中國國際航空股份有限公司

AIR CHINA LIMITED

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

(Stock Code: 753)

2006 ANNUAL RESULTS ANNOUNCEMENT

GROUP RESULTS

The board of directors (the "Board") of Air China Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company, its subsidiaries and joint ventures (collectively, the "Group") for the year ended 31 December 2006 with comparative figures for the corresponding year of 2005 as follows:

A. Prepared in accordance with International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT

	Notes	**2006** *RMB'000*	2005 *RMB'000*
TURNOVER			
Air traffic revenue	*3*	**41,606,130**	35,300,826
Other operating revenue	*4*	**3,330,476**	2,990,140
		44,936,606	38,290,966
OPERATING EXPENSES			
Jet fuel costs		**(15,716,174)**	(11,777,129)
Take-off, landing and depot charges		**(5,136,388)**	(4,442,585)
Depreciation		**(5,274,033)**	(4,512,680)
Aircraft maintenance, repair and overhaul costs		**(1,812,647)**	(1,341,773)
Employee compensation costs		**(4,313,883)**	(3,406,825)
Air catering charges		**(1,320,123)**	(1,242,933)
Aircraft and engine operating lease expenses		**(2,069,639)**	(1,530,754)
Other operating lease expenses		**(323,752)**	(211,177)
Other flight operation expenses		**(3,658,986)**	(3,744,977)
Selling and marketing expenses		**(2,026,728)**	(1,775,026)
General and administrative expenses		**(766,549)**	(631,291)
		(42,418,902)	(34,617,150)
PROFIT FROM OPERATIONS	*5*	**2,517,704**	3,673,816
Finance revenue	*6*	**1,177,871**	1,248,607
Finance costs	*6*	**(1,876,487)**	(1,773,099)
Gain on disposal of an associate	*7*	**1,592,633**	–
Share of profits and losses of associates		**517,500**	224,930
PROFIT BEFORE TAX		**3,929,221**	3,374,254
Tax	*8*	**(624,124)**	(903,874)
PROFIT FOR THE YEAR		**3,305,097**	2,470,380

	Notes	2006 RMB'000	2005 RMB'000
Attributable to:			
Equity holders of the Company		**2,687,841**	2,406,256
Minority interests		**617,256**	64,124
		3,305,097	2,470,380
Dividend:	*9*		
Interim		**–**	–
Proposed final		**602,767**	224,793
		602,767	224,793
Earnings per share attributable to equity holders of the Company:	*10*		
Basic		**26.2 cents**	25.5 cents
Diluted		**NA**	NA

CONSOLIDATED BALANCE SHEET

	2006 *RMB'000*	2005 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**54,767,664**	47,190,728
Lease prepayments	**1,013,529**	1,072,066
Interests in associates	**9,255,474**	3,793,957
Advance payments for aircraft and related equipment	**6,976,054**	7,329,322
Deposits for aircraft under operating leases	**259,681**	222,945
Long term receivable from ultimate holding company	**431,813**	531,813
Available-for-sale investments	**6,704**	22,266
Deferred tax assets	**550,222**	498,371
	73,261,141	60,661,468
CURRENT ASSETS		
Inventories	**1,015,266**	851,315
Accounts receivable	**2,835,227**	2,764,475
Prepayments, deposits and other receivables	**1,077,036**	762,435
Financial assets	**99,935**	127,659
Pledged deposits	**211,504**	176,575
Non-pledged deposits with maturity of more than three months when acquired	**1,570,777**	97,375
Cash and cash equivalents	**3,588,404**	2,248,386
Due from ultimate holding company	**289,933**	474,216
Due from related companies	**14,378**	38,039
	10,702,460	7,540,475
TOTAL ASSETS	**83,963,601**	68,201,943
CURRENT LIABILITIES		
Air traffic liabilities	**(1,530,484)**	(1,476,619)
Accounts payable	**(5,221,061)**	(4,601,364)
Bills payable	**(651,345)**	(327,937)
Other payables and accruals	**(4,192,887)**	(4,168,435)
Financial liabilities	**(242,108)**	(1,791)
Tax payable	**(534,273)**	(421,077)
Obligations under finance leases	**(2,354,905)**	(1,954,873)
Bank and other loans	**(11,139,021)**	(10,401,170)
Provision for major overhauls	**(47,318)**	(18,721)
Due to related companies	**(39,989)**	(174,151)
	(25,953,391)	(23,546,138)
NET CURRENT LIABILITIES	**(15,250,931)**	(16,005,663)
TOTAL ASSETS LESS CURRENT LIABILITIES	**58,010,210**	44,655,805
NON-CURRENT LIABILITIES		
Obligations under finance leases	**(11,247,855)**	(8,078,671)
Bank loans, other loans and corporate bonds	**(12,701,977)**	(12,822,879)
Provision for major overhauls	**(921,929)**	(635,718)
Provision for early retirement benefits obligations	**(201,199)**	(189,141)
Long term payables	**(252,591)**	(352,880)
Deferred income	**(948,966)**	(1,025,910)
	(26,274,517)	(23,105,199)
	31,735,693	21,550,606

