planning and statistics. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of CAAC Inner Mongolia Bureau and various positions in Air China, including Deputy Chief and Secretary of the Party branch of Aircraft Repair Plant in Inner Mongolia branch, General Manager of the Bluesky Customer Service Department, Deputy General Manager of Inner Mongolia branch, Deputy General Manager, Party Secretary and General Manager of Zhejiang branch. He served as General Manager and Deputy Secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President of the Company as well as Chairman, President of Shandong Aviation and Vice Chairman of Shandong Airlines since April 2010.

Mr. Xu Chuanyu, aged 48, graduated from China Civil Aviation Institution majoring in aviation and obtained an MBA degree from Tsinghua University. Mr. Xu is a second-class Pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including Pilot, Deputy Captain of the Third Group of the Chief Flight Team and an Inspector in the Safety Supervisory Office. In December 2001, Mr. Xu was appointed as the Deputy Captain of the Chief Flight Team of Air China International Corporation. In March 2006, Mr. Xu was appointed as the General Manager and Deputy Secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as General Manager, a Member and Deputy Secretary of the Communist Party Committee of Operation Control Centre of the Company from January 2009 to March 2011. He served as the Chief Pilot from January 2009 to April 2011 and as Vice President of Air China Limited from February 2011 to December 2012. He has been serving as Chief Safety Officer of the Company since December 2012 till now.

Mr. Wang Mingyuan, aged 47, graduated from Xiamen University majoring in planning and statistics. He started his career in July 1988 and served various positions in Southwest Airlines, including Assistant of the planning department, Manager of the Production Plan Office of the Sales & Marketing Department, Deputy Manager of the Sales & Marketing Department Deputy Manager and Manager of the Market Department, and served various positions in the Company, including Deputy General Manager of the Marketing Department, Member of the Commerce Commission, Member of the Communist Party Committee and General Manager of Network Revenue Department. Mr. Wang has been appointed as a director of the Commerce Commission and Deputy Secretary of the Communist Party Committee of the Company since July 2008. He has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since February 2011.

Profile of Directors, Supervisors and Senior Management

Mr. Zhao Xiaohang, aged 51, graduated from Tsinghua University majoring in management engineering and holds a postgraduate diploma and a master's degree. Mr. Zhao started his career in August 1986 and served various positions, including Assistant of the Planning Department of Beijing Administration Bureau of CAAC, Assistant, Section Chief and Deputy Division Chief of the Planning Department of Air China, Manager and Deputy Secretary of the Ground Services Department, General Manager of the Planning and Development Department and Assistant President of Air China. He served as director and Vice President of CNACG from September 2003 to May 2004, director, Vice President and Secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as director and General Manager of China National Aviation Company Limited in July 2005 and director and General Manager of China National Aviation Corporation (Macau) Company Limited in April 2007. He also served as Chairman, executive director and General Manager of Air Macau from December 2009 to April 2011. Mr. Zhao has also been serving as Vice President of the Company since February 2011, a director of Shandong Aviation since April 2011 and Chairman of Dalian Airlines since August 2011.

Ms. Feng Rune, aged 50, obtained an EMBA degree from HEC Paris. Ms. Feng started her career in July 1984 and served various positions, including an Instructor of Science & Education Division of CAAC Inner Mongolia Bureau, Deputy Chief, Chief, Deputy director and director of Science & Education Department of Air China Inner Mongolia branch; Manager of Human Resource Department and Head of Party and Mass Affairs Department of Air China Inner Mongolia branch. She also served as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of Air China Inner Mongolia branch. In October 2002, she began to serve as Head and director of Office of Communist Party Group of CNAHC. From January 2009 to March 2011, she was appointed as Secretary of the Communist Party Committee and Deputy General Manager of Air China Cargo. She has been serving as Deputy Secretary of the Communist Party Committee and Secretary of Commission for Discipline Inspection of the Company since February 2011 as well as a member and Secretary of the Communist Party Committee of the department directly under the Company since March 2011. She has been serving as president of the Labour Union of the Company since June 2011.

Mr. Chai Weixi, aged 50, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. He is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including Engineer and Manager of airframe team of Engineering Department of Aircraft Maintenance and Engineering Corporation, Deputy director of the Engineering Division under the Aircraft Engineering Department of Air China, Manager of Aircraft Maintenance Subdivision and Manager of Aircraft Overhaul Division of Aircraft Maintenance and Engineering Corporation, General Manager of Aircraft Engineering Department of Air China and Deputy General Manager of the Engineering Technology Branch of Air China. He served as General Manager, director, member of the Communist Party Committee of Aircraft Maintenance and Engineering Corporation and a member of the Communist Party Committee of the Engineering Technology Branch of Air China in October 2005. In April 2009, he served as General Manager and Deputy Secretary of the Communist Party Committee of the Engineering Technology Branch of Air China and director of Aircraft Maintenance and Engineering Corporation. Mr. Chai has been serving as Vice President of the Company since March 2012.

Mr. Chen Zhiyong, aged 49, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen started his career in October 1982 and served various positions, including pilot and squadron leader of the Third Squadron of the Seventh Flight Team of CAAC, squadron leader and head of Chengdu Flight Department of China Southwest Airlines and manager of Flight Technology Management Department of China Southwest Airlines, head of Chengdu Flight Department of Southwest Branch of Air China, and Deputy General Manager and Chief Pilot of Southwest Branch of Air China. He served as General Manager and Deputy Secretary of the Communist Party Committee of Southwest Branch of Air China from December 2009 to December 2012. Mr. Chen has been serving as Vice President of the Company since December 2012 till now.

Profile of Directors, Supervisors and Senior Management

Mr. Liu Tiexiang, aged 46, graduated from State Organ Branch of Party School of the Central Committee of C.P.C. majoring economics and management. He is a second-class Pilot. He started his career in June 1983 and became a member of the Communist Party Committee in April 1986. Mr. Liu previously served various positions in Air China, including pilot, squadron leader of the Third Team of the General Flight Group, deputy director and deputy manager of Flight Training Centre, deputy general manager of Aviation Security Technology Department, deputy general manager and general manager of Flight Technical Management Department and vice captain of the Chief Flight Team of Air China. He served as captain of the Chief Flight Team of Air China and Deputy Secretary of the Communist Party Committee from June 2008 to April 2011. He has been serving as Chief Pilot of the Company since April 2011.

Ms. Long Qiang, aged 52, graduated from Sichuan Normal University. Ms. Long started her career in August 1983 and served various positions including teacher of the Technical School of Chengdu Administration Bureau of CAAC, Deputy Secretary of the Communist Youth Party Committee of Chengdu Administration Bureau, Deputy Secretary of the Communist Party General Branch of the Customer Service Company of Chengdu Administration Bureau, Section Chief of the Student Department for the Training Centre of China Southwest Airlines, Secretary of the Communist Youth Party Committee, Secretary of the Communist Party Committee of the Marketing and Sales Department, manager and Secretary of the Communist Party Committee of the Transportation and Service Company of China Southwest Airlines, Deputy General Manager of Chongqing Company of China Southwest Airlines, and Deputy General Manager, Secretary of the Communist Party Committee and General Manager of Chongqing Branch of Air China. She served as Secretary of the Communist Party Committee and Deputy Director of the Commerce Commission of the Company from July 2009 to December 2012. She has been serving as Chief Service Officer of the Company since December 2012 till now.

Ms. Rao Xinyu, aged 46, graduated from Beijing Foreign Studies University with a postgraduate diploma. Ms. Rao started her career in July 1990 and served as an officer at vice-director level and an officer at director level of the International Department of the CAAC, Deputy Manager of the General Office, Deputy Director of the Administration Office and Deputy General Manager of the Planning and Investment Department of China National Aviation Corporation, respectively. From December 2002, Ms. Rao was appointed as Deputy General Manager of the Planning and Investment Department of CNAHC. From October 2003, she served as Deputy General Manager of the Planning and Development Department of CNAHC. Ms. Rao has been Deputy Director of the Secretariat of the Board and General Manager of Investor Relation Department of the Company since April 2005. She has been serving as the Secretary to the Board and one of the Joint Company Secretaries since December 2011.

4. JOINT COMPANY SECRETARIES

Ms. Rao Xinyu, Ms. Rao's biography is set out in the section headed "Other Senior Management" above.

Ms. Tam Shuit Mui, aged 41, graduated from the State University of New York at Buffalo, USA in 1998 with a Bachelor of Science in Business Administration majoring in accounting and financial analysis. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of The American Institute of Certified Public Accountants, USA. Between September 1998 and April 2001, Ms. Tam worked as an accountant with Tommy Hilfiger (HK) Limited. From May 2001 to October 2007, Ms. Tam served as the company secretary of Chaoyue Group Limited (formerly known as Graneagle Holdings Limited), a company listed on the Hong Kong Stock Exchange. Ms. Tam has been serving as one of the Joint Company Secretaries of the Company since October 2008.

Independent Auditors' Report

ERNST & YOUNG
安永

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively, the "Group") set out on pages 63 to 167, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2012, and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2013

Consolidated Income Statement

Year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
TURNOVER			
Air traffic revenue	4	95,319,449	93,343,421
Other operating revenue	5	5,518,233	5,066,081
		100,837,682	98,409,502
OPERATING EXPENSES			
Jet fuel costs		(35,638,494)	(34,703,369)
Movements in fair value of fuel derivative contracts		–	85,447
Take-off, landing and depot charges		(9,185,453)	(8,740,822)
Depreciation		(10,376,431)	(9,560,907)
Aircraft maintenance, repair and overhaul costs		(3,258,627)	(2,612,678)
Employee compensation costs	6	(13,648,191)	(12,270,065)
Air catering charges		(2,843,067)	(2,662,984)
Aircraft and engine operating lease expenses		(3,486,493)	(3,931,549)
Other operating lease expenses		(739,750)	(668,916)
Other flight operation expenses		(6,886,259)	(9,342,935)
Selling and marketing expenses		(5,668,305)	(5,480,514)
General and administrative expenses		(897,553)	(2,261,549)
		(92,628,623)	(92,150,841)
PROFIT FROM OPERATIONS	7	8,209,059	6,258,661
Finance revenue	8	374,625	3,361,295
Finance costs	8	(2,410,833)	(1,594,015)
Share of profits and losses of associates		402,661	1,328,798
PROFIT BEFORE TAX		6,575,512	9,354,739
Tax	11	(1,647,507)	(2,292,073)
PROFIT FOR THE YEAR		4,928,005	7,062,666
Attributable to:			
Owners of the parent		4,636,735	7,082,374
Non-controlling interests		291,270	(19,708)
		4,928,005	7,062,666
Dividends	13		
Interim		–	–
Proposed final		776,580	1,521,251
		776,580	1,521,251
Earnings per share attributable to equity holders of the parent:	14		
Basic and diluted		RMB38.21 cents	RMB58.23 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	2012 *RMB'000*	2011 *RMB'000*
PROFIT FOR THE YEAR	**4,928,005**	7,062,666
OTHER COMPREHENSIVE INCOME/(LOSSES)		
Share of other comprehensive income/(losses) of associates	**417,433**	(8,538)
Exchange realignment	**21,466**	(890,417)
OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE YEAR, NET OF TAX	**438,899**	(898,955)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**5,366,904**	6,163,711
Attributable to:		
Owners of the parent	**5,074,816**	6,193,453
Non-controlling interests	**292,088**	(29,742)
	5,366,904	6,163,711

Consolidated Statement of Financial Position

31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**125,369,553**	112,399,431
Lease prepayments	16	**2,122,636**	2,142,684
Investment properties	17	**229,824**	240,879
Intangible asset	18	**59,216**	37,221
Goodwill	19	**1,310,830**	1,310,830
Interests in associates	22	**14,037,363**	13,397,031
Advance payments for aircraft and flight equipment		**18,696,984**	19,443,291
Deposits for aircraft under operating leases		**443,539**	420,854
Available-for-sale investments	23	**45,925**	27,182
Deferred tax assets	24	**2,834,335**	3,077,502
		165,150,205	152,496,905
CURRENT ASSETS			
Aircraft and flight equipment held for sale	25	**592,697**	92,487
Inventories	26	**1,637,424**	1,810,320
Accounts receivable	27	**3,009,759**	2,700,731
Bills receivable		**1,253**	1,601
Prepayments, deposits and other receivables	28	**3,974,980**	2,697,192
Financial assets	29	**12,671**	12,144
Due from the ultimate holding company		**194,077**	428,561
Due from related companies	31	**10,416**	20,194
Tax recoverable		**156,546**	–
Pledged deposits	32	**802,941**	132,565
Cash and cash equivalents	32	**12,047,735**	15,457,372
		22,440,499	23,353,167
TOTAL ASSETS		**187,590,704**	175,850,072
CURRENT LIABILITIES			
Air traffic liabilities		**(3,876,782)**	(4,562,773)
Accounts payable	33	**(9,354,919)**	(10,417,186)
Bills payable	34	**(1,503)**	–
Other payables and accruals	35	**(10,692,780)**	(12,815,775)
Financial liabilities	29	**(120,413)**	(223,137)
Due to related companies	31	**(352,349)**	(190,775)
Tax payable		**(80,153)**	(1,707,553)
Obligations under finance leases	36	**(3,476,572)**	(2,687,925)
Interest-bearing bank loans and other borrowings	37	**(30,690,190)**	(28,137,313)
Provision for major overhauls	38	**(699,849)**	(589,123)
		(59,345,510)	(61,331,560)
NET CURRENT LIABILITIES		**(36,905,011)**	(37,978,393)
TOTAL ASSETS LESS CURRENT LIABILITIES		**128,245,194**	114,518,512

Consolidated Statement of Financial Position

31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	36	**(25,476,607)**	(19,191,860)
Interest-bearing bank loans and other borrowings	37	**(42,254,160)**	(39,398,481)
Provision for major overhauls	38	**(2,745,326)**	(2,496,294)
Provision for early retirement benefit obligations		**(265,996)**	(203,213)
Long term payables	39	**(181,144)**	(231,061)
Deferred income	40	**(3,482,911)**	(3,459,138)
Deferred tax liabilities	24	**(1,561,424)**	(1,213,030)
		(75,967,568)	(66,193,077)
NET ASSETS		**52,277,626**	48,325,435
EQUITY			
Equity attributable to owners of the parent			
Issued capital	41	**12,891,955**	12,891,955
Treasury shares	42	**(2,896,092)**	(2,889,399)
Reserves	43	**39,662,640**	36,113,243
		49,658,503	46,115,799
NON-CONTROLLING INTERESTS		**2,619,123**	2,209,636
TOTAL EQUITY		**52,277,626**	48,325,435

Cai Jianjiang
Director

Fan Cheng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Attributable to owners of the parent									
	Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2011	12,891,955	(2,613,232)	18,256,092	2,230,086	(2,168,360)	11,317,584	1,523,829	41,437,954	(66,717)	41,371,237
Profit for the year	–	–	–	–	–	7,082,374	–	7,082,374	(19,708)	7,062,666
Other comprehensive losses for the year:										
Share of other comprehensive losses of associates	–	–	(8,538)	–	–	–	–	(8,538)	–	(8,538)
Exchange realignment	–	–	–	–	(880,383)	–	–	(880,383)	(10,034)	(890,417)
Total comprehensive income/(losses) for the year	–	–	(8,538)	–	(880,383)	7,082,374	–	6,193,453	(29,742)	6,163,711
Elimination of reciprocal shareholding	–	(276,167)	–	–	–	–	–	(276,167)	–	(276,167)
Capital contribution by non-controlling interest of a subsidiary	–	–	327,759	–	–	–	–	327,759	1,736,095	2,063,854
Final dividend declared	–	–	–	–	–	–	(1,523,829)	(1,523,829)	–	(1,523,829)
Establishment of new subsidiaries	–	–	–	–	–	–	–	–	570,000	570,000
Appropriation of statutory reserve funds	–	–	–	679,126	–	(679,126)	–	–	–	–
Transfer to discretionary reserve funds and others	–	–	–	614,386	–	(657,757)	–	(43,371)	–	(43,371)
Proposed final dividend	–	–	–	–	–	(1,521,251)	1,521,251	–	–	–
As at 31 December 2011	12,891,955	(2,889,399)	18,575,313*	3,523,598*	(3,048,743)*	15,541,824*	1,521,251*	46,115,799	2,209,636	48,325,435
As at 1 January 2012	12,891,955	(2,889,399)	18,575,313	3,523,598	(3,048,743)	15,541,824	1,521,251	46,115,799	2,209,636	48,325,435
Profit for the year	–	–	–	–	–	4,636,735	–	4,636,735	291,270	4,928,005
Other comprehensive income for the year:										
Share of other comprehensive income of associates	–	–	417,433	–	–	–	–	417,433	–	417,433
Exchange realignment	–	–	–	–	20,648	–	–	20,648	818	21,466
Total comprehensive income for the year	–	–	417,433	–	20,648	4,636,735	–	5,074,816	292,088	5,366,904
Elimination of reciprocal shareholding	–	(6,693)	–	–	–	–	–	(6,693)	–	(6,693)
Capital contribution by non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	120,000	120,000
Final dividend declared	–	–	–	–	–	–	(1,521,251)	(1,521,251)	–	(1,521,251)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(1,519)	(1,519)
Appropriation of statutory reserve funds	–	–	–	421,943	–	(421,943)	–	–	–	–
Transfer to discretionary reserve funds and others	–	–	–	679,126	–	(683,294)	–	(4,168)	(1,082)	(5,250)
Proposed final dividend	–	–	–	–	–	(776,580)	776,580	–	–	–
As at 31 December 2012	12,891,955	(2,896,092)	18,992,746*	4,624,667*	(3,028,095)*	18,296,742*	776,580*	49,658,503	2,619,123	52,277,626