	2006	2005
	RMB'000	*RMB'000*
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Issued share capital	**12,251,362**	9,433,211
Treasury shares	**(1,246,955)**	–
Reserves	**18,117,084**	10,434,237
Proposed final dividend	**602,767**	224,793
	29,724,258	20,092,241
MINORITY INTERESTS	**2,011,435**	1,458,365
	31,735,693	21,550,606

Notes:

1. BASIS OF PREPARATION

The Group's consolidated 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, and International Accounting Standards ("IAS") 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.

The Group's consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Impact of New and Revised IFRSs

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

IAS 39 and IFRS 4 Amendments	Financial Guarantee Contracts
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IFRIC – Int 4	Determining whether an Arrangement contains a Lease

(a) IAS 39 and IFRS 4 Amendments have revised the scope of IAS 39 to require financial guarantee contracts that are not considered as insurance contracts to be recognised initially at fair value and to be measured at the higher of (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue". The adoption of this amendment has had no material impact on the Group's consolidated financial statements.

(b) IAS 39 Amendment for cash flow hedges of forecast intragroup transactions permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the entity's financial statements. As the Group currently has no such transactions, the amendment has had no effect on the Group's consolidated financial statements.

(c) IAS 39 Amendment for the fair value option has changed the definition of a financial instrument classified as fair value through profit and loss and has restricted the use of the options to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the Group's consolidated financial statements.

(d) IFRIC – Int 4 provides guidance for determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no effect on the Group's consolidated financial statements.

Impact of Issued but not yet Effective IFRSs

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

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IAS 1 Amendment	Capital Disclosures
IFRIC – Int 7	Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC – Int 8	Scope of IFRS 2
IFRIC – Int 9	Applying the Reassessment of Embedded Derivatives
IFRIC – Int 10	Interim Financial Reporting and Impairment
IFRIC – Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosures requirements of IAS 32.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosures that include general information about how an entity identifies its operating segments, the types of products and services from which each operating segment derives its revenues and the information to be disclosed in the identified segments.

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and procedures for managing capital; quantitative data about what the Company regards as capital and compliance with any capital requirements and the consequences of any non-compliance.

IFRIC-Int 7, IFRIC-Int 8, IFRIC-Int 9, IFRIC-Int 10, IFRIC-Int 11 and IFRIC-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IAS 1 Amendment, IFRS 8 and IFRS 7 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. SEGMENT INFORMATION

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005:

Year ended 31 December 2006

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	43,708,683	481,021	496,741	250,161	–	44,936,606
Intersegment sales	–	620,302	–	186,000	(806,302)	–
Total revenue	43,708,683	1,101,323	496,741	436,161	(806,302)	44,936,606
PROFIT FROM OPERATIONS						
Segment results	2,281,754	655,137	175,445	211,670	(806,302)	2,517,704
Finance revenue	1,161,287	9,456	–	7,128	–	1,177,871
Finance costs	(1,863,002)	(11,606)	–	(1,879)	–	(1,876,487)
Gain on disposal of an associate	1,592,633	–	–	–	–	1,592,633
Share of profits and losses of associates	365,639	4,797	135,169	11,895	–	517,500
Profit before tax	3,538,311	657,784	310,614	228,814	(806,302)	3,929,221
Tax						(624,124)
Minority interests						(617,256)
Profit attributable to equity holders of the Company						2,687,841
ASSETS						
Segment assets	73,567,864	1,126,923	136,643	872,875	(1,546,400)	74,157,905
Interests in associates	8,663,367	112,336	170,115	309,656	–	9,255,474
Unallocated assets						550,222
Total assets						83,963,601
LIABILITIES						
Segment liabilities	(51,130,149)	(639,936)	(475,015)	(994,935)	1,546,400	(51,693,635)
Unallocated liabilities						(534,273)
Total liabilities						(52,227,908)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related related equipment)	16,440,786	89,754	27,521	28,191	–	16,586,252
Depreciation of property, plant and equipment	5,223,438	41,834	1,017	7,744	–	5,274,033
Amortisation of lease prepayments	21,495	–	–	–	–	21,495
Impairment loss on available-for-sale investments	–	–	–	15,562	–	15,562
Decrease in fair value of financial assets, net	268,041	–	–	–	–	268,041
Provision/(write-back of provision) for doubtful debts, net	3,536	(3,579)	–	(1,859)	–	(1,902)
Recognition of deferred income	76,943	–	–	–	–	76,943