* These reserve accounts comprise the consolidated reserves of RMB39,662,640,000 (2011: RMB36,113,243,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,575,512**	9,354,739
Adjustments for:			
Share of profits and losses of associates		**(402,661)**	(1,328,798)
Exchange gains, net	8	**(123,595)**	(3,117,700)
Interest income	8	**(248,009)**	(240,234)
Finance costs	8	**2,410,833**	1,594,015
Changes of fair value on financial assets and financial liabilities, net		**(4,306)**	(29,493)
Depreciation	15	**10,376,431**	9,560,907
Impairment loss on property, plant and equipment	15	**586,301**	2,237,403
Gains on disposal of property, plant and equipment, net	5	**(62,337)**	(252,662)
Losses on disposal of lease prepayments		**–**	1,461
Losses on derecognition of property, plant and equipment	7	**13,935**	31,345
Amortisation of lease prepayments	16	**84,107**	53,247
Amortisation of investment properties	17	**11,055**	–
Impairment of aircraft held for sale	25	**22,779**	99,669
Impairment of inventories	7	**16,878**	77,785
Impairment of goodwill	7	**–**	176,891
Impairment of interests in associates	7	**–**	19,810
Impairment/(reversal of impairment) of accounts receivable, net	7	**19,689**	3,771
Impairment/(reversal of impairment) of prepayments, deposits and other receivables, net	7	**(764,165)**	239,582
		18,512,447	18,481,738
Increase in deposits for aircraft under operating leases		**(2,779)**	(55,073)
Decrease/(increase) in inventories		**156,018**	(279,154)
Decrease/(increase) in accounts receivable		**(290,166)**	366,006
Decrease in bills receivable		**348**	12,694
Decrease/(increase) in prepayments, deposits and other receivables		**333,598**	(545,913)
Decrease in an amount due from the ultimate holding company		**234,484**	220,392
Decrease/(increase) in amounts due from related companies		**9,778**	(16,950)
Decrease/(increase) in amounts due from associates		**(285,534)**	28,398
Increase/(decrease) in air traffic liabilities		**(685,991)**	954,073
Increase/(decrease) in accounts payable		**(1,246,493)**	2,358,106
Increase/(decrease) in bills payable		**1,503**	(387,327)
Increase/(decrease) in other payables and accruals		**(2,135,466)**	3,403,782
Increase in amounts due to related companies		**161,574**	9,773
Increase in amounts due to associates		**98,435**	6,118
Increase in provision for major overhauls		**359,758**	476,639
Increase/(decrease) in provision for early retirement benefit obligations		**62,783**	(17,023)
Increase in deferred income		**23,773**	263,035
Cash generated from operations		**15,308,070**	25,279,314
Interest paid		**(2,776,156)**	(2,143,019)
Corporate income tax and profits tax paid		**(3,072,093)**	(3,466,417)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**9,459,821**	19,669,878

Consolidated Statement of Cash Flows

Year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(15,599,212)**	(22,253,020)
Purchases of intangible assets		**(23,999)**	–
Proceeds from disposal of items of property, plant and equipment		**419,736**	1,106,061
Proceeds from disposal of held-for-sale assets		**92,487**	69,430
Increase in lease prepayments		**(64,059)**	(76,709)
Decrease of intangible assets		**2,004**	3,855
Increase/(decrease) in advance payments for aircraft and flight equipment		**746,307**	(496,664)
Net settlements of financial liabilities		**(98,946)**	(159,463)
Decrease/(increase) in pledged deposits		**(670,376)**	710,500
Decrease/(increase) in non-pledged deposits with original maturity of more than three months when acquired		**2,955,303**	(4,648,235)
Interest received		**248,010**	240,234
Cash received from non-controlling interests of subsidiaries		**–**	2,233,808
Capital contributions by non-controlling interests of subsidiaries		**120,000**	570,000
Purchase of an associate		**(86,800)**	–
Dividends received from associates		**430,901**	1,030,762
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(11,528,644)**	(21,669,441)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other loans		**38,733,166**	28,866,385
Repayment of bank loans and other loans		**(32,588,907)**	(26,435,068)
Repayment of principals under finance lease obligations		**(2,945,595)**	(2,339,461)
Dividends paid		**(1,522,770)**	(1,523,829)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**1,675,894**	(1,431,973)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(392,929)**	(3,431,536)
Cash and cash equivalents at beginning of year		**10,783,473**	14,376,050
Effect of exchange rate changes on cash and cash equivalents		**(61,405)**	(161,041)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,329,139**	10,783,473
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	**4,713,116**	5,079,886
Non-pledged time deposits with original maturity of less than three months when acquired	32	**5,616,023**	5,703,587
		10,329,139	10,783,473

Statement of Financial Position

31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**91,089,650**	80,350,831
Lease prepayments	16	**1,537,647**	1,592,275
Intangible asset	18	**35,217**	37,221
Interests in subsidiaries	20	**19,014,062**	18,242,738
Interests in joint ventures	21	**856,076**	856,076
Interests in associates	22	**712,896**	646,366
Advance payments for aircraft and flight equipment		**14,409,193**	16,077,566
Deposits for aircraft under operating leases		**268,036**	251,729
Available-for-sale investments	23	**22,110**	3,366
Deferred tax assets	24	**2,024,156**	2,261,490
		129,969,043	120,319,658
CURRENT ASSETS			
Aircraft and flight equipment held for sale	25	**31,402**	77,211
Inventories	26	**712,204**	762,546
Accounts receivable	27	**1,257,047**	1,224,596
Prepayments, deposits and other receivables	28	**2,768,481**	1,641,153
Entrusted loans	30	**–**	2,200,000
Due from the ultimate holding company		**194,009**	432,267
Due from related companies		**–**	7,803
Tax recoverable		**96,956**	–
Pledged deposits	32	**663,317**	–
Cash and cash equivalents	32	**3,900,178**	7,797,123
		9,623,594	14,142,699
TOTAL ASSETS		**139,592,637**	134,462,357
CURRENT LIABILITIES			
Air traffic liabilities		**(3,194,141)**	(3,708,720)
Accounts payable	33	**(5,548,735)**	(6,555,427)
Other payables and accruals	35	**(3,696,997)**	(5,546,130)
Financial liabilities	29	**(86,375)**	(176,167)
Due to related companies	31	**(353,196)**	(170,187)
Tax payable		**–**	(1,223,212)
Obligations under finance leases	36	**(3,326,631)**	(2,505,900)
Interest-bearing bank loans and other borrowings	37	**(18,648,237)**	(21,383,897)
Provision for major overhauls	38	**(258,848)**	(235,964)
		(35,113,160)	(41,505,604)
NET CURRENT LIABILITIES		**(25,489,566)**	(27,362,905)
TOTAL ASSETS LESS CURRENT LIABILITIES		**104,479,477**	92,956,753

Statement of Financial Position

31 December 2012
(Prepared under International Financial Reporting Standards)

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	36	**(24,270,585)**	(18,428,125)
Interest-bearing bank loans and other borrowings	37	**(30,433,492)**	(27,170,298)
Provision for major overhauls	38	**(1,488,439)**	(1,380,343)
Provision for early retirement benefit obligations		**(46,099)**	(55,608)
Long term payables	39	**–**	(643)
Deferred income	40	**(2,446,980)**	(2,631,068)
Deferred tax liabilities	24	**(210,441)**	(136,000)
		(58,896,036)	(49,802,085)
NET ASSETS		**45,583,441**	43,154,668
EQUITY			
Issued capital	41	**12,891,955**	12,891,955
Reserves	43	**32,691,486**	30,262,713
TOTAL EQUITY		**45,583,441**	43,154,668

Cai Jianjiang
Director

Fan Cheng
Director

1 CORPORATE INFORMATION

Air China Limited (the "Company") was established 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 (the "LSE") 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.

Pursuant to the approval of China Securities Regulatory Commission [2013]37 on 16 January 2013, Air China issued 192,796,331 new non-public A shares with RMB1,050,740,004 at the price of RMB5.45 per share to CNAHC. By deducting of the RMB6,290,821 issue fee, the net cash inflow was RMB1,044,449,183. On 30 January 2013, the procedures for registration of the new A Shares with the Shanghai Branch of China Securities Depository & Clearing Co. Ltd. were completed.

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 Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

As at 31 December 2012, the Group's net current liabilities amounted to approximately RMB36,905 million, which comprised current assets of approximately RMB22,440 million and current liabilities of approximately RMB59,345 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of revised IFRSs

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of these revised IFRSs has had no significant financial effect on these financial statements.

Issued but not yet effective IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements – Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (Revised)	*Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements to IFRSs 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting derecognition and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements that were in IAS 27 and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12. The Group is in the process of making an assessment of the impact of IFRS 10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

IFRS 11 replaces IAS 31 *Interests in Joint Ventures and SIC-13 Jointly controlled Entities – Non-monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control*. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The Group currently uses proportionate consolidation to account its joint ventures. By removing the option of proportionate consolidation, IFRS 11 is expected to have impact on the Group's financial statements.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC-12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, the consequential amendments to IAS 27 (Revised) and IAS 28 (Revised) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments*: Presentation: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and joint ventures (collectively the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries and joint ventures are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and joint ventures are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on the items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and joint ventures are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the average exchange rates for the period of the translations. Effect of foreign exchange rate changes on cash and cash equivalents is presented separately in the consolidated statement of cash flows as a reconciling item.

Subsidiaries

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

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

Joint ventures

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

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The Group's investments in its associates are accounted for under the equity method of accounting.

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquire. For each business combination, the Group elects to whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Related parties

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

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

	Estimated useful life	Residual value	Depreciation rate
Aircraft and flight equipment:			
Core parts of airframe and engine	15 to 30 years	5%	3.17%-6.33%
Overhaul of airframe and cabin refurbishment	5 to 12 years	Nil	8.33%-20%
Overhaul of engine	2 to 15 years	Nil	6.67%-50%
Rotable	3 to 20 years	Nil – 5%	4.75%-33.33%
Buildings	5 to 50 years	Nil – 10%	1.8%-20%
Machinery	4 to 20 years	Nil – 10%	4.50%-25%
Transportation equipment	3 to 20 years	Nil – 10%	4.50%-33.33%
Office equipment	4 to 8 years	Nil – 10%	11.25%-25%

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

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

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

Fixed assets under finance leases are depreciated over the same terms as self-owned fixed assets. If it is reasonably assured that the ownership of the leased property could be transferred to the Group after the lease periods, the leased assets are depreciated over the lease term. Otherwise, leased assets are depreciated over the shorter of the estimated useful lives of the assets and the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Non-current assets held for sale

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

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

Intangible assets (other than goodwill)

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

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

The estimated useful life of an intangible asset is as follows:

	Estimated useful life
Admission rights to Star Alliance	indefinite

Leases

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent costs are recognised in the carrying amount of the investment properties if it is probable that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably. Otherwise, these costs are recognised in profit or loss as incurred.

The Group chooses the cost method to measure its investment properties.

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

	Estimated useful life	Residual value	Depreciation rate
Buildings	20 to 30 years	5%	3.17%-4.75%
Lease prepayments	50 years	–	2%

The carrying amounts of investment properties measured at the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Advance payments for aircraft and flight equipment

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Fair value of financial instruments

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Treasury shares

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

Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable

Individually significant and impairment provided for

Accounts receivable that are individually significant are assessed for impairment individually.

Collectively significant and impairment provided for

The accounts receivable with similar credit risk characteristics, which are not individually significant but collectively significant, are collectively assessed for impairment. The percentages for the impairment are as follows:

	Percentages for impairment
Receivables for sales of overseas tickets	5%
Receivables for ground services	1%

Individually insignificant but impairment provided for

Accounts receivable that are individually insignificant are assessed for impairment individually when events or changes in circumstances indicate that the carrying amounts may not be collectable.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Manufacturers' credits

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

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an future outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expects to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) *Pension obligations*

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

(b) *Termination and early retirement benefits*

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

(c) *Housing benefits*

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

(d) *Share-based payments*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

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

Frequent-flyer programmes

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

Revenue recognition

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

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

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

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

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

Revenue is stated net of business tax.

(b) *Sale of goods*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(c) *Interest income*

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

(d) *Dividend income*

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

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

Current tax

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

Deferred tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax (Continued)

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

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

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

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

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

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition of aircraft, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of aircraft borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs (Continued)

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 1.11% and 9.40% (2011: ranging between 1.24% and 8.23%) has been applied to the expenditure on the individual asset.

Dividends

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

Significant accounting judgements and estimates

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

Judgements

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

Estimation uncertainty

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

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB1,311 million (2011: RMB1,311 million). More details are given in note 19 to the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty (Continued)

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

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

(c) *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to estimate the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(d) *Overhaul cost*

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

(e) *Deferred income*

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

(f) *Early retirement benefits*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty (Continued)

(g) *Fair value of financial instruments*

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

(h) *Impairment of receivables*

At the end of each reporting period, the Group would evaluate the collectability of the receivables and provide impairment according to the accounting policy as stated before. The Group provided full bad debt provision for some accounts of which the collectability is remote. If there is any evidence indicating the debtors have the ability to pay part or full of the accounts, however, the Group may reverse the provision entirely or partially, which would have impact on the financial statements of the Group (note 28).

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 the assets of the Group by geographical distribution has therefore not been included.

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

3 OPERATING SEGMENT INFORMATION (Continued)

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 years ended 31 December 2012 and 2011 and the reconciliations of reportable segment revenue and profit before tax to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2012

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	99,595,151	245,400	–	99,840,551
Intersegment sales	–	1,814,619	(1,814,619)	–
Total revenue for reportable segments under CASs	99,595,151	2,060,019	(1,814,619)	99,840,551
Business tax not included in segment revenue				(1,748,412)
Other income not included in segment revenue				1,590,072
Effects of differences between IFRSs and CASs				1,155,471
Revenue for the year under IFRSs				100,837,682
SEGMENT PROFIT BEFORE TAX				
Profit before tax for reportable segments under CASs	6,884,033	153,504	–	7,037,537
Effects of differences between IFRSs and CASs				(462,025)
Profit before tax for the year under IFRSs				6,575,512

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

Year ended 31 December 2011

	Airline operations *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE				
Sales to external customers	96,998,433	140,678	–	97,139,111
Intersegment sales	–	1,215,116	(1,215,116)	–
Total revenue for reportable segments under CASs	96,998,433	1,355,794	(1,215,116)	97,139,111
Business tax not included in segment revenue				(2,267,856)
Other income not included in segment revenue				1,498,578
Effects of differences between IFRSs and CASs				2,039,669
Revenue for the year under IFRSs				98,409,502
SEGMENT PROFIT BEFORE TAX				
Profit before tax for reportable segments under CASs	10,028,990	92,529	–	10,121,519
Effects of differences between IFRSs and CASs				(766,780)
Profit before tax for the year under IFRSs				9,354,739

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2012 and 31 December 2011 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
SEGMENT ASSETS				
Total assets for reportable segments as at 31 December 2012 under CASs	**184,780,189**	**3,950,738**	**(3,020,021)**	**185,710,906**
Effects of differences between IFRSs and CASs				**1,879,798**
Total assets under IFRSs				**187,590,704**
Total assets for reportable segments as at 31 December 2011 under CASs	172,951,576	4,961,357	(4,589,365)	173,323,568
Effects of differences between IFRSs and CASs				2,526,504
Total assets under IFRSs				175,850,072

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
SEGMENT LIABILITIES				
Total liabilities for reportable segments as at 31 December 2012 under CASs	**133,992,733**	**791,665**	**(3,020,021)**	**131,764,377**
Effects of differences between IFRSs and CASs				**3,548,701**
Total liabilities under IFRSs				**135,313,078**
Total liabilities for reportable segments as at 31 December 2011 under CASs	127,360,960	1,050,452	(4,589,365)	123,822,047
Effects of differences between IFRSs and CASs				3,702,590
Total liabilities under IFRSs				127,524,637

3 OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
OTHER SEGMENT INFORMATION						
Year ended 31 December 2012						
Share of profits and losses of associates	**359,280**	**43,381**	**–**	**402,661**	**–**	**402,661**
Impairment losses reversed/ (recognised) in the income statement, net	**241,134**	**(135)**	**–**	**240,999**	**(122,481)**	**118,518**
Finance revenue	**358,163**	**12,087**	**–**	**370,250**	**4,375**	**374,625**
Finance costs	**2,270,466**	**713**	**–**	**2,271,179**	**139,654**	**2,410,833**
Tax	**1,583,108**	**19,991**	**–**	**1,603,099**	**44,408**	**1,647,507**
Interests in associates	**13,519,068**	**309,484**	**–**	**13,828,553**	**208,810**	**14,037,363**
Capital expenditure	**24,843,617**	**60,330**	**–**	**24,903,947**	**237,624**	**25,141,571**
Depreciation and amortisation	**10,185,468**	**205,107**	**–**	**10,390,575**	**210,011**	**10,600,586**

	Airline operations RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000	Effects of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Year ended 31 December 2011						
Share of profits and losses of associates	1,288,914	39,884	–	1,328,798	–	1,328,798
Impairment losses recognised in the income statement	1,969,970	176,846	–	2,146,816	708,095	2,854,911
Finance revenue	3,273,134	27,391	–	3,300,525	60,770	3,361,295
Finance costs	1,436,334	296	–	1,436,630	157,385	1,594,015
Tax	2,196,417	27,493	–	2,223,910	68,163	2,292,073
Interests in associates	13,060,493	314,730	–	13,375,223	21,808	13,397,031
Capital expenditure	30,092,582	8,488	–	30,101,070	457,554	30,558,624
Depreciation and amortisation	9,509,045	8,963	–	9,518,008	96,146	9,614,154

3 OPERATING SEGMENT INFORMATION (Continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2012 and 2011:

Year ended 31 December 2012

	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	**67,840,084**	**5,618,394**	**9,604,615**	**7,500,004**	**5,941,709**	**4,332,876**	**100,837,682**

Year ended 31 December 2011

	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	66,154,716	4,335,880	10,464,556	6,984,158	6,110,530	4,359,662	98,409,502

The Group's main assets to earn income are the aircraft, most of which are registered in China. According to the business demand, the Group needs to flexibly allocate the aircraft to match the need of the route network. Therefore, the Group has no proper benchmark to distribute these assets according to regional information. Except for the aircraft, most of the Group's assets are located in China.

Information about a major customer

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year (2011: Nil).

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 year is as follows:

	2012 *RMB'000*	2011 *RMB'000*
Passenger	**86,898,595**	83,510,323
Cargo and mail	**8,420,854**	9,833,098
	95,319,449	93,343,421

4 AIR TRAFFIC REVENUE (Continued)

Before September 2012, air traffic revenue for all domestic flights was 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 first eight months in 2012 amounted to approximately RMB1,656 million (2011: RMB2,128 million for the whole year). Since September 2012 onwards, air traffic revenue for all domestic flights was subject to a value added tax rate of 11% and all international, Hong Kong, Macau and Taiwan regional flights are exempted from value added tax.

5 OTHER OPERATING REVENUE

	2012	2011
	RMB'000	*RMB'000*
Aircraft engineering income	**1,199,484**	730,746
Ground service income	**747,082**	724,346
Service charges on return of unused flight tickets	**633,267**	574,136
Income from other travelling services	**301,423**	535,482
Government grants and subsidies:		
Recognition of deferred income *(note 40(b))*	**192,580**	240,486
Others	**1,301,194**	938,120
Gain on disposal of property, plant and equipment	**62,337**	252,662
Cargo handling service income	**79,126**	167,934
Rental income:		
Aircraft and flight equipment	**43,481**	44,802
Others	**91,108**	42,489
Training service income	**80,572**	81,051
Sale of materials	**39,495**	24,966
Import and export service income	**50,787**	16,400
Others	**696,297**	692,461
	5,518,233	5,066,081

6 EMPLOYEE COMPENSATION COSTS

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

	2012	2011
	RMB'000	*RMB'000*
Wages, salaries and social security costs	**12,162,440**	11,002,334
Retirement benefit costs *(note 10)*	**1,486,986**	1,274,561
Share-based benefits *(note 44)*	**(1,235)**	(6,830)
	13,648,191	12,270,065

7 PROFIT FROM OPERATIONS

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

	2012	2011
	RMB'000	*RMB'000*
Auditors' remuneration	**14,356**	18,370
Depreciation *(note 15)*	**10,376,431**	9,560,907
Impairment of property, plant and equipment *(note 15)*	**586,301**	2,237,403
Gain on disposal of property, plant and equipment	**62,337**	252,662
Losses on derecognition of property, plant and equipment	**13,935**	31,345
Amortisation of lease prepayments *(note 16)*	**84,107**	53,247
Amortisation of investment property *(note 17)*	**11,055**	–
Minimum lease payments under operating leases:		
Aircraft and flight equipment	**3,486,493**	3,931,549
Land and buildings	**648,893**	583,338
Impairment of aircraft and flight equipment held for sale *(note 25)*	**22,779**	99,669
Impairment of goodwill *(note 19)*	**–**	176,891
Impairment of interests in associates	**–**	19,810
Impairment of inventories	**16,878**	77,785
Impairment/(reversal of impairment) of accounts receivable, net *(note 27)*	**19,689**	3,771
Impairment/(reversal of impairment) of prepayments, deposits and other receivables, net *(note 28)*	**(764,165)**	239,582

8 FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	2012	2011
	RMB'000	*RMB'000*
Exchange gains, net	**123,595**	3,117,700
Interest income	**248,009**	240,234
others	**3,021**	3,361
	374,625	3,361,295

8 FINANCE REVENUE AND FINANCE COSTS (Continued)

Finance costs

	2012 RMB'000	2011 RMB'000
Interest on interest-bearing bank loans and other borrowings	**2,456,416**	1,869,764
Interest on finance leases	**597,168**	326,771
Loss on interest rate derivative contracts, net	**4,046**	41,122
	3,057,630	2,237,657
Less: Interest capitalised	**(646,797)**	(643,642)
	2,410,833	1,594,015

The interest capitalisation rates during the year range from 1.11% to 9.40% (2011: 1.24% to 8.23%) per annum relating to the costs of related borrowings during the year.

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES

Remuneration of the Company's directors, supervisors, chief executive and senior management for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2012 RMB'000	2011 RMB'000 (Restated)
Fees	**400**	322
Basic salaries, housing benefits, other allowances and benefits in kind	**5,384**	4,770
Discretionary bonuses	**5,020**	5,897
Retirement benefits	**858**	776
Share appreciation rights (the"SARs")	**–**	2,765
	11,662	14,530

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES (Continued)

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	SARs[6] RMB'000	Total RMB'000
Year ended 31 December 2012						
Executive Directors						
Cai Jianjiang[2]	–	301	695	73	–	1,069
Fan Cheng	–	281	619	71	–	971
	–	582	1,314	144	–	2,040
Non-Executive Directors						
Wang Changshun[1]	–	–	–	–	–	–
Kong Dong[1]	–	–	–	–	–	–
Wang Yinxiang	–	–	–	–	–	–
Sun Yude	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
Li Shuang	100	–	–	–	–	100
Fu Yang	100	–	–	–	–	100
Han Fangming	100	–	–	–	–	100
Yang Yuzhong	100	–	–	–	–	100
	400	–	–	–	–	400
Supervisors						
Zhou Feng	–	–	–	–	–	–
Xiao Yanjun	–	319	105	51	–	475
Su Zhiyong	–	236	78	46	–	360
Li Qinglin	–	–	–	–	–	–
Zhang Xueren	–	–	–	–	–	–
	–	555	183	97	–	835
Senior management						
He Li[3]	–	64	471	18	–	553
Liu Tiexiang	–	1,052	–	74	–	1,126
Xu Chuanyu	–	1,013	–	69	–	1,082
Wang Mingyuan	–	257	381	59	–	697
Zhao Xiaohang	–	257	338	60	–	655
Feng Rune	–	257	380	55	–	692
Feng Gang	–	257	558	57	–	872
Ma Chongxian	–	264	558	59	–	881
Chai Weixi[3]	–	193	132	48	–	373
Xu Jianqiang[4]	–	257	582	64	–	903
Rao Xinyu	–	376	123	54	–	553
Chen Zhiyong[5]	–	–	–	–	–	–
Long qiang[5]	–	–	–	–	–	–
	–	4,247	3,523	617	–	8,387
	400	5,384	5,020	858	–	11,662

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES (Continued)

Fees of RMB400,000 were paid or payable to the Company's independent non-executive directors during the year. There were no other emoluments payable to the independent non-executive directors during the year.

(1) On 20 January 2012, Kong Dong resigned as director of the Company. On the same date, Wang Changshun was appointed as director of the Company to fill the vacancy.

(2) Cai Jianjiang is both a director and the chief executive of the Company.

(3) On 14 March 2012, He Li resigned as senior management of the Company. On the same date, Chai Weixi was appointed as senior management of the Company to fill the vacancy.

(4) On 23 November 2012, Xu Jianqiang retired as senior management of the Company.

(5) On 17 December 2012, Long Qiang and Chen Zhiyong were appointed as senior management of the Company.

(6) In 2012, the remaining 30% of SARs were lapsed (note 44).

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES (Continued)

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Retirement benefits	SARs[5]	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011						
Executive Directors						
Cai Jianjiang[1]	–	278	591	67	322	1,258
Fan Cheng	–	274	553	62	284	1,173
	–	552	1,144	129	606	2,431
Non-Executive Directors						
Kong Dong	–	–	–	–	341	341
Wang Yinxiang	–	–	–	–	–	–
Sun Yude	–	–	–	–	–	–
Cao Jianxiong	–	–	–	–	–	–
Christopher Dale Pratt	–	–	–	–	–	–
Shiu Sai Cheung, Ian	–	–	–	–	–	–
Li Shuang	84	–	–	–	–	84
Fu Yang	84	–	–	–	–	84
Han Fangming	84	–	–	–	–	84
Yang Yuzhong[2]	60	–	–	–	–	60
Jia Kang[2]	10	–	–	–	–	10
	322	–	–	–	341	663
Supervisors						
He Chaofan[4]	–	–	–	–	–	–
Zhou Feng[4]	–	–	–	–	–	–
Chen Bangmao[3]	–	–	–	–	–	–
Xiao Yanjun[3]	–	146	65	24	–	235
Su Zhiyong	–	210	91	40	–	341
Li Qinglin	–	–	–	–	–	–
Zhang Xueren	–	–	–	–	–	–
	–	356	156	64	–	576
Senior management						
Tan Zhihong[6]	–	46	636	12	284	978
He Li	–	254	544	70	–	868
Li Huxiao[6]	–	41	584	12	284	921
Zhang Lan[6]	–	41	584	12	199	836
Xu Chuanyu[6]	–	911	–	63	142	1,116
Liu Tiexiang	–	667	–	47	–	714
Wang Mingyuan[6]	–	212	125	52	142	531
Zhao Xiaohang[6]	–	212	125	52	–	389
Liu Peizhi[7]	–	42	577	12	284	915
Feng Rune[7]	–	212	125	45	–	382
Feng Gang	–	254	324	48	–	626
Ma Chongxian	–	254	345	51	161	811
Huang Bin[8]	–	462	179	53	161	855
Xu Jianqiang	–	254	449	54	161	918
Rao Xinyu[8]	–	–	–	–	–	–
	–	3,862	4,597	583	1,818	10,860
	322	4,770	5,897	776	2,765	14,530

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES (Continued)

Fees of RMB322,000 were paid or payable to the Company's independent non-executive directors during the year. There were no other emoluments payable to the independent non-executive directors during the year.

(1) Cai Jianjiang is both the director and chief executive of the Company.

(2) On 26 May 2011, Jia Kang resigned as director of the Company. On the same date, Yang Yuzhong was appointed as director of the Company to fill the vacancy.

(3) On 16 June 2011, Chen Bangmao resigned as supervisor of the Company. On the same date, Xiao Yanjun was appointed as supervisor of the Company to fill the vacancy.

(4) On 25 November 2011, He Chaofan resigned as supervisor of the Company. On the same date, Zhou Feng was appointed as supervisor of the Company to fill the vacancy.

(5) Up to 31 December 2011, 70% of SARs were vested and the amount represents the total vested part.

(6) On 22 February 2011, Tan Zhihong, Li Xiaohu and Zhang Lan resigned as senior management of the Company. On the same date, Xu Chuanyu, Wang Mingyuan and Zhao Xiaohang were appointed as senior management of the Company to fill the vacancy.

(7) On 21 February 2011, Liu Peizhi resigned as senior management of the Company. On the same date, Feng Rune was appointed as senior management of the Company to fill the vacancy.

(8) On 20 December 2011, Huang Bin resigned as senior management of the Company. On the same date, Rao Xinyu was appointed as senior management of the Company to fill the vacancy.

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

	Group	
	2012	2011
	Number of individuals	*Number of individuals*
Directors, chief executive and senior management	**3**	2
Employees	**2**	3

9 REMUNERATION OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SENIOR MANAGEMENT AND FIVE HIGHEST PAID EMPLOYEES (Continued)

The five highest paid employees during the year included three (2011: two) directors, chief executive and senior management, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2011: three) employees who are not directors, supervisors, chief executive or senior management of the Company are as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**3,653**	4,569
Retirement benefits	**–**	52
	3,653	4,621

The number of these two (2011: three) non-director, non-supervisor, non-chief executive and non-senior management highest paid employees whose remuneration for the year fell within the following bands is as follows:

	Group	
	2012	2011
	Number of individuals	*Number of individuals*
HK$1,500,001 to HK$2,000,000 equivalent to RMB1,216,164 to RMB1,621,550 (2011: RMB1,216,051 to RMB1,621,400)	**1**	2
HK$2,000,001 to HK$2,500,000 equivalent to RMB1,621,551 to RMB2,026,938 (2011: RMB1,621,401 to RMB2,026,750)	**–**	1
HK$2,500,001 to HK$3,000,000 equivalent to RMB2,026,938 to RMB2,432,325 (2011: RMB2,026,751 to RMB2,432,100)	**1**	–
	2	3

There was no arrangement under which a director, a supervisor, a chief executive or a senior management waived or agreed to waive any remuneration during the year (2011: Nil).

10 RETIREMENT BENEFIT COSTS

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Contributions to defined contribution retirement scheme	**1,366,398**	1,255,198
Early retirement benefits	**120,588**	19,363
Total retirement benefit costs *(note 6)*	**1,486,986**	1,274,561

As at 31 December 2012, no forfeited contributions were available to reduce the Group's contributions to the defined contribution retirement scheme operated by the Group in future years (2011: Nil).

11 TAX

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches which are taxed at a preferential rate of 15% and two joint ventures which are taxed at the preferential rates from 12.5% to 15% (2011: a subsidiary and certain joint ventures taxed at 24%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2011: 25%) during the period. Subsidiaries in Hong Kong and Macau are taxed at corporate income tax rates of 16.5% (2011:16.5%) and 12% (2011: 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:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current income tax:		
Mainland China	**1,052,212**	2,968,108
Hong Kong and Macau	**3,734**	1,662
	1,055,946	2,969,770
Deferred income tax *(note 24)*	**591,561**	(677,697)
Income tax charge for the year	**1,647,507**	2,292,073

11 TAX (Continued)

The Group's share of tax charge attributable to associates amounting to RMB169,680,000(2011: RMB280,541,000) is included in the "Share of profits and losses of associates" on the face of the consolidated income statement.