Year ended 31 December 2005

	Airline operations *RMB'000*	Engineering services *RMB'000*	Airport terminal services *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
Sales to external customers	37,380,669	376,437	320,477	213,383	–	38,290,966
Intersegment sales	–	619,098	–	108,873	(727,971)	–
Total revenue	37,380,669	995,535	320,477	322,256	(727,971)	38,290,966
PROFIT FROM OPERATIONS						
Segment results	3,367,949	772,877	123,679	137,282	(727,971)	3,673,816
Finance revenue	1,231,986	8,512	37	8,072	–	1,248,607
Finance costs	(1,762,481)	(7,504)	(2,320)	(794)	–	(1,773,099)
Share of profits and losses of associates	81,645	(8,628)	148,096	3,817	–	224,930
Profit before tax	2,919,099	765,257	269,492	148,377	(727,971)	3,374,254
Tax						(903,874)
Minority interests						(64,124)
Profit attributable to equity holders of the Company						2,406,256
ASSETS						
Segment assets	63,703,084	1,046,799	122,474	668,200	(1,630,942)	63,909,615
Interests in associates	3,312,608	18,700	192,084	270,565	–	3,793,957
Unallocated assets						498,371
Total assets						68,201,943
LIABILITIES						
Segment liabilities	(46,191,851)	(489,320)	(404,229)	(775,802)	1,630,942	(46,230,260)
Unallocated liabilities						(421,077)
Total liabilities						(46,651,337)
OTHER SEGMENT INFORMATION						
Capital expenditure (including additions to property, plant and equipment and advance payments for aircraft, and related related equipment)	13,222,058	37,219	855	30,836	–	13,290,968
Depreciation of property, plant and equipment	4,409,021	38,381	61,303	3,975	–	4,512,680
Amortisation of lease prepayments	19,555	–	–	–	–	19,555
Increase in fair value of financial assets, net	125,868	–	–	–	–	125,868
Provision/(write-back of provision) for doubtful debts, net	14,836	118	–	(231)	–	14,723
Recognition of deferred income	76,943	–	–	–	–	76,943

Geographical segments

The following tables present the Group's consolidated revenue by geographical segment for the years ended 31 December 2006 and 2005:

Year ended 31 December 2006

	Mainland China	**Hong Kong and Macau**	**Europe**	**North America**	**Japan and Korea**	**Asia Pacific and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Sales to external customers and total revenue	**23,868,328**	**2,770,579**	**6,203,536**	**3,806,678**	**4,256,753**	**4,030,732**	**44,936,606**

Year ended 31 December 2005

	Mainland China	Hong Kong and Macau	Europe	North America	Japan and Korea	Asia Pacific and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers and total revenue	20,490,055	2,269,256	5,081,774	2,964,247	4,250,255	3,235,379	38,290,966

3. AIR TRAFFIC REVENUE

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Passenger	**37,564,903**	31,584,426
Cargo and mail	**4,041,227**	3,716,400
	41,606,130	35,300,826

Pursuant to the relevant PRC business tax rules and regulations, air traffic revenue for all domestic and outbound international flights is subject to business tax at a rate of 3%. All inbound international and Hong Kong/Macau regional flights are exempted from business tax. Business tax incurred and set off against air traffic revenue for the years ended 31 December 2006 and 2005 amounted to approximately RMB1,039 million and RMB846 million, respectively.