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

	Group			
	2012		2011	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**6,575,512**		9,354,739	
Tax at the statutory tax rate	**1,643,878**	**25.0**	2,338,685	25.0
Tax effect of share of profits and losses of associates	**(100,665)**	**(1.5)**	(332,199)	(3.5)
Lower income tax rates enacted by other territories	**(89,913)**	**(1.4)**	(93,621)	(1.0)
Adjustment in respect of current income tax of previous periods	**(298,332)**	**(4.5)**	(98,922)	(1.1)
Income not subject to tax	**(37,443)**	**(0.6)**	(39,958)	(0.4)
Expenses not deductible for tax	**67,768**	**1.0**	53,425	0.6
Utilisation of tax losses not recognised in prior years	**(16,359)**	**(0.2)**	(24,819)	(0.3)
Deductible temporary differences and tax losses not recognised	**518,284**	**7.9**	489,482	5.2
Utilisation of deductible temporary differences not recognised in prior years	**(39,711)**	**(0.6)**	–	–
At the Group's effective income tax rate	**1,647,507**	**25.1**	2,292,073	24.5

As at 31 December 2012, there was unrecognised deferred tax liability of RMB37,657,000 (2011: RMB37,657,000) for taxes that would be payable on the disposal of a subsidiary as the Directors are of the view that the Company is able to control the timing of the disposal and they have no intention to dispose of this subsidiary in the foreseeable future.

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

12 PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of approximately RMB3,805 million (2011: RMB5,798 million), which was arrived at after deducting dividend income received from subsidiaries, joint ventures and associates aggregating approximately RMB145 million (2011: RMB725 million) from the Company's total comprehensive income of approximately RMB3,950 million (2011: RMB6,523 million), that has been dealt with in the financial statements of the Company (note 43).

13 APPROPRIATIONS

	Company	
	2012	2011
	RMB'000	*RMB'000*
Proposed final dividend	**776,580**	1,521,251

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

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

(ii) allocations to the statutory common reserve fund of at least 10% of the after-tax profit, until the fund reaches 50% of the Company's registered capital (for the purpose of calculating transfers to reserves, profit after tax would be the amount determined under CASs. The transfers to reserves should be made before any distribution of dividends to shareholders. The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company); and

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

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

In accordance with the 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.

14 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2012 of approximately RMB4,637 million and the weighted average of 12,136,547,108 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding.

The calculation of basic earnings per share for the year ended 31 December 2011 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2011 of approximately RMB7,082 million and the weighted average of 12,161,502,125 ordinary shares in issue during the year, as adjusted to reflect the weighted average number of treasury shares held by Cathay Pacific through reciprocal shareholding.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both years.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 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	1,785,258	91,036	297,576	132,183	79,282	27,568,686	29,954,021
Disposals	(1,342,150)	(44,586)	(82,777)	(3,744)	(11,130)	–	(1,484,387)
Transfer from construction in progress	23,680,416	117,549	210,456	46,939	21,349	(24,076,709)	–
Reclassification to investment properties *(note 17)*	–	(197,913)	–	–	–	–	(197,913)
Reclassification to aircraft and flight equipment held for sale under current assets *(note 25)*	(183,904)	–	–	–	–	–	(183,904)
Impairment *(note 7)*	(2,237,403)	–	–	–	–	–	(2,237,403)
Depreciation charge for the year *(note 7)*	(8,689,759)	(269,420)	(314,627)	(167,627)	(119,474)	–	(9,560,907)
Derecognition of a joint venture	(27,927)	–	(3,680)	(1,986)	(428)	–	(34,021)
Exchange realignment	(7,867)	–	(81)	(639)	(10)	–	(8,597)
As at 31 December 2011 and 1 January 2012, net of accumulated depreciation and impairment	95,631,220	5,573,157	1,891,662	782,777	332,334	8,188,281	112,399,431
Additions	1,823,113	100,310	210,515	159,852	118,156	22,415,847	24,827,793
Disposals	(226,361)	(27,182)	(17,120)	(5,243)	(3,587)	–	(279,493)
Transfer from construction in progress	22,633,508	387,225	258,456	35,267	3,405	(23,317,861)	–
Reclassification to aircraft and flight equipment held for sale under current assets *(note 25)*	(615,476)	–	–	–	–	–	(615,476)
Impairment* *(note 7)*	(580,772)	–	(3,382)	(60)	(2,087)	–	(586,301)
Depreciation charge for the year *(note 7)*	(9,586,553)	(293,754)	(238,307)	(82,694)	(175,123)	–	(10,376,431)
Exchange realignment	25	–	1	2	2	–	30
As at 31 December 2012, net of accumulated depreciation and impairment	**109,078,704**	**5,739,756**	**2,101,825**	**889,901**	**273,100**	**7,286,267**	**125,369,553**
As at 31 December 2011 and 1 January 2012:							
Cost	159,995,048	7,742,054	4,445,902	2,254,321	911,758	8,188,281	183,537,364
Accumulated depreciation and impairment	(64,363,828)	(2,168,897)	(2,554,240)	(1,471,544)	(579,424)	–	(71,137,933)
Net book value	95,631,220	5,573,157	1,891,662	782,777	332,334	8,188,281	112,399,431
As at 31 December 2012:							
Cost	**180,583,587**	**8,190,493**	**4,745,801**	**2,422,080**	**1,012,403**	**7,286,267**	**204,240,631**
Accumulated depreciation and impairment	**(71,504,883)**	**(2,450,737)**	**(2,643,976)**	**(1,532,179)**	**(739,303)**	**–**	**(78,871,078)**
Net book value	**109,078,704**	**5,739,756**	**2,101,825**	**889,901**	**273,100**	**7,286,267**	**125,369,553**

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Aircraft and flight equipment RMB'000	Buildings RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2011, net of accumulated depreciation	61,164,356	3,676,883	1,034,735	600,662	260,475	3,035,280	69,772,391
Additions	743,543	7,413	139,155	73,877	32,024	19,019,993	20,016,005
Disposals	(898,656)	(6,784)	(7,536)	(3,619)	(7,044)	–	(923,639)
Transfer from construction in progress	17,252,872	57,884	144,341	45,438	33,470	(17,534,005)	–
Reclassification to aircraft and flight equipment held for sale under current assets *(note 25)*	(168,721)	–	–	–	–	–	(168,721)
Impairment	(1,141,234)	–	–	–	–	–	(1,141,234)
Depreciation charge for the year	(6,641,747)	(165,339)	(216,068)	(113,071)	(67,746)	–	(7,203,971)
As at 31 December 2011 and 1 January 2012, net of accumulated depreciation and impairment	70,310,413	3,570,057	1,094,627	603,287	251,179	4,521,268	80,350,831
Additions	974,671	84,294	125,763	82,072	96,661	17,598,513	18,961,974
Disposals	(90,001)	(22,530)	(14,419)	(1,374)	(2,846)	–	(131,170)
Transfer from construction in progress	17,244,360	190,335	166,101	35,261	–	(17,662,583)	(26,526)
Reclassification to aircraft and flight equipment held for sale under current assets *(note 25)*	(34,661)	–	–	–	–	–	(34,661)
Impairment	(325,162)	–	–	–	–	–	(325,162)
Depreciation charge for the year	(7,204,201)	(204,197)	(137,888)	(36,734)	(122,616)	–	(7,705,636)
As at 31 December 2012, net of accumulated depreciation and impairment	**80,875,419**	**3,617,959**	**1,234,184**	**682,512**	**222,378**	**4,457,198**	**91,089,650**
As at 31 December 2011 and 1 January 2012:							
Cost	125,801,001	5,047,585	2,795,026	1,631,313	554,277	4,521,268	140,350,470
Accumulated depreciation and impairment	(55,490,588)	(1,477,528)	(1,700,399)	(1,028,026)	(303,098)	–	(59,999,639)
Net book value	70,310,413	3,570,057	1,094,627	603,287	251,179	4,521,268	80,350,831
As at 31 December 2012:							
Cost	**142,346,986**	**5,289,738**	**2,934,741**	**1,732,066**	**637,334**	**4,457,198**	**157,398,063**
Accumulated depreciation and impairment	**(61,471,567)**	**(1,671,779)**	**(1,700,557)**	**(1,049,554)**	**(414,956)**	**–**	**(66,308,413)**
Net book value	**80,875,419**	**3,617,959**	**1,234,184**	**682,512**	**222,378**	**4,457,198**	**91,089,650**

* During the year, the Group recognised an impairment loss of approximately RMB581 million relating to aircraft and flight equipment. The recoverable amounts of these impaired aircraft and flight equipment are the higher of their fair value less costs to sell and value in use. The Group has plans to sell these assets for which impairment has been provided and has received quotation from potential buyers. Those aircraft which fall under the criteria at IFRS 5 Non-current Assets Held for Sale were reclassified as aircraft and flight equipment held for sale under current assets, details of which are set out in note 25.

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2012, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB35,041 million (2011: RMB37,482 million) were pledged to secure certain bank loans of the Group (note 37(a)).

The aggregate net book value of aircraft held under finance leases included in the property, plant and equipment of the Group amounted to approximately RMB45,482 million (2011: RMB34,762 million) (note 36).

As at 31 December 2012, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB2,709 million (2011: RMB2,729 million). The Directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2012.

16 LEASE PREPAYMENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at 1 January	**2,414,697**	2,390,599	**1,791,173**	1,789,028
Additions	**64,059**	76,709	**–**	2,145
Disposal	**–**	(1,461)	**–**	–
Reclassification to investment properties *(note 17)*	**–**	(51,150)	**–**	–
As at 31 December	**2,478,756**	2,414,697	**1,791,173**	1,791,173
Accumulated amortisation				
As at 1 January	**(272,013)**	(226,950)	**(198,898)**	(159,845)
Amortisation for the year *(note 7)*	**(84,107)**	(53,247)	**(54,628)**	(39,053)
Reclassification to investment properties *(note 17)*	**–**	8,184	**–**	–
As at 31 December	**(356,120)**	(272,013)	**(253,526)**	(198,898)
Net carrying amount				
As at 31 December	**2,122,636**	2,142,684	**1,537,647**	1,592,275

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

As at 31 December 2012, the Group's land use rights with an aggregate net book value of approximately RMB38 million (2011: RMB40 million) were pledged to secure certain bank loans of the Group (note 37(a)).

As at 31 December 2012, 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 RMB574 million (2011: RMB626 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 31 December 2012.

17 INVESTMENT PROPERTIES

The Group's investment properties are subsequently measured at the cost method.

	Group 2012 RMB'000	Group 2011 RMB'000
Cost		
As at 1 January	**338,614**	–
Reclassification from property, plant and equipment *(note 15)*	**–**	287,464
Reclassification from lease prepayments *(note 16)*	**–**	51,150
As at 31 December	**338,614**	338,614
Accumulated amortisation		
As at 1 January	**(97,735)**	–
Reclassification from property, plant and equipment *(note 15)*	**–**	(89,551)
Reclassification from lease prepayments *(note 16)*	**–**	(8,184)
Amortisation for the year *(note 7)*	**(11,055)**	–
As at 31 December	**(108,790)**	(97,735)
Net carrying amount		
As at 31 December	**229,824**	240,879

The Group leased a cargo terminal located in Mainland China to a third party under an operating lease arrangement during 2011, further details of which are included in note 48 to the financial statements. As at 31 December 2012, the carrying amount of investment properties included lease prepayments of approximately RMB42 million (2011:RMB43 million) relating to land use rights held under a medium term lease.

18 INTANGIBLE ASSET

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
As at 1 January	**37,221**	41,076	**37,221**	41,076
Addition	**23,999**	–	**–**	–
Reduction upon admission of new Star Alliance members	**(2,004)**	(3,855)	**(2,004)**	(3,855)
As at 31 December	**59,216**	37,221	**35,217**	37,221

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

19 GOODWILL

Group

	2012	2011
	RMB'000	*RMB'000*
Cost and net carrying amount as at 1 January	**1,310,830**	1,657,675
Goodwill attributable to non-controlling interest due to decrease in ownership percentage	**–**	(169,954)
Provision for impairment *(note 7)*	**–**	(176,891)
Net carrying amount at 31 December	**1,310,830**	1,310,830
As at 31 December		
Cost	**1,487,721**	1,487,721
Impairment	**(176,891)**	(176,891)
Net carrying amount	**1,310,830**	1,310,830

Impairment testing of goodwill

Goodwill acquired through business combinations has been mainly allocated to the following cash-generating units for impairment testing:

- Air China Cargo cash-generating unit
- Shenzhen Airlines cash-generating unit

Air China Cargo cash-generating unit

The group accrued full impairment provision for goodwill allocated to Air China Cargo in 2011.

Shenzhen Airlines cash-generating unit

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to the cash flow projections is 10% (2011: 10.8%) and cash flows beyond the three-year period were extrapolated using a growth rate of 2% by reference to the long term average growth rate.

19 GOODWILL (Continued)

The net carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

Shenzhen Airlines		Others		Total	
2012	2011	**2012**	2011	**2012**	2011
RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
1,304,320	1,304,320	**6,510**	6,510	**1,310,830**	1,310,830

Assumptions were used in the value in use calculation for 31 December 2012 and 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on utilisation of aircraft, market development and discount rates are consistent with external information sources.

With regard to the assessment of value in use of the Shenzhen Airlines cash-generating unit, the Company's directors believe that no reasonably possible change in any of the above key assumption on which the management has based its determination of the unit's recoverable amount, would cause the carrying value of the unit to materially exceed its recoverable amount.

20 INTERESTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted investments, at cost	**17,823,911**	17,343,911
Due from subsidiaries *(note 53)*	**1,737,849**	1,296,115
Due to subsidiaries *(note 53)*	**(547,698)**	(397,288)
	19,014,062	18,242,738

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

20 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong	Limited liability company	HK$400,000,000	69	31	Investment holding
Air China Group Import and Export Trading Co. ("AIE") (國航進出口有限公司)	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Air Services Co., Ltd.# (浙江航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai Air China Aviation Service Co., Ltd.# (上海國航航空服務有限公司)	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd.# (北京金鳳凰人力資源服務有限公司)	PRC/Mainland China	Limited liability company	RMB1,700,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited ("Air Macau") (澳門航空股份有限公司)	Macau	Limited liability company	MOP442,042,000	–	67	Airline operator
Angel Paradise Limited	British Virgin Islands	Limited liability company	US$10	–	100	Investment holding
Air China Cargo (中國國際貨運航空有限公司)	PRC/Mainland China	Limited liability company	RMB3,235,294,118	51	–	Provision of cargo carriage services

20 INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2012 are as follows: (Continued)

Company name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Chengdu Falcon Aircraft Engineering Service Co., Ltd.# ("Chengdu Falcon") (成都富凱飛機工程服務有限公司)	PRC/Mainland China	Limited liability company	RMB37,565,216	60	–	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB812,500,000	51	–	Airline operator
Shenzhen Jingpeng Industrial & Trading Co., Ltd# (深圳金鵬工貿有限責任公司)	PRC/Mainland China	Limited liability company	RMB20,000,000	–	100	Tickets agent
Shenzhen Kunpeng International Flight Academy# (深圳鯤鵬國際飛行學校)	PRC/Mainland China	Private non-enterprise organisation	RMB3,000,000	–	100	Flight academy
Kunming Airlines Co., Ltd (昆明航空有限公司)#	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines Co., Ltd# (北京航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines Co., Ltd# (大連航空有限責任公司)	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2012 or formed a substantial portion of the net assets of the Group at 31 December 2012. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

21 INTERESTS IN JOINT VENTURES

	Company 2012 RMB'000	Company 2011 RMB'000
Unlisted investments, at cost	**856,076**	856,076

Particulars of the joint ventures of the Group at 31 December 2012 are as follows:

Company name	Place of incorporation/ registration and operations	Issued capital	Percentage of Ownership Interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Aircraft Maintenance and Engineering Corporation, Beijing (北京飛機維修工程有限公司)	PRC/Mainland China	US$187,533,000	60	57.1	60	Provision of aircraft and engine overhaul and maintenance services
SkyWorks Capital Asia Ltd.	Hong Kong	HK$30	33.3	33.3	33.3	Provision of financial services
ACT Cargo (USA), Inc.	United States	US$500,000	51	55.6	51	Cargo forwarding agent
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	28.6	39	Provision of cargo carriage services
Jade Cargo International Company Limited# (翡翠國際航空貨運有限責任公司)	PRC/Mainland China	RMB245,662,126	51	50	51	Provision of cargo carriage services
Sichuan Services Aero-Engine Maintenance Company (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$71,900,000	60	60	60	Provision of engine overhaul and maintenance services

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

21 INTERESTS IN JOINT VENTURES (Continued)

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current assets	**1,486,874**	1,638,867
Non-current assets	**2,169,574**	2,363,194
Current liabilities	**(3,807,070)**	(3,769,877)
Non-current liabilities	**(255,866)**	(236,924)
Net liabilities attributable to the Group	**(406,488)**	(4,740)
Revenue	**2,755,055**	3,662,589
Operating expenses	**(2,906,717)**	(4,378,855)
Finance revenue	**6,354**	36,869
Finance costs	**(156,439)**	(102,267)
Loss before tax attributable to the Group	**(301,747)**	(781,664)
Tax	**(33,362)**	(32,303)
Loss for the year attributable to the Group	**(335,109)**	(813,967)

22 INTERESTS IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed shares in Mainland China, at cost	**–**	–	**163,477**	163,477
Unlisted investments, at cost	**–**	–	**602,671**	534,615
Share of net assets	**11,054,120**	10,628,510	**–**	–
Goodwill on acquisition	**2,914,352**	2,886,729	**–**	–
Due from associates *(note 53)*	**301,556**	16,022	**1,344**	5,652
Due to associates *(note 53)*	**(232,665)**	(134,230)	**(54,596)**	(57,378)
	14,037,363	13,397,031	**712,896**	646,366
Market value of listed shares			**974,016**	1,267,595

As at 31 December 2012, the listed shares in an associate of the Group with an aggregate market value of approximately RMB4,604 million (2011: RMB4,312 million) were pledged to secure certain bank loans of the Group (note 37(b)).

22 INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2012 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered/issued share capital	Percentage of equity interests attributable to the Group	Principal activities
Cathay Pacific* △ (國泰航空有限公司)	Hong Kong	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Corporation ("Shandong Aviation")△ (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd.△ (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
China National Aviation Finance Co., Ltd. ("CNAF")**△ (中國航空集團財務有限責任公司)	PRC/Mainland China	RMB505,269,500	23.5	Provision of financial services
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance Services Co., Ltd.△ (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Provision of aircraft overhaul and maintenance services
CAAC Cares Chongqing Co., Ltd.△ (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB9,800,000	24.5	Provision of airline-related information system services
Chengdu CAAC Southwest Cares Co., Ltd.△ # (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
Zhengzhou Aircraft Maintenance Engineering Co., Ltd*△ # (鄭州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	Provision of aircraft overhaul and maintenance services
Xizang Airlines Co., Ltd.△ # ("Xizang Airlines") (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator

22 INTERESTS IN ASSOCIATES (Continued)

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

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

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

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

During the year, the Company acquired the equity interest of Xizang Airlines on October 16 2012.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2012. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Total assets	**149,648,744**	129,918,794
Total liabilities	**(98,015,975)**	(80,257,773)
Revenue	**93,434,027**	92,402,939
Net profits	**1,734,885**	5,756,881

Movements in goodwill are as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
As at 1 January	**2,886,729**	2,886,729
Acquisition of an associate	**27,623**	–
As at 31 December	**2,914,352**	2,886,729

23 AVAILABLE-FOR-SALE INVESTMENTS

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

24 DEFERRED TAX ASSETS AND LIABILITIES

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
As at 1 January	**1,213,030**	1,006,227	**136,000**	128,387
Charge for the year *(note 11)*	**348,394**	206,803	**74,441**	7,613
Gross deferred tax liabilities as at 31 December	**1,561,424**	1,213,030	**210,441**	136,000
Deferred tax assets:				
As at 1 January	**3,077,502**	2,193,002	**2,261,490**	1,515,000
Charge for the year *(note 11)*	**(243,167)**	884,500	**(237,334)**	746,490
Gross deferred tax assets as at 31 December	**2,834,335**	3,077,502	**2,024,156**	2,261,490
Net deferred assets as at 31 December	**1,272,911**	1,864,472	**1,813,715**	2,125,490

24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
Unrealised exchange gain	**(67,898)**	(95,000)	**(67,898)**	(95,000)
Depreciation allowance in excess of the related depreciation	**(1,387,421)**	(1,065,671)	**(142,543)**	(41,000)
Others	**(106,105)**	(52,359)	**–**	–
Gross deferred tax liabilities	**(1,561,424)**	(1,213,030)	**(210,441)**	(136,000)
Deferred tax assets:				
Differences in value of property, plant and equipment	**35,671**	20,490	**35,671**	20,490
Provisions and accruals	**1,945,829**	2,054,513	**1,280,329**	1,481,000
Tax losses to offset against future taxable income	**–**	128,043	**–**	–
Unrealised loss on derivative financial instruments	**21,594**	44,000	**21,594**	44,000
Impairment	**779,525**	759,456	**634,846**	645,000
Government grants and subsidies	**51,716**	71,000	**51,716**	71,000
Gross deferred tax assets	**2,834,335**	3,077,502	**2,024,156**	2,261,490
Net deferred tax assets	**1,272,911**	1,864,472	**1,813,715**	2,125,490

Deferred tax assets not recognised are as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Tax losses	**3,397,309**	1,918,547
Deductible temporary differences	**1,138,050**	937,770
	4,535,359	2,856,317

The Group has no tax losses arising from operations outside Mainland China (2011: RMB177,444,000). The Group has tax losses arising from the operation in Mainland China of RMB3,397,309,000 (2011: RMB1,741,103,000) that will expire in five financial years from the year of incurrence for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

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

25 AIRCRAFT AND FLIGHT EQUIPMENT HELD FOR SALE

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**92,487**	303,736	**77,211**	259,552
Disposals	**(92,487)**	(278,103)	**(77,211)**	(259,552)
Reclassification from property, plant and equipment during the year *(note 15)*	**615,476**	183,904	**34,661**	168,721
	615,476	209,537	**34,661**	168,721
Impairment	**(22,779)**	(117,050)	**(3,259)**	(91,510)
As at 31 December	**592,697**	92,487	**31,402**	77,211

The movements in the provision for impairment of aircraft and flight equipment held for sale are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**(117,050)**	(226,054)	**(91,510)**	(185,992)
Disposals	**117,050**	202,688	**91,510**	185,992
Reclassification to property, plant and equipment during the year	**–**	5,985	**–**	–
Provision during the year *(note 7)*	**(22,779)**	(99,669)	**(3,259)**	(91,510)
As at 31 December	**(22,779)**	(117,050)	**(3,259)**	(91,510)

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

26 INVENTORIES

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts of flight equipment	**1,347,446**	1,365,272	**651,419**	705,170
Work in progress	**229,534**	388,785	**3,198**	4,409
Catering supplies	**60,444**	56,263	**57,587**	52,967
	1,637,424	1,810,320	**712,204**	762,546

27 ACCOUNTS RECEIVABLE

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Accounts receivable	**3,100,088**	2,772,518	**1,299,025**	1,270,164
Impairment	**(90,329)**	(71,787)	**(41,978)**	(45,568)
	3,009,759	2,700,731	**1,257,047**	1,224,596

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 of 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. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

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

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Within 30 days	**2,477,466**	2,276,060	**1,072,472**	1,071,345
31 to 60 days	**264,837**	240,373	**48,232**	113,422
61 to 90 days	**95,531**	70,295	**50,439**	20,962
Over 90 days	**171,925**	114,003	**85,904**	18,867
	3,009,759	2,700,731	**1,257,047**	1,224,596

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

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Joint ventures	**2,368**	2,171	**–**	–

27 ACCOUNTS RECEIVABLE (Continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**71,787**	69,389	**45,568**	48,608
Impairment losses recognised *(note 7)*	**38,675**	14,751	**1,247**	4,910
Amount reversed *(note 7)*	**(18,986)**	(10,980)	**(3,736)**	(7,516)
Amount written off	**(1,147)**	(1,373)	**(1,101)**	(434)
As at 31 December	**90,329**	71,787	**41,978**	45,568

As at 31 December 2012, accounts receivable with a nominal value of RMB24,262,127 (2011: RMB23,502,809) were impaired and fully provided for. The individually impaired accounts receivable relate to customers that were in financial difficulties and the probability to recover these receivables is remote.

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**959,388**	745,572	**645,804**	530,519
Less than 3 moths past due	**64,001**	62,082	**49,934**	54,744
More than 3 months past due	**46,153**	28,214	**21,482**	28,056
	1,069,542	835,868	**717,220**	613,319

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

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

28 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:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments				
Advances and others	**517,287**	352,116	**259,675**	180,512
Manufacturers' credits	**1,398,954**	827,013	**1,287,200**	696,135
Prepaid aircraft operating lease rentals	**315,326**	283,012	**152,461**	147,828
	2,231,567	1,462,141	**1,699,336**	1,024,475
Deposits and other receivables	**1,743,413**	1,235,051	**1,069,145**	616,678
	3,974,980	2,697,192	**2,768,481**	1,641,153

The movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**3,545,565**	3,312,082	**–**	–
Impairment losses recognised *(note 7)*	**36,121**	294,771	**–**	–
Amount reversed *(note 7)*	**(800,286)**	(55,189)	**–**	–
Amount written off	**(97)**	(5,990)	**–**	–
Exchange realignment	**1**	(109)	**–**	–
As at 31 December	**2,781,304**	3,545,565	**–**	–

At the end of each reporting period, the Group would assess the collectability of the receivables and provision will be made if necessary. For those receivables which are individually significant and the possibility of recoverable is remote, full impairment will be provided. Should further information obtained in subsequent periods indicate the receivables could be collected partially or entirely, the provision would be partially or entirely reversed accordingly.

As at 31 December 2012, the gross amount due from Shenzhen Airlines Property Development Co., Ltd. ("Shenzhen Property"), an associate of Shenzhen Airlines Company Limited ("Shenzhen Airlines", a subsidiary of the Group), and its subsidiaries was RMB995,819,000 (31 December 2011: RMB995,819,000). On 30 November 2009, all bank accounts of Shenzhen Property and one of its subsidiaries were frozen.

28 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Full provisions for the above receivables were made in 2010. After assessing the collectability of the receivables as at 31 December 2012, the provision for receivables due from one of its subsidiary of RMB300,000,000 was reversed. As at 31 December 2012, the provision for receivables from Shenzhen Property and its subsidiaries was RMB695,819,000 (31 December 2011: RMB995,819,000). Should the bank accounts be released and Shenzhen Property and its subsidiaries be able to repay the receivables partially or entirely, the provision for the receivables from Shenzhen Property and its subsidiaries might be partially or wholly reversed in future accounting periods, which would have impact on the financial statements of the Group.

As at 31 December 2012, the gross amount due from Shenzhen Huirun Investment Co., Ltd ("Huirun") was RMB1,520,700,000 (31 December 2011: RMB2,020,700,000). Shenzhen Airlines made full provision for the receivables in 2010. In December 2012, after receiving "the notice of declaration of the right of offset" issued by the Trustee in Bankruptcy of Huirun, Shenzhen Airlines exercised its right of offset the amounts due to Huirun amounting RMB500,000,000 and then reversed the provision for receivables amounting RMB500,000,000. As at 31 December 2012, the provision for receivables from Huirun was RMB1,520,700,000 (31 December 2011: RMB2,020,700,000).

29 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Group			
	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Interest rate swaps	**3,817**	**120,413**	3,549	223,137
Listed equity securities	**8,854**	**–**	8,595	–
	12,671	**120,413**	12,144	223,137

	Company			
	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Interest rate swaps	**–**	**86,375**	–	176,167
	–	**86,375**	–	176,167

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

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.

30 ENTRUSTED LOANS

	Company 2012 RMB'000	Company 2011 RMB'000
Short term entrusted loans	–	2,200,000

31 BALANCES WITH RELATED COMPANIES

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

32 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**4,640,588**	4,963,512	**688,679**	997,004
Cash placed with CNAF	**72,528**	116,374	**71,969**	116,072
Total cash and bank balances	**4,713,116**	5,079,886	**760,648**	1,113,076
Time deposits placed with banks	**6,287,560**	7,080,051	**1,952,847**	3,254,047
Time deposits placed with CNAF	**1,850,000**	3,430,000	**1,850,000**	3,430,000
Total time deposits	**8,137,560**	10,510,051	**3,802,847**	6,684,047
Less: Pledged deposits against:				
– Aircraft operating leases and financial derivatives	**(123,561)**	(130,133)	**–**	–
– Bank loans *(note 37(c))*	**(663,317)**	–	**(663,317)**	–
– Others	**(16,063)**	(2,432)	**–**	–
Total pledged deposits	**(802,941)**	(132,565)	**(663,317)**	–
Non-pledged deposits	**7,334,619**	10,377,486	**3,139,530**	6,684,047
Cash and cash equivalents	**12,047,735**	15,457,372	**3,900,178**	7,797,123

32 PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (Continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-pledged time deposits with original maturity of:				
Less than 3 months when acquired	**5,616,023**	5,703,587	**2,683,036**	3,437,748
Over 3 months when acquired	**1,718,596**	4,673,899	**456,494**	3,246,299
	7,334,619	10,377,486	**3,139,530**	6,684,047

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

33 ACCOUNTS PAYABLE

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**6,639,845**	7,560,307	**3,718,945**	4,416,387
31 to 60 days	**663,120**	889,164	**253,191**	489,726
61 to 90 days	**555,944**	459,248	**393,376**	223,784
Over 90 days	**1,496,010**	1,508,467	**1,183,223**	1,425,530
	9,354,919	10,417,186	**5,548,735**	6,555,427

Included in the accounts payable as at the end of the reporting period is the following amount due to joint ventures (note 53):

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Joint ventures	**191,462**	230,618	**360,335**	416,426

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

34 BILLS PAYABLE

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
31 to 60 days	**1,503**	–

35 OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for staff housing benefits	**32,487**	31,670	**30,228**	29,411
Accrued salaries, wages and benefits	**2,612,410**	2,976,406	**1,243,063**	1,848,473
Interest payable	**508,875**	414,891	**311,029**	336,128
Business tax, customs duties and levies tax payable	**608,886**	1,232,824	**186,296**	753,001
Current portion of long term payables *(note 39)*	**78,284**	14,663	**–**	1,524
Current portion of deferred income related to the frequent-flyer programme *(note 40(a))*	**308,014**	310,675	**177,607**	180,032
Current portion of deferred income related to government grants *(note 40(b))*	**122,219**	223,759	**122,219**	223,759
Deposits received from sales agents	**863,266**	1,050,290	**470,555**	461,229
Accrued operating expenses	**1,525,748**	1,719,619	**820,604**	805,758
Receipts in advance for employee residence	**1,889,506**	1,862,804	**–**	–
Due to a non-controlling shareholder of a subsidiary	**207,787**	707,787	**–**	–
Land lease payable	**256,538**	256,538	**–**	–
Others	**1,678,760**	2,013,849	**335,396**	906,815
	10,692,780	12,815,775	**3,696,997**	5,546,130

Included in the other payables and accruals as at the end of the reporting period is the following amount due to joint ventures (note 53):

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Joint ventures	**3,240**	5,311	**1,546**	1,279

36 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company have obligations under finance lease agreements expiring during the years from 2013 to 2024 (2011: 2013 to 2023) in respect of aircraft. An analysis of the future minimum lease payments under these finance leases as at the end of the reporting period, together with the present values of the net minimum lease payments which are principally denominated in foreign currencies, is as follows:

Group

	Minimum lease payments 2012 *RMB'000*	**Present values of minimum lease payments 2012** *RMB'000*	Minimum lease payments 2011 *RMB'000*	Present values of minimum lease payments 2011 *RMB'000*
Amounts repayable:				
Within one year	**3,891,075**	**3,476,572**	2,872,990	2,687,925
In the second year	**3,950,503**	**3,587,292**	2,880,384	2,713,995
In the third to fifth years, inclusive	**11,644,866**	**10,801,502**	8,936,842	8,564,818
Over five years	**11,646,818**	**11,087,813**	8,153,488	7,913,047
Total minimum finance lease payments *(notes 50 and 52)*	**31,133,262**	**28,953,179**	22,843,704	21,879,785
Less: Amounts representing finance charges	**(2,180,083)**		(963,919)	
Present value of minimum lease payments	**28,953,179**		21,879,785	
Less: Portion classified as current liabilities	**(3,476,572)**		(2,687,925)	
Non-current portion	**25,476,607**		19,191,860	

36 OBLIGATIONS UNDER FINANCE LEASES (Continued)

Company

	Minimum lease payments 2012 RMB'000	Present values of minimum lease payments 2012 RMB'000	Minimum lease payments 2011 RMB'000	Present values of minimum lease payments 2011 RMB'000
Amounts repayable:				
Within one year	3,657,710	3,326,631	2,629,613	2,505,900
In the second year	3,731,010	3,440,048	2,713,735	2,596,827
In the third to fifth years, inclusive	11,023,691	10,339,324	8,543,050	8,278,176
Over five years	10,974,625	10,491,213	7,741,847	7,553,122
Total minimum finance lease payments *(notes 50 and 52)*	29,387,036	27,597,216	21,628,245	20,934,025
Less: Amounts representing finance charges	(1,789,820)		(694,220)	
Present value of minimum lease payments	27,597,216		20,934,025	
Less: Portion classified as current liabilities	(3,326,631)		(2,505,900)	
Non-current portion	24,270,585		18,428,125	

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

As at 31 December 2012, there were 113 (2011: 90) aircraft under finance lease agreements. Under the terms of the leases, the Company has the option to purchase these aircraft, at the end of or during the lease terms, at market value or at the price as stipulated in the finance lease agreements. The effective borrowing rates during the current year ranged from -1.17% to 6.55% (2011: -1.51% to 7.05%) per annum.