4. OTHER OPERATING REVENUE

	Group	
	2006	2005
	RMB'000	*RMB'000*
Bellyhold income from a joint venture	**1,518,925**	1,496,302
Aircraft engineering income	**481,021**	376,437
Ground service income	**496,741**	320,477
Air catering income	**136,581**	109,591
Government grants:		
Recognition of deferred income	**76,943**	76,943
Others	**124,420**	41,250
Service charges on return of unused flight tickets	**110,825**	97,951
Cargo handling service income	**63,938**	67,822
Sale of materials	**15,055**	11,899
Import and export service income	**10,676**	12,311
Training service income	**17,839**	19,029
Aircraft and related equipment lease income	**1,323**	7,072
Gain on disposal of property, plant and equipment, net	**17,353**	74,474
Others	**258,836**	278,582
	3,330,476	2,990,140

5. PROFIT FROM OPERATIONS

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Auditors' remuneration	**13,511**	11,029
Depreciation	**5,274,033**	4,512,680
Gain on disposal of property, plant and equipment, net	**(17,353)**	(74,474)
Loss on derecognition of property, plant and equipment	**70,206**	430,010
Amortisation of lease prepayments	**21,495**	19,555
Minimum lease payments under operating leases:		
Aircraft and engines	**2,069,639**	1,530,754
Land and buildings	**323,752**	211,177
Repair and maintenance costs	**2,556,487**	2,078,382
Impairment loss on available-for-sale investments	**15,562**	–
Provision/(write-back of provision) for doubtful debts, net	**(1,902)**	14,723

6. FINANCE REVENUE AND FINANCE COSTS

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

Finance revenue

	Group	
	2006	2005
	RMB'000	*RMB'000*
Exchange gains, net	**983,692**	918,297
Interest income	**80,689**	108,481
Gains on fuel derivatives, net	**113,225**	221,661
Dividend income from available-for-sale investments	**265**	168
	1,177,871	1,248,607

Finance costs

	Group	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans, other loans and corporate bonds	**601,153**	663,465
Interest on finance leases	**1,380,781**	1,128,943
Total interest	**1,981,934**	1,792,408
Less: Interest capitalised	**(105,447)**	(19,309)
	1,876,487	1,773,099

The interest capitalisation rates ranging from 4.5% to 6.0% (2005: at 4.5%) per annum represent the cost of related borrowings.

7. GAIN ON DISPOSAL OF AN ASSOCIATE

The gain on disposal of an associate relates to the sale of the Group's equity interest in Hong Kong Dragon Airlines Limited ("Dragonair") to Cathay Pacific Airways Limited ("Cathay") on 28 September 2006.

8. TAX

According to the PRC Enterprise Income Tax Law, the Company, its subsidiaries, joint ventures and associates established in the PRC are subject to enterprise income tax at rates ranging from 12% to 33% (2005: 15% to 33%) on their taxable income.

Hong Kong profits tax has been provided at a rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

In accordance with the PRC Enterprise Income Tax Law and an approval document issued by the relevant tax bureau on 28 November 2005 (the "Approval Document"), Air China Cargo Co., Ltd. ("Air China Cargo") was subject to a state enterprise income tax rate of 24% and was fully exempted from state enterprise income tax for the year ended 31 December 2005, followed by a 3-year 50% reduction in state enterprise income tax during the period between 1 January 2006 and 31 December 2008. In addition, pursuant to the Approval Document, Air China Cargo has been granted a 4-year local enterprise income tax exemption during the period between 1 January 2005 and 31 December 2008, followed by a 5-year 50% reduction in local enterprise income tax during the period between 1 January 2009 and 31 December 2013.

The determination of current and deferred income tax was based on enacted tax rates. The major components of the Group's income tax charge are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Current income tax:		
Current income tax charge – Mainland China	**675,975**	626,161
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(51,851)**	277,713
Income tax charge for the year	**624,124**	903,874

The share of tax attributable to associates amounting to RMB113,577,000 (2005: RMB33,640,000) is included in the "Share of profit and losses of associates" on the face of the consolidated income statement.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rates in Mainland China to income tax expense at the Group's effective income tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