The Group's finance leases were secured by mortgages over certain of the Group's aircraft, which had an aggregate net carrying amount of approximately RMB45,482 million (2011: RMB34,762 million) (note 15).

The Company's finance leases were secured by mortgages over certain of the Company's aircraft, which had an aggregate net carrying amount of approximately RMB43,715 million (2011: RMB33,491 million).

37 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**26,664,412**	26,430,507	**11,313,540**	10,874,464
Unsecured	**30,501,081**	31,095,287	**24,268,189**	28,679,731
	57,165,493	57,525,794	**35,581,729**	39,554,195
Other loans:				
Secured	**150,000**	210,000	**–**	–
Unsecured	**2,128,857**	800,000	**–**	–
	2,278,857	1,010,000	**–**	–
Corporate bonds – unsecured	**13,500,000**	9,000,000	**13,500,000**	9,000,000
	72,944,350	67,535,794	**49,081,729**	48,554,195
Bank loans repayable:				
Within one year	**27,001,333**	24,277,313	**17,148,237**	18,383,897
In the second year	**12,119,568**	9,437,746	**9,998,594**	7,436,853
In the third to fifth years, inclusive	**8,783,607**	13,906,847	**3,444,267**	8,441,328
Over five years	**9,260,985**	9,903,888	**4,990,631**	5,292,117
	57,165,493	57,525,794	**35,581,729**	39,554,195
Other loans repayable:				
Within one year	**2,188,857**	860,000	**–**	–
In the second year	**60,000**	60,000	**–**	–
In the third to fifth years, inclusive	**30,000**	90,000	**–**	–
	2,278,857	1,010,000	**–**	–
Corporate bonds:				
Within one year	**1,500,000**	3,000,000	**1,500,000**	3,000,000
In the second year	**3,000,000**	–	**3,000,000**	–
In the third to fifth years, inclusive	**3,000,000**	6,000,000	**3,000,000**	6,000,000
Over five years	**6,000,000**	–	**6,000,000**	–
	13,500,000	9,000,000	**13,500,000**	9,000,000
Total bank loans, other loans and corporate bonds	**72,944,350**	67,535,794	**49,081,729**	48,554,195
Less: Portion classified as current liabilities	**(30,690,190)**	(28,137,313)	**(18,648,237)**	(21,383,897)
Non-current portion	**42,254,160**	39,398,481	**30,433,492**	27,170,298

37 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

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

Nature	Interest rate and final maturity	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
RMB denominated loans and corporate bonds:					
Loans for purchases of aircraft and flight equipment	Floating interest rates ranging from 5.76% to 7.92% (2011: 6.0003% to 8.23%) per annum, with maturity up until 2023	**4,607,267**	5,067,421	**–**	–
Loans for working capital	Fixed interest rates ranging from 5.04% to 6.89% (2011: 5.49% to 7.22%) per annum, with maturity up until 2013	**3,532,000**	582,957	**–**	–
Loans for working capital	Floating interest rates from 5.04% to 6.63% (2011: 5.49% to 7.22%) per annum, with maturity up until 2015	**3,970,816**	2,199,482	**–**	–
Corporate bonds for purchases of aircraft and flight equipment	Fixed interest rate at 4.50% (2011: 4.50%) per annum, with maturity up until 2015	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Corporate bonds for working capital	Fixed interest rates ranging from 3.48% to 4.99% (2011: 3.32% to 3.48%) per annum, with maturity up until 2019	**10,500,000**	6,000,000	**10,500,000**	6,000,000
		25,610,083	16,849,860	**13,500,000**	9,000,000

37 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
United States dollar ("US$") denominated loans:					
Loans for purchases of aircraft and flight equipment	Fixed interest rates at 3.80% (2011: 3.80% to 8.33%) per annum, with maturity up until 2019	**191,519**	372,446	**191,519**	372,446
Loans for purchases of aircraft and flight equipment	Floating interest rate at one-month LIBOR+1.40% and three-month LIBOR +0.45% to three-month LIBOR +3.95% and six-month LIBOR+0.50% to six-month LIBOR+5.55% and twelve-month LIBOR +0.80% (2011: three-month LIBOR+0.50% to three-month LIBOR +4.80% and six-month LIBOR+0.45% to six-month LIBOR+5.50% and twelve-month LIBOR +1.60%) per annum, with maturity up until 2023	**30,222,540**	29,877,797	**19,946,113**	20,012,107
Loans for working capital	Floating interest rates ranging from two-month LIBOR+1.5% and three-month LIBOR+ 0.75% to three-month LIBOR+ 3.10% and six-month LIBOR+2.22% to six-month LIBOR+4.30% and twelve-month LIBOR+3.6% and BTMULIBOR+1.5% (2011: three-month LIBOR+ 0.50% to six-month LIBOR+2.60%) per annum, with maturity up until 2014	**16,274,731**	14,808,461	**14,930,616**	13,872,755
Loans for working capital	Fixed interest rates ranging from 1.446% to 2.544%(2011: 3.61% to 6.24%) per annum, with maturity up until 2013	**131,996**	330,343	**–**	–
		46,820,786	45,389,047	**35,068,248**	34,257,308

37 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

Nature	Interest rate and final maturity	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Hong Kong dollar denominated loans:					
Loans for capital investment	Floating interest rates at three-month HIBOR+0.45% (2011: three-month HIBOR+0.45% to six-month HIBOR+0.85%) per annum, with maturity up until 2013	**340,557**	5,112,274	**340,557**	5,112,274
		340,557	5,112,274	**340,557**	5,112,274
Euros denominated loans:					
Loans for purchase of related equipment	Fixed interest rate at 3.88% (2011: 3.88%) per annum, with maturity up until 2013	**172,924**	184,613	**172,924**	184,613
		172,924	184,613	**172,924**	184,613
Total bank and other borrowings		**72,944,350**	67,535,794	**49,081,729**	48,554,195
Less: Portion falling due within one year and classified as current liabilities		**(30,690,190)**	(28,137,313)	**(18,648,237)**	(21,383,897)
Non-current portion		**42,254,160**	39,398,481	**30,433,492**	27,170,298

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

The Group's bank and other loans of approximately RMB26,814 million as at 31 December 2012 (2011: RMB26,590 million) were secured by:

(a) mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB35,041 million as at 31 December 2012 (2011: RMB37,482 million) (note 15); and land use rights with an aggregate carrying amount of approximately RMB38 million as at 31 December 2012 (2011: RMB40 million) (note 16); and

(b) the pledge of a certain number of listed shares in an associate of the Group with an aggregate market value of approximately RMB4,604 million as at 31 December 2012 (2011: RMB4,312 million) (note 22); and

(c) the pledged time deposit with an amount of approximately RMB663 million as at 31 December 2012 (2011: Nil) (note 32); and

(d) there was no guarantee by any commercial banks as at 31 December 2012 (2011: RMB374 million).

37 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

The Company's bank and other loans of approximately RMB10,344 million as at 31 December 2012 (2011: RMB9,949 million) were secured by:

(e) mortgages over certain of the Company's aircraft and buildings with an aggregate net book value of approximately RMB12,763 million as at 31 December 2012 (2011: RMB14,304 million); and land use rights with an aggregate carrying amount of approximately RMB33 million as at 31 December 2012 (2011: RMB34 million); and

(f) There was no guarantee provided by certain commercial banks as at 31 December 2012 (2011: RMB374 million).

As at 31 December 2012, there was no PRC state-owned banks provided counter-guarantees (2011: RMB275 million) to one of the above-mentioned commercial banks.

38 PROVISION FOR MAJOR OVERHAULS

Details of the movements in provision for major overhauls in respect of aircraft and engines under operating leases at the end of the reporting period are as follows:

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**3,085,417**	2,608,778	**1,616,307**	1,349,927
Provision for the year	**1,346,050**	1,212,002	**543,256**	509,995
Utilisation during the year	**(986,292)**	(723,988)	**(412,276)**	(243,615)
Derecognition of a joint venture	**–**	(11,375)	**–**	–
As at 31 December	**3,445,175**	3,085,417	**1,747,287**	1,616,307
Less: Portion classified as current liabilities	**(699,849)**	(589,123)	**(258,848)**	(235,964)
Non-current portion	**2,745,326**	2,496,294	**1,488,439**	1,380,343

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

39 LONG TERM PAYABLES

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Customs duties and value-added tax payable in respect of acquisition of aircraft and flight equipment under finance leases	**–**	2,167	**–**	2,167
Non-voting redeemable preference shares of a subsidiary	**156,080**	157,417	**–**	–
Others	**103,348**	86,140	**–**	–
	259,428	245,724	**–**	2,167
Less: Portion classified as current liabilities *(note 35)*	**(78,284)**	(14,663)	**–**	(1,524)
Non-current portion	**181,144**	231,061	**–**	643

40 DEFERRED INCOME

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Frequent-flyer programme *(a)*	**2,625,419**	2,381,596	**1,691,359**	1,669,967
Government grants *(b)*	**763,187**	970,300	**755,621**	961,101
Gain on sale and leaseback arrangements	**74,144**	83,382	**–**	–
Operating lease rebates	**20,161**	23,860	**–**	–
	3,482,911	3,459,138	**2,446,980**	2,631,068

40 DEFERRED INCOME (Continued)

(a) The movements in deferred income related to the Group's frequent-flyer programme during the year are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 1 January	**2,692,271**	2,117,805	**1,849,999**	1,450,310
Arising during the year	**1,794,227**	1,482,066	**1,450,148**	1,166,972
Recognised as air traffic revenue during the year	**(1,553,065)**	(907,600)	**(1,431,181)**	(767,283)
As at 31 December	**2,933,433**	2,692,271	**1,868,966**	1,849,999
Less: Portion classified as current liabilities *(note 35)*	**(308,014)**	(310,675)	**(177,607)**	(180,032)
Non-current portion	**2,625,419**	2,381,596	**1,691,359**	1,669,967

(b) The movements in deferred income related to government grants during the year are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income:				
As at 1 January	**2,284,368**	2,284,368	**2,253,357**	2,253,357
Addition	**750**	–	**–**	–
Adjustment on previously recognised deferred income	**(84,089)**	–	**(84,089)**	–
As at 31 December	**2,201,029**	2,284,368	**2,169,268**	2,253,357
Accumulated income recognised:				
As at 1 January	**(1,090,309)**	(816,261)	**(1,068,497)**	(797,951)
Recognised as other operating revenue during the year *(note 5)*	**(192,580)**	(240,486)	**(190,197)**	(236,984)
Recognised as air traffic revenue during the year	**(32,734)**	(33,562)	**(32,734)**	(33,562)
As at 31 December	**(1,315,623)**	(1,090,309)	**(1,291,428)**	(1,068,497)
Net carrying amount	**885,406**	1,194,059	**877,840**	1,184,860
Less: Portion classified as current liabilities *(note 35)*	**(122,219)**	(223,759)	**(122,219)**	(223,759)
Non-current portion	**763,187**	970,300	**755,621**	961,101

41 SHARE CAPITAL

The number of shares of the Company and their nominal values as at 31 December 2012 and 31 December 2011 are as follows:

	Number of shares 2012	**Nominal value 2012** ***RMB'000***	Number of shares 2011	Nominal value 2011 *RMB'000*
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
Tradable	**8,199,737,630**	**8,199,738**	8,199,737,630	8,199,738
Trade-restricted*	**129,533,679**	**129,534**	129,533,679	129,534
	12,891,954,673	**12,891,955**	12,891,954,673	12,891,955

* The trade-restricted shares were issued on 12 November 2010.

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.

42 TREASURY SHARES

As at 31 December 2012, the Group owned a 29.99% equity interest in Cathay Pacific, which in turn owned a 19.57% 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.

43 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Company

	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
As at I January 2011	16,803,307	2,168,710	6,291,459	25,263,476
Total comprehensive income for the year *(note12)*	–	–	6,523,066	6,523,066
Final dividend declared	–	–	(1,523,829)	(1,523,829)
Appropriation of statutory reserve fund	–	679,126	(679,126)	–
Appropriation of discretionary reserve fund	–	614,386	(614,386)	–
As at 31 December 2011 and 1 January 2012	16,803,307	3,462,222	9,997,184	30,262,713
Total comprehensive income for the year *(note12)*	–	–	3,950,024	3,950,024
Final dividend declared	–	–	(1,521,251)	(1,521,251)
Appropriation of statutory reserve fund	–	421,943	(421,943)	–
Appropriation of discretionary reserve fund	–	679,126	(679,126)	–
As at 31 December 2012	**16,803,307**	**4,563,291**	**11,324,888**	**32,691,486**

44 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.

44 SHARE APPRECIATION RIGHTS (Continued)

The exercise period of all SARs commences after a vesting period and ends on a date which is not later than five years from the date of grant of the SARs. The exercise price of SARs will be equal to the average closing price of the Company's H shares on the HKSE for the five consecutive trading days immediately preceding the date of the grant. On 15 June 2007, 14,939,900 SARs were granted to a total of 109 individuals at an exercise price of HK$2.98 per share. As at each of the 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 last 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 "Share 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 authorise the exercise of 70% of the SARs already vested during a special window period within 60 trading days after the annual general meeting. According to the revised plan, the exercise price was adjusted to the fair value at the date of the grant, which was HK$5.97 per share. While dividends have been declared for three times after the grant date, the exercise price was adjusted to HK$5.70 per share as at 31 December 2011.

Based on a board resolution the special window period for the exercise of the 70% vested SARs was from 19 July 2011 to 22 July 2011 and the date of 25 July 2011. 70% of SARs were vested and settled at a price of HK$7.85 per share. As the average prices for the remaining 30% of SARs during the two window periods did not exceeded the exercise price of HK$5.70, the remaining 30% of SARs were not exercised and lapsed. As at 31 December 2012, none of the SARs granted remained unexercised.

On 5 December 2012, the plan to issue the second batch of SARs was approved by the State-owned Assets Supervision and Administration Commission. A board resolution was passed on 6 Feb 2013 to approve the "Share Appreciation Rights Management Rules of Air China Limited" (Revised) and the detailed arrangement of the second batch of SARs, which are subject to shareholders' approval in general meeting.

45 DISTRIBUTABLE RESERVES

As at 31 December 2012, in accordance with the PRC Company Law, an amount of approximately RMB20,112 million (2011: RMB20,112 million) standing to the credit of the Company's capital reserve account, and an amount of approximately RMB4,141 million (2011: RMB3,462 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained earnings of approximately RMB11,522 million available for distribution as at 31 December 2012.