	Group			
	2006		2005	
	RMB'000	***%***	*RMB'000*	*%*
Profit before income tax	**3,929,221**		3,374,254	
At statutory income tax rate of 33%	**1,296,643**	**33.0**	1,113,504	33.0
Tax effect of share of profits and losses of associates, net	**(170,775)**	**(4.3)**	(74,227)	(2.2)
Lower income tax rates of other territories	**(20,718)**	**(0.5)**	(15,024)	(0.4)
Tax exemption	**–**	**–**	(49,558)	(1.5)
Income not subject to tax	**(614,323)**	**(15.6)**	(115,131)	(3.4)
Expenses not deductible for tax purposes	**125,004**	**3.2**	26,941	0.8
Tax losses not recognised	**8,293**	**0.2**	12,537	0.4
Effect on opening deferred income tax assets due to decrease in other territories' income tax rates	**–**	**–**	4,832	0.1
At the Group's effective income tax rate	**624,124**	**16.0**	903,874	26.8

As at 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures as the Directors of the Company have no intention to request remittance of any significant amount of earnings to the Company in the foreseeable future.

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

9. APPROPRIATIONS

	Company	
	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.492 (2005: RMB0.2383) per 10 shares	**602,767**	224,793

The proposed final dividend of RMB0.492 (2005: RMB0.2383) per 10 shares for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

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

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2006 of approximately RMB2,688 million, and the weighted average number of 10,256,259,793 ordinary shares in issue during the year, as adjusted to reflect the new issue of 1,639,000,000 A shares and 1,179,151,364 H shares during the year and the effect of reciprocal shareholding with Cathay.

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2005 of approximately RMB2,406 million and the weighted average number of 9,422,728,916 ordinary shares in issue during the year, as adjusted to reflect the new issue of 382,592,727 H shares on the exercise of the over-allotment options granted to international underwriters to subscribe for the Company's H shares during that year.

Diluted earnings per share for the years ended 31 December 2006 and 2005 have not been disclosed because no diluting events existed during these years.

B. Prepared in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises applicable in the People's Republic of China (collectively the "PRC GAAP")

CONSOLIDATED INCOME STATEMENT

	2006 ***RMB'000***	2005 *RMB'000*
Revenue from principal operations	**47,005,820**	40,081,238
Less: Costs of principal operations	**38,969,321**	32,014,851
Taxes and surcharges on principal operations	**1,113,751**	971,425
Profit from principal operations	**6,922,748**	7,094,962
Add: Profit from other operations	**325,059**	222,005
Less: Operating expenses	**2,624,428**	2,232,451
Administrative expenses	**2,182,503**	1,853,180
Finance costs	**913,557**	840,048
Profit from operations	**1,527,319**	2,391,288
Add: Investment income	**3,229,836**	69,540
Subsidy income	**124,420**	52,784
Non-operating income	**74,215**	146,122
Less: Non-operating expenses	**90,382**	101,162
Total profit	**4,865,408**	2,558,572
Less: Income tax	**689,625**	642,354
Minority interests	**984,402**	206,931
Net profit	**3,191,381**	1,709,287

CONSOLIDATED BALANCE SHEET

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*
ASSETS		
Current assets:		
Cash and bank balances	**5,517,757**	2,744,162
Accounts receivable	**3,233,146**	3,063,390
Other receivables	**984,679**	869,164
Prepayments	**119,970**	36,284
Interest receivables	**–**	1,016
Subsidy receivables	**165,282**	107,460
Inventories	**1,253,973**	1,090,691
Deferred expenses	**183,615**	114,730
Total current assets	**11,458,422**	8,026,897
Long-term investments:		
Long-term equity investments	**8,929,482**	2,316,815
Equity investments differences	**2,079,808**	869,020
Long-term debt investments	**47,318**	48,994
Total long-term investments	**11,056,608**	3,234,829
Less: Provision for impairment in long-term investments	**15,562**	–
Net carrying amount of long-term investments	**11,041,046**	3,234,829
Fixed assets:		
Fixed assets, at cost	**65,171,682**	54,173,359
Less: Accumulated depreciation	**10,563,041**	6,247,726
Net book value of fixed assets	**54,608,641**	47,925,633
Less: Provisions for impairment in fixed assets	**132**	60
Net book value of fixed assets after impairment	**54,608,509**	47,925,573
Construction-in-progress	**9,457,000**	9,368,638
Total fixed assets	**64,065,509**	57,294,211
Intangible assets	**552,460**	506,023
Total assets	**87,117,437**	69,061,960

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term loans	**8,509,375**	7,477,498
Bills payable	**690,545**	327,938
Accounts payable	**5,582,356**	5,003,444
Domestic air traffic liabilities	**378,624**	353,822
International air traffic liabilities	**1,151,311**	1,123,702
Receipts in advance	**55,197**	68,317
Welfare payable	**150,549**	217,804
Taxes payable	**1,220,888**	861,806
Other creditors	**2,051,649**	2,371,333
Dividend payable	**14,136**	–
Other payables	**398,552**	365,419
Accrued expenses	**919,896**	810,299
CAAC Infrastructure Development Fund payable	**122,086**	120,595
Long-term liabilities repayable within one year	**5,315,360**	5,133,430
Total current liabilities	**26,560,524**	24,235,407
Long-term liabilities:		
Long-term loans	**10,251,206**	10,182,992
Corporate bonds	**3,000,000**	3,000,000
Long-term payables	**1,140,234**	953,097
Obligations under finance leases	**11,247,855**	8,078,671
Total liabilities	**52,199,819**	46,450,167
Minority interests	**3,677,639**	2,771,771
Shareholders' equity:		
Share capital	**12,251,362**	9,433,211
Capital reserve	**14,291,942**	8,505,379
Reserve funds	**768,398**	362,884
Including: Statutory public welfare fund	**–**	101,371
Retained profits	**4,131,428**	1,582,711
Including: Discretionary reserve fund proposed by Board of Directors	**317,902**	84,303
Dividend proposed by Board of Directors	**602,767**	224,793
Exchange differences arising on translation of foreign currency denominated financial statements	**(203,151)**	(44,163)
Total shareholders' equity	**31,239,979**	19,840,022
Total liabilities and shareholders' equity	**87,117,437**	69,061,960

C. Effects of significant differences between IFRS and PRC GAAP

The consolidated income statement and consolidated balance sheet set out in Section A have been prepared in accordance with IFRS.

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

	2006	2005
	RMB'000	*RMB'000*
Net profit for the year under PRC GAAP	**3,191,381**	1,709,287
Additional depreciation from restatement of costs of fixed assets	**(159,746)**	(164,391)
Reversal of depreciation and amortisation arising on revaluation	**490,369**	535,663
Reversal of amortisation of equity investment differences	**105,141**	80,265
Unrealised gain/(loss) on fuel derivatives	**(268,041)**	125,867
Effect of component accounting	**234,344**	311,058
Gain on disposal of an associate	**(964,366)**	–
Share of profits and losses of associates	**24,495**	53,409
Provision for early retirement benefit obligations	**(12,056)**	6,046
Government grant	**(10,987)**	6,417
Deferred tax	**51,851**	(277,713)
Others	**5,456**	20,348
Profit for the year attributable to equity holders of the Company under IFRS	**2,687,841**	2,406,256

Effects of significant differences between the shareholders' equity under PRC GAAP and the equity attributable to equity holders of the Company under IFRS are analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Shareholders' Equity under PRC GAAP	**31,239,980**	19,840,022
Restatement of costs of fixed assets	**892,828**	1,052,574
Reversal of revaluation surplus	**(1,419,784)**	(1,910,153)
Reversal of equity investment differences	**(11,327)**	737,070
Recognition of financial assets/(liabilities), net	**(142,173)**	125,868
Effect of component accounting	**545,403**	311,058
Unrealised gain on disposal of an associate	**(218,721)**	–
Share of net assets of associates	**183,801**	122,558
Provision for early retirement benefit obligations	**(201,198)**	(189,141)
Government grant	**(427,141)**	(416,155)
Elimination of reciprocal interest in Cathay	**(1,246,955)**	–
Deferred tax	**550,222**	498,371
Others	**(20,677)**	(79,831)
Equity attributable to equity holders of the Company under IFRS	**29,724,258**	20,092,241