46 MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into several finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately RMB10,104 million (2011: RMB6,872 million).

47 CONTINGENT LIABILITIES

As at 31 December 2012, 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 26 February 2007, the Eastern District Court of New York of the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo, claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations in the United States by acting in concert in imposing excessive surcharges to impede the offering of discounts and allocating revenue and customers so as to increase, maintain and stabilise air cargo prices. In 2012, the Company only did the preparation work for inquiry, and 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 of the view that the ultimate outcome of this claim cannot be reliably estimated and consider that no provision for this claim is needed accordingly.

(c) On 17 November 2009, Airport City Development Co., Ltd. ("Airport City Development") commenced proceedings involving approximately RMB224 million against the Company, Air China Cargo and Air China International Corporation, for the unlawful use of land owned by Airport City Development. In 2012, Airport City Development and the Company are in the stage of reconciliation and the Directors of the Company are of the view that the ultimate outcome of this claim cannot be reliably estimated and consider that no provision for this claim is needed accordingly.

(d) In May 2011, Shenzhen Airlines received a summon issued by the Higher People's Court of Guangdong Province in respect of a guarantee provided by Shenzhen Airlines on loans borrowed by Huirun from a third party amounting to RMB390,000,000. 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 favor of the third party for the loans borrowed by Huirun. The proceeding is still in the preliminary stage and therefore the Directors consider that the provision of RMB130,000,000 which was provided in October 2011 in respect of this legal claim is adequate, and has been included in the year-end consolidated financial statements of 2012.

(e) Shenzhen Airlines 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 31 December 2012, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB547,015,640 (31 December 2011: RMB559,992,568) and for pilot trainees' tuition loans amounting to RMB346,954,579 (31 December 2011: RMB341,945,016).

(f) Shenzhen Airlines is a co-lessee under certain aircraft operating lease contracts (the "Lease Contracts") entered into by a company in which Shenzhen Airlines has interests. Under the Lease Contracts, Shenzhen Airlines is obligated to bear the lease payments if the other co-obligor fails to fulfil its obligations. According to the Lease Contracts, the monthly operating lease payment is US$823,147 (approximately RMB5,173,890). The Lease Contracts will expire before June 2021.

48 OPERATING LEASE ARRANGEMENTS

As lessee:

The Group and the Company lease 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 and the Company had the following future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**3,904,955**	3,757,269	**2,661,068**	2,393,463
In the second to fifth years, inclusive	**18,060,858**	8,928,590	**4,730,749**	4,951,990
Over five years	**5,345,693**	4,219,950	**4,684,494**	2,383,820
	27,311,506	16,905,809	**12,076,311**	9,729,273

Included in the above commitments, the Group had the following minimum lease payments under non-cancellable operating leases toward an associate and related companies:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Associate	**458,504**	570,132
Related companies	**101**	255

As lessor:

Operating lease of investment properties

Air China Cargo, a subsidiary of the Group, leases its building and has a lease prepayment in Beijing Capital Airport to a third party. The leasing period is from 8 December 2011 to 7 September 2022.

49 COMMITMENTS

(a) Capital commitments

The Group and the Company had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Aircraft and flight equipment	**71,559,127**	93,157,457	**59,834,526**	76,615,258
Buildings	**2,000,105**	2,030,556	**1,610,595**	1,435,349
Others	**139,156**	59,052	**74,900**	23,369
	73,698,388	95,247,065	**61,520,021**	78,073,976
Authorised, but not contracted for:				
Buildings	**1,259,810**	788,805	**706,211**	645,295
Others	**152,500**	163,224	**152,500**	163,224
	1,412,310	952,029	**858,711**	808,519
Total capital commitments *(note 52)*	**75,110,698**	96,199,094	**62,378,732**	78,882,495

Included in the above commitments, the Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment toward an associate and a related company:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Associate	**78,263**	293,000
Related company	**697,444**	1,088,413
	775,707	1,381,413
Authorised, but not contracted for:		
Related company	**609,881**	612,268
	1,385,588	1,993,681

(b) Investment commitment

The Group and the Company had the following amount of investment commitment as at the end of the reporting period:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Associate *(note 52)*	**35,000**	35,000	**117,828**	–

50 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's and the Company's financial instruments approximated to their fair values as at the end of the reporting period. The present value of bank loans and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long term deposits and other financial assets have been discounted to present value based on market interest rates. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2012

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	301,556	–	301,556
Due from related companies	–	10,416	–	10,416
Deposits for aircraft under operating leases	–	443,539	–	443,539
Available-for-sale investment	–	–	45,925	45,925
Accounts and bills receivables	–	3,011,012	–	3,011,012
Financial assets included in deposits and other receivables *(note 28)*	–	1,743,413	–	1,743,413
Financial assets	12,671	–	–	12,671
Due from the ultimate holding company	–	194,077	–	194,077
Pledged deposits	–	802,941	–	802,941
Cash and cash equivalents	–	12,047,735	–	12,047,735
	12,671	18,554,689	45,925	18,613,285

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(232,665)	(232,665)
Accounts and bills payables	–	(9,356,422)	(9,356,422)
Financial liabilities included in other payables and accruals	–	(8,340,554)	(8,340,554)
Financial liabilities	(120,413)	–	(120,413)
Due to related companies	–	(352,349)	(352,349)
Obligations under finance leases *(note 36)*	–	(28,953,179)	(28,953,179)
Interest-bearing bank loans and other borrowings *(note 37)*	–	(72,944,350)	(72,944,350)
	(120,413)	(120,179,519)	(120,299,932)

50 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group

2011

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from associates *(note 22)*	–	16,022	–	16,022
Due from related companies	–	20,194	–	20,194
Deposits for aircraft under operating leases	–	420,854	–	420,854
Available-for-sale investments	–	–	27,182	27,182
Accounts and bills receivables	–	2,702,332	–	2,702,332
Financial assets included in deposits and other receivables *(note 28)*	–	1,235,051	–	1,235,051
Financial assets	12,144	–	–	12,144
Due from the ultimate holding company	–	428,561	–	428,561
Pledged deposits	–	132,565	–	132,565
Cash and cash equivalents	–	15,457,372	–	15,457,372
	12,144	20,412,951	27,182	20,452,277

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to associates *(note 22)*	–	(134,230)	(134,230)
Accounts and bills payables	–	(10,417,186)	(10,417,186)
Financial liabilities included in other payables and accruals	–	(10,386,867)	(10,386,867)
Financial liabilities	(223,137)	–	(223,137)
Due to related companies	–	(190,775)	(190,775)
Obligations under finance leases *(note 36)*	–	(21,879,785)	(21,879,785)
Interest-bearing bank loans and other borrowings *(note 37)*	–	(67,535,794)	(67,535,794)
	(223,137)	(110,544,637)	(110,767,774)

50 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2012

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	1,737,849	–	1,737,849
Due from associates *(note 22)*	–	1,344	–	1,344
Deposits for aircraft under operating leases	–	268,036	–	268,036
Available-for-sale investments	–	–	22,110	22,110
Accounts and bills receivables	–	1,257,047	–	1,257,047
Financial assets included in deposits and other receivables *(note 28)*	–	1,069,145	–	1,069,145
Due from the ultimate holding company	–	194,009	–	194,009
Pledged deposits	–	663,317	–	663,317
Cash and cash equivalents	–	3,900,178	–	3,900,178
	–	9,090,925	22,110	9,113,035

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(547,698)	(547,698)
Due to associates *(note 22)*	–	(54,596)	(54,596)
Accounts and bills payables	–	(5,548,735)	(5,548,735)
Financial liabilities included in other payables and accruals	–	(3,366,943)	(3,366,943)
Financial liabilities	(86,375)	–	(86,375)
Due to related companies	–	(353,196)	(353,196)
Obligations under finance leases *(note 36)*	–	(27,597,216)	(27,597,216)
Interest-bearing bank loans and other borrowings *(note 37)*	–	(49,081,729)	(49,081,729)
	(86,375)	(86,550,113)	(86,636,488)

50 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

2011

Financial assets

	Financial assets at fair value through profit or loss and held for trading *RMB'000*	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Due from subsidiaries *(note 20)*	–	1,296,115	–	1,296,115
Due from associates *(note 22)*	–	5,652	–	5,652
Due from related companies	–	7,803	–	7,803
Deposits for aircraft under operating leases	–	251,729	–	251,729
Available-for-sale investments	–	–	3,366	3,366
Accounts and bills receivables	–	1,224,596	–	1,224,596
Financial assets included in deposits and other receivables *(note 28)*	–	616,678	–	616,678
Due from the ultimate holding company	–	432,267	–	432,267
Cash and cash equivalents	–	7,797,123	–	7,797,123
	–	11,631,963	3,366	11,635,329

Financial liabilities

	Financial liabilities at fair value through profit or loss and held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Due to subsidiaries *(note 20)*	–	(397,288)	(397,288)
Due to associates *(note 22)*	–	(57,378)	(57,378)
Accounts and bills payables	–	(6,555,427)	(6,555,427)
Financial liabilities included in other payables and accruals	–	(5,112,928)	(5,112,928)
Financial liabilities	(176,167)	–	(176,167)
Due to related companies	–	(170,187)	(170,187)
Obligations under finance leases *(note 36)*	–	(20,934,025)	(20,934,025)
Interest-bearing bank loans and other borrowings *(note 37)*	–	(48,554,195)	(48,554,195)
	(176,167)	(81,781,428)	(81,957,595)

51 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

Group

Assets measured at fair value as at 31 December 2012:

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial assets	8,854	3,817	–	12,671

Liabilities measured at fair value as at 31 December 2012:

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial liabilities	–	120,413	–	120,413

During the year ended 31 December 2012, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other loans and corporate bonds, obligations under finance leases, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, mainly including principally swaps contracts. The purpose is to manage interest rate risk arising from the Group's operations.

The Group operates globally and generates revenue in various currencies. The Group's airline operations are exposed to liquidity risk, jet fuel price risk, foreign currency risk, interest rate risk and credit risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance.

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management policies are periodically reviewed and approved by the Board of Directors and they are summarised below.

(a) Liquidity risk

The Group's net current liabilities amounted to approximately RMB36,905 million as at 31 December 2012 (2011: RMB37,978 million). The Group recorded a net cash inflow from operating activities of approximately RMB9,460 million for the year ended 31 December 2012 (2011: RMB19,670 million). For the same period, the Group had a net cash outflow from investing activities of approximately RMB11,529 million (2011: RMB21,669 million). The Group also recorded a net cash inflow from financing activities of approximately RMB1,676 million for the year ended 31 December 2012 (2011: cash outflow of RMB1,432 million). The Group recorded a decrease in cash and cash equivalents of approximately RMB454 million and approximately RMB3,593 million for the years ended 31 December 2012 and 2011, respectively.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB139,152 million as at 31 December 2012 (2011: RMB141,263 million), of which an amount of approximately RMB47,126 million was utilised (2011: RMB49,902 million).

The Directors of the Company had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2012. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group in 2012. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group for the year ended 31 December 2012. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

			2012		
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Due to associates *(note 22)*	**–**	**232,665**	**–**	**–**	**232,665**
Accounts and bills payables	**914,216**	**8,442,206**	**–**	**–**	**9,356,422**
Financial liabilities included in other payables and accruals	**1,472,152**	**6,868,402**	**–**	**–**	**8,340,554**
Financial liabilities	**–**	**120,413**	**–**	**–**	**120,413**
Due to related companies	**–**	**352,349**	**–**	**–**	**352,349**
Obligations under finance leases *(note 36)*	**–**	**3,891,075**	**15,595,369**	**11,646,818**	**31,133,262**
Interest-bearing bank loans and other borrowings	**–**	**30,690,190**	**29,140,590**	**16,806,669**	**76,637,449**
Guarantees *(note 47(e))*	**893,970**	**–**	**–**	**–**	**893,970**
	3,280,338	**50,597,300**	**44,735,959**	**28,453,487**	**127,067,084**

			2011		
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to associates *(note 22)*	–	134,230	–	–	134,230
Accounts and bills payables	561,563	9,855,623	–	–	10,417,186
Financial liabilities included in other payables and accruals	2,955,114	7,431,753	–	–	10,386,867
Financial liabilities	–	223,137	–	–	223,137
Due to related companies	–	190,775	–	–	190,775
Obligations under finance leases *(note 36)*	–	2,872,990	11,817,226	8,153,488	22,843,704
Interest-bearing bank loans and other borrowings	–	28,186,006	30,711,850	10,939,191	69,837,047
Guarantees *(note 47(e))*	901,938	–	–	–	901,938
	4,418,615	48,894,514	42,529,076	19,092,679	114,934,884

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2012				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Due to subsidiaries *(note 20)*	**–**	**547,698**	**–**	**–**	**547,698**
Due to associates *(note 22)*	**–**	**54,596**	**–**	**–**	**54,596**
Accounts and bills payables	**646,212**	**4,902,523**	**–**	**–**	**5,548,735**
Financial liabilities included in other payables and accruals	**656,851**	**2,710,092**	**–**	**–**	**3,366,943**
Financial liabilities	**–**	**86,375**	**–**	**–**	**86,375**
Due to related companies	**–**	**353,196**	**–**	**–**	**353,196**
Obligations under finance leases *(note 36)*	**–**	**3,657,710**	**14,754,701**	**10,974,625**	**29,387,036**
Interest-bearing bank loans and other borrowings	**–**	**18,648,237**	**21,330,644**	**11,988,510**	**51,967,391**
	1,303,063	**30,960,427**	**36,085,345**	**22,963,135**	**91,311,970**

	2011				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due to subsidiaries *(note 20)*	–	397,288	–	–	397,288
Due to associates *(note 22)*	–	57,378	–	–	57,378
Accounts and bills payables	499,342	6,056,085	–	–	6,555,427
Financial liabilities included in other payables and accruals	1,886,227	3,226,701	–	–	5,112,928
Financial liabilities	–	176,167	–	–	176,167
Due to related companies	–	170,187	–	–	170,187
Obligations under finance leases *(note 36)*	–	2,629,613	11,256,785	7,741,847	21,628,245
Interest-bearing bank loans and other borrowings	–	21,722,897	22,815,237	5,800,869	50,339,003
	2,385,569	34,436,316	34,072,022	13,542,716	84,436,623

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Jet fuel price risk

The Group's strategy for managing the risk on jet fuel price aims to provide the Group with protection against sudden and significant increases in prices. In meeting these objectives, the Group allows for the judicious use of approved derivative instruments such as swaps and collars with approved counterparties and within approved limits. No outstanding fuel derivative instruments remained unexercised till year ended 31 December 2012.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in fuel price, with all other variables held constant and excluding the impact of fuel derivative contracts, of the Group's profit before tax for the year:

	Change in profit before tax *RMB'000*
31 December 2012	
If fuel price changes by RMB1,000 per tonne	**4,871,564**
31 December 2011	
If fuel price changes by RMB1,000 per tonne	4,721,818

(c) Foreign currency risk

The Group's finance lease obligations as well as certain bank and other loans are mainly denominated in United States dollars, and certain expenses of the Group are denominated in currencies other than RMB. The Group generates foreign currency revenue from ticket sales made in overseas offices and normally generates sufficient foreign currencies after payment of foreign currency expenses to meet its foreign currency liabilities repayable within one year.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) for the year:

	Change in profit before tax *RMB'000*
31 December 2012	
If RMB changes against US$ by 1%	**743,619**
31 December 2011	
If RMB changes against US$ by 1%	620,739

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

31 December 2012

Fixed rate

	Within one year RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Obligations under finance leases *(note 36)*	1,684,350	1,731,490	5,492,330	6,008,081	14,916,251
Interest-bearing bank loans and other borrowings *(note 37)*	5,204,141	3,041,151	3,129,738	6,153,409	17,528,439
Time deposits *(note 32)*	8,137,560	–	–	–	8,137,560

Floating rate

	Within one year RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Obligations under finance leases *(note 36)*	1,792,222	1,855,802	5,309,172	5,079,732	14,036,928
Interest-bearing bank loans and other borrowings *(note 37)*	25,486,049	12,138,417	8,683,869	9,107,576	55,415,911
Cash at banks *(note 32)*	4,713,116	–	–	–	4,713,116

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest rate risk (Continued)

31 December 2011

Fixed rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 36)*	200,947	207,663	665,150	1,334,037	2,407,797
Interest-bearing bank loans and other borrowings *(note 37)*	4,748,446	434,550	7,220,407	1,795,723	14,199,126
Time deposits *(note 32)*	10,510,051	–	–	–	10,510,051

Floating rate

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
Obligations under finance leases *(note 36)*	2,486,978	2,506,332	7,899,668	6,579,010	19,471,988
Interest-bearing bank loans and other borrowings *(note 37)*	23,388,867	9,063,196	12,776,440	8,108,165	53,336,668
Cash at banks *(note 32)*	5,079,886	–	–	–	5,079,886

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as a fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) for the year.

	Change in profit before tax *RMB'000*
31 December 2012	
If interest rate of borrowings changes by 50 basis points	**258,310**
31 December 2011	
If interest rate of borrowings changes by 50 basis points	295,105

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Credit risk

The following table sets forth the maximum credit exposure of the Group, within which loans and receivables granted and deposits are placed at carrying amount, net of any impairment losses, and derivatives are at current fair value. For financial guarantees and loan commitments, the maximum exposure represents the maximum amount the Group could be required to pay without consideration of the probability of the actual outcome.

	31 December 2012 ***RMB'000***	31 December 2011 *RMB'000*
Due from associates *(note 22)*	**301,556**	16,022
Deposits for aircraft under operating leases	**443,539**	420,854
Available-for-sale investments	**45,925**	27,182
Accounts and bills receivables	**3,011,012**	2,702,332
Financial assets included in deposits and other receivables *(note 28)*	**1,743,413**	1,235,051
Financial assets	**12,671**	12,144
Due from the ultimate holding company	**194,077**	428,561
Due from related companies	**10,416**	20,194
Pledged deposits	**802,941**	132,565
Cash and cash equivalents	**12,047,735**	15,457,372
Guarantees *(note 47(e))*	**893,970**	901,938
Commitments *(note 49)*	**75,145,698**	96,234,094
Operating lease arrangements *(note 48)*	**27,311,506**	16,905,809
	121,964,459	134,494,118

The above-mentioned financial assets are mainly neither past due nor impaired. Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 27 to the financial statements.

The Group's cash and cash equivalents are deposited with banks in Mainland China, overseas banks and an associate. The Group has policies in place to limit the exposure to any single financial institution.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan (the "BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB598 million or 20% of accounts receivable as at 31 December 2012 (2011: RMB558 million or 18% of accounts receivable).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

52 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	2012	2011
	RMB'000	*RMB'000*
Total Liabilities	**135,313,078**	127,524,637
Total assets	**187,590,704**	175,850,072
Gearing ratio	**72.13%**	72.52%

53 RELATED PARTY TRANSACTIONS

During the year, 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) associates:

		Group	
		2012	2011
		RMB'000	*RMB'000*
(a)	Included in air traffic revenue		
	Sale of cargo space:		
	CNAHC Group	**104,803**	97,292
	Joint venture	**–**	750
	Associates	**62,532**	74,373
		167,335	172,415
	Government charter flights:		
	CNAHC Group	**503,879**	521,574
		503,879	521,574
(b)	Included in other operating revenue		
	Equipment lease income:		
	CNAHC Group	**278**	–
	Joint venture	**3,051**	1,204
	Associates	**8,351**	9,914
		11,680	11,118
	Aircraft engineering income:		
	Joint ventures	**1,050**	1,095
	Associates	**99,433**	24,837
		100,483	25,932
	Ground service income:		
	CNAHC Group	**2,605**	482
	Joint venture	**98**	161
	Associates	**71,288**	72,580
		73,991	73,223
	Others:		
	CNAHC Group	**55,150**	49,558
	Joint ventures	**7,631**	8,004
	Associates	**15,382**	13,752
		78,163	71,314

53 RELATED PARTY TRANSACTIONS (Continued)

	Group 2012 RMB'000	2011 RMB'000
(c) Included in finance revenue and finance costs		
Interest income:		
Joint venture	–	786
Associate	61,123	60,887
	61,123	61,673
Interest expense:		
Associate	92,915	51,802
Entrusted loans commission expenses:		
Associate	–	1,275
(d) Included in operating expenses		
Airport ground services, take-off, landing and depot expenses:		
CNAHC Group	658,252	554,535
Joint venture	47,470	37,867
Associates	70,572	64,629
	776,294	657,031
Air catering charges:		
CNAHC Group	763,307	723,401
Associate	15,186	11,159
	778,493	734,560
Repair and maintenance costs:		
CNAHC Group	63	3,348
Joint ventures	1,047,310	855,952
Associates	50,149	24,738
	1,097,522	884,038
Sale commission expenses:		
CNAHC Group	3,910	4,330
Joint venture	24,195	18,665
Associate	2,062	4,361
	30,167	27,356
Management fees:		
CNAHC Group	7,784	7,839
Aircraft and flight equipment leasing fees:		
Associates	646,172	679,770
Others:		
CNAHC Group	254,906	210,306
Joint ventures	1,789	1,793
Associates	25,822	19,296
	282,517	231,395

53 RELATED PARTY TRANSACTIONS (Continued)

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
(e) Deposits, loans and bills payable:				
Deposits placed with an associate *(note 32)*	**1,922,528**	3,546,374	**1,921,969**	3,546,072
Loans from an associate	**2,284,857**	1,226,903	**–**	–
(f) Entrusted loans to:				
Subsidiaries	**–**	–	**–**	2,200,000
Joint venture	**–**	25,235	**–**	–
(g) Sales of office equipment and motor vehicle to:				
Joint venture	**–**	1,536	**–**	–
(h) Purchase of aircrafts and engines from:				
Associate	**112,186**	789,415	**–**	–

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
(i) Outstanding balances with related parties:				
Due from related companies	**10,416**	20,194	**–**	7,803
Due to related companies	**(352,349)**	(190,775)	**(353,196)**	(170,187)
Due from associates *(note 22)*	**301,556**	16,022	**1,344**	5,652
Due to associates *(note 22)*	**(232,665)**	(134,230)	**(54,596)**	(57,378)
Due from joint ventures	**9,889**	34,050	**50**	–
Due to joint ventures	**(194,702)**	(235,929)	**(338,784)**	(399,809)
Due from the ultimate holding company	**194,077**	428,561	**194,009**	432,267
Due from subsidiaries *(note 20)*	**–**	–	**1,737,849**	1,296,115
Due to subsidiaries *(note 20)*	**–**	–	**(547,698)**	(397,288)

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

53 RELATED PARTY TRANSACTIONS (Continued)

(j) An analysis of the compensation of key management personal of the Group is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Compensation of key management personnel:		
Short term employee benefits	**10,404**	10,667
Post-employment benefits	**858**	776
Cash-settled share option expense	**(237)**	(2,202)
	11,025	9,241

Further details of the remuneration of the Directors, supervisors, chief executive and senior management are included in note 9 to the financial statements.

(k) On 25 August 2004, CNACG entered into two licence agreements with CNAC pursuant to which CNACG has agreed to grant licences to CNAC, free of royalty, for the rights to use certain trademarks in Hong Kong and Macau, respectively, so long as CNAC is a direct or indirect subsidiary of CNAHC. No royalty charge was levied in respect for the use of these trademarks during each of the two years ended 31 December 2012 and 2011.

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

Part of the related party transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the HKEx Main board Listing Rules.

54 EVENTS AFTER THE REPORTING PERIOD

On 22 January 2013, the issuance of 2012's first tranche of corporate bond ("the Bond") of the Company with a total offering size of RMB5 billion was completed. The Bond will be matured in 10 years with a fixed coupon rate of 5.1%. The proceeds of the Bond were received by the Company on the same date.

As mentioned in note1 of financial statements, Air China issued 192,796,331 new A shares with RMB1,050,740,004 at the price of RMB5.45 per share to CNAHC. By deducting the RMB6,290,821 issue fee, the net cash inflow was RMB1,044,449,183. On 30 January 2013, the procedures for registration of the new A Shares with the Shanghai Branch of China Securities Depository & Clearing Co. Ltd. were completed. After the non-public A Share Issue, paid-in capital and registered capital of the Company will amount to RMB13,084,751,004.

On 1 March 2013, the Company and AIE entered into a supplemental agreement with the Boeing Company, pursuant to which the Company has agreed to purchase 2 Boeing 747-8I aircraft, 1 Boeing 777-300ER aircraft and 20 Boeing 737-800 aircraft from the Boeing Company, at a basic price of approximately US$2,600 million or approximately US$2,570 million if the option is exercised to change the order of four of the 20 Boeing 737-800 aircraft to one extra Boeing 777-300ER aircraft. In addition, Air China Cargo and AIE entered into a Boeing aircraft purchase Agreement with the Boeing Company, pursuant to which Air China Cargo has agreed to purchase eight Boeing 777-F aircraft from the Boeing Company, at a basic price of approximately US$2,230 million. Meanwhile Air China Cargo has the right to sell and the Boeing Company has agreed to purchase 7 Boeing 747-400BCF freighters from Air China Cargo. The acquisition will be funded through cash generated from the Group's business operations, commercial bank loans and other financing instruments of the Group.

55 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2013.

Consolidated Balance Sheet

31 December 2012
(Prepared under China Accounting Standards for Business Enterprises)

	31 December 2012 RMB'000	31 December 2011 RMB'000
ASSETS		
CURRENT ASSETS		
Cash and bank balances	**12,590,884**	15,420,242
Financial assets held for trading	**12,671**	12,144
Bills receivable	**1,253**	1,601
Accounts receivable	**2,967,150**	2,652,439
Other receivables	**3,103,008**	1,662,087
Prepayments	**623,754**	584,983
Inventories	**1,105,048**	1,128,164
Other current assets	**144,552**	–
Total current assets	**20,548,320**	21,461,660
NON-CURRENT ASSETS		
Long term receivables	**445,657**	424,618
Long term equity investments	**15,240,177**	14,804,420
Investment property	**229,824**	240,879
Fixed assets	**116,303,025**	101,737,456
Construction in progress	**25,977,975**	27,566,439
Intangible assets	**2,810,814**	2,805,249
Goodwill	**1,102,185**	1,102,185
Long term deferred expenses	**296,613**	187,893
Deferred tax assets	**2,756,316**	2,992,769
Total non-current assets	**165,162,586**	151,861,908
Total assets	**185,710,906**	173,323,568

Consolidated Balance Sheet

31 December 2012

(Prepared under China Accounting Standards for Business Enterprises)

	31 December 2012 *RMB'000*	31 December 2011 *RMB'000*
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term loans	**16,787,697**	11,507,317
Short-term bonds payable	**1,500,000**	–
Financial liabilities held for trading	**120,413**	223,137
Bills payable	**1,503**	–
Accounts payable	**11,246,311**	12,081,912
Domestic air traffic liabilities	**1,566,686**	2,052,297
International air traffic liabilities	**2,310,101**	2,510,478
Receipts in advance	**162,884**	121,503
Employee compensations payable	**2,192,434**	2,703,428
Taxes payable	**444,972**	2,756,215
Interest payable	**352,515**	360,578
Other payables	**5,322,884**	6,309,825
Non-current liabilities repayable within one year	**13,802,983**	17,240,694
Total current liabilities	**55,811,383**	57,867,384
NON-CURRENT LIABILITIES		
Long term loans	**30,254,161**	33,398,481
Corporate bonds	**12,000,000**	6,000,000
Long term payables	**2,892,595**	2,643,472
Obligations under finance leases	**25,476,607**	19,191,860
Accrued liabilities	**406,470**	346,284
Deferred income	**3,361,737**	3,161,536
Deferred tax liabilities	**1,561,424**	1,213,030
Total non-current liabilities	**75,952,994**	65,954,663
Total liabilities	**131,764,377**	123,822,047
SHAREHOLDERS' EQUITY		
Issued capital	**12,891,955**	12,891,955
Capital reserve	**16,699,590**	16,288,523
Reserve funds	**4,572,881**	3,471,812
Retained earnings	**19,459,551**	17,134,982
Foreign exchange translation reserve	**(3,045,439)**	(3,049,254)
Equity attributable to owners of the parent	**50,578,538**	46,738,018
Non-controlling interests	**3,367,991**	2,763,503
Total shareholders' equity	**53,946,529**	49,501,521
Total liabilities and shareholders' equity	**185,710,906**	173,323,568

Consolidated Income Statement

Year ended 31 December 2012
(Prepared under China Accounting Standards for Business Enterprises)

	2012 *RMB'000*	2011 *RMB'000*
Revenue from operations	**99,840,551**	97,139,111
Less: Cost of operations	**80,774,145**	76,692,435
Business taxes and surcharges	**1,728,115**	2,241,459
Selling expenses	**6,894,474**	6,521,025
General and administrative expenses	**3,177,883**	3,307,241
Finance costs/(revenue)	**2,199,538**	(1,549,773)
Impairment losses recognized/(reversed) in assets	**(240,999)**	2,146,816
Add: Gains from movements in fair value	**4,603**	33,744
Investment income	**382,886**	1,336,532
Including: Share of profits and losses of associates and joint ventures	**428,579**	1,331,670
Profit from operations	**5,694,884**	9,150,184
Add: Non-operating income	**1,447,782**	1,198,749
Less: Non-operating expenses	**105,129**	227,414
Including: Loss on disposal of non-current assets	**26,788**	61,470
Profit before tax	**7,037,537**	10,121,519
Less: Tax	**1,603,099**	2,223,910
Net profit	**5,434,438**	7,897,609
Net profit attributable to owners of the parent	**4,948,044**	7,476,855
Non-controlling interests	**486,394**	420,754
Earnings per share (RMB)		
Basic and diluted	**0.41**	0.61
Other comprehensive income/(losses)	**422,270**	(889,223)
Total comprehensive income	**5,856,708**	7,008,386
Attributable to:		
Owners of the parent	**5,369,619**	6,597,673
Non-controlling interests	**487,089**	410,713

EFFECTS OF SIGNIFICANT DIFFERENCES BETWEEN IFRSs AND CASs

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

	Notes	2012 RMB'000	2011 RMB'000
Net profit attributable to owners of the parent under CASs		**4,948,044**	7,476,855
Deferred tax	*(i)*	**(4,103)**	(17,123)
Differences in value of fixed assets	*(ii)*	**(146,174)**	(83,510)
Government grants	*(iii)*	**76,552**	152,387
Others		**(237,584)**	(446,235)
Net profit attributable to owners of the parent under IFRSs		**4,636,735**	7,082,374

	Notes	2012 RMB'000	2011 RMB'000
Equity attributable to owners of the parent under CASs		**50,578,538**	46,738,018
Deferred tax	*(i)*	**93,387**	97,490
Differences in value of fixed assets	*(ii)*	**(379,800)**	(233,626)
Government grants	*(iii)*	**(206,866)**	(283,418)
Unrecognition profit of the disposal of Hong Kong Dragon Airlines	*(iv)*	**139,919**	139,919
Others		**(566,675)**	(342,584)
Equity attributable to owners of the parent under IFRSs		**49,658,503**	46,115,799

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 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(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown
"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometres flown
"tonne"	a metric ton, equivalent to 2,204.6 pounds

TRAFFIC MEASUREMENTS

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

YIELD MEASUREMENTS

"passenger yield"	revenues from passenger operations divided by RPKs
"cargo yield"	revenues from cargo operations divided by RFTKs

LOAD FACTORS

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

UTILISATION

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

Definitions

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd
"Air Macau"	Air Macau Company Limited
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Beijing Airlines"	Beijing Airlines Company Limited
"Board"	the board of directors of the Company
"CASs"	China Accounting Standards for Business Enterprises
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAHC"	China National Aviation Holding Company
"CNAMC"	China National Aviation Media and Advertisement Co., Ltd
"Company" or "Air China"	中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange, and whose principal business is the operation of scheduled airline services
"Dalian Airlines"	Dalian Airlines Company Limited
"Director(s)"	the director(s) of the Company
"Group"	the Company, its subsidiaries and joint ventures
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IASs"	International Accounting Standards
"IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lufthansa"	Deutsche Lufthansa AG
"ppts"	percentage points
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd.
"Shandong Aviation"	Shandong Aviation Group Co., Ltd.
"Shenzhen Airlines"	Shenzhen Airlines Company Limited
"SIA Services Company"	Shanghai International Airport Services Co., Ltd.
"Supervisor(s)"	the supervisor(s) of the Company