2006 REVIEW

During 2006, the Group continued to secure a leading position in the PRC aviation industry and to maintain a proactive approach for improvement in all aspects such as flight safety, operating performance, capital operation, brand construction and corporate restructuring. While proactively coping with the rising jet fuel price and intense market competition, the Company completed the restructuring of the shareholdings of the Company, Cathay, China National Aviation Company Limited ("CNAC"), CITIC Pacific Limited and Swire Pacific Limited in Cathay and Dragonair ("Project Star") and the listing of its A shares, and made substantial progress in joining airline alliance. With the change in our growth mode, our ability to resist potential risks has been further enhanced. During 2006, the Company recorded 704,000 hours of safe flight, representing an increase of 17.9% as compared to the corresponding period last year. In order to ensure flight safety, the Company promoted the systematic safety management step by step, strengthened flight training, improved operating organization and boosted the level of aircraft maintenance. During 2006, the Company, together with Air China Cargo and Air Macau Company Limited ("Air Macau"), recorded a total traffic turnover of 9.174 billion tonne kilometres and carried 33,971,200 passengers and handled 1,019,359 tonnes of cargos and mails, representing an increase of 16.8%, 14.2% and 15.2% respectively as compared to the corresponding period last year. The Group's total revenue from business operations amounted to RMB44.94 billion, representing an increase of 17.4% as compared to RMB38.291 billion for the corresponding period last year. The operating profit was RMB2.518 billion, representing a decrease of 31.5% as compared to RMB3.674 billion for the corresponding period last year. Net profit attributable to equity holders was RMB2.688 billion, representing an increase of 11.7% from RMB2.406 billion in 2005. We continued to maintain a leading position among fellow airlines in the Mainland China in terms of profitability.

In 2006, the Group (including Air China Cargo and Air Macau) experienced a net increase in the number of aircraft by 29 during the year such that the total number of aircraft amounted to 225. The Company focused on enhancing the flight capacity while constructing hubs and network. As network operation capability was strengthened, the input to the available seat kilometres in international routes increased by 12.7% as compared to last year. The establishment of the South China base, the south-western marketing centre and the regional headquarters in Japan, Europe and Western America marked new progress in constructing sales channels. The promotion of the systematic management of budgeting workflow and the establishment and implementation of 14 management divisions at the Company level resulted in a noticeable increase in revenue and reduction in cost and evidenced new achievements in cost control.

In 2006, the Company continuously strengthened its service and brand management. By adhering to the notion of providing safe, convenient, comfortable and satisfactory services to passengers (the "SCCS Services"), the Company continued to develop and improve new products in the first and business classes, and offered a series of services and products in connection with the Olympic Games for its passenger cabins. The Company developed its in-flight entertainment products, implemented the plan of improving service details and promoted fine service by fine management. The Company expanded its one-stop boarding services, carried out comprehensive service reform and endeavoured to perfect operation quality. For the continuous improvement of our brand recognition, the Company won 17 influential brand-name-related awards, among which the Company was awarded the "Best Airliner of the Year" by the Asia Pacific Aviation Centre and won the "Passengers Satisfaction Award" for the third consecutive year in travelers' satisfaction survey. The Company was also titled the "Top 25 Model Brand Enterprises in China" in the joint press release of the Overall Ranking List of China Brand Name and the China Summit Forum. The Company made positive progress in corporate restructuring. The Company has set up a preliminary new model for business management and control, under which a framework of vertical management of four major systems, namely the business, flight, transportation control and information, was initially developed and the efficiency achieved through the consolidation of strategic resources emerged. Upon the announcement of the new organizational structure and system of the Company, the organization and management systems that met the strategic requirements of the Company were generally established.

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

The following discussion and analysis are based on the Group's consolidated financial statements prepared in accordance with IFRS, and are designed to assist the readers in understanding the information provided in this announcement so as to fully comprehend the financial performance of the Group as a whole.

Profit from Operations and Profit Attributable to Equity Holders

In 2006, the Group's profit from operations was RMB2.518 billion, representing a decrease of 31.5% compared with 2005. The decrease was mainly due to an increase in costs of operations. Net profit attributable to equity holders amounted to RMB2.688 billion, representing an increase of 11.7% compared with 2005. The increase in profit attributable to equity holders of the Group was mainly due to the gain on disposal of Dragonair.

The consolidated financial statements under IFRS have included the full operating results of all subsidiaries of the Group as well as the partial operating results of joint ventures through proportionate consolidation. During the reporting period, share of profits from associates was RMB518 million, representing an increase of 130.1% over the corresponding period last year, primarily due to the share of profit of Cathay, which has been accounted for as an associate of the Group after the aforesaid restructuring during 2006.

Profit Contribution by Business Segments

(RMB'000)

	2006	2005	Change (%)
Airline operations	**2,281,754**	3,367,949	-32.3
Engineering services	**34,835**	153,779	-77.3
Airport terminal services	**175,445**	123,679	41.9
Others	**25,670**	28,409	-9.6
Profit from operations	**2,517,704**	3,673,816	-31.5

Earnings Per Share

In 2006, the Group's earnings per share were RMB26.2 cents, representing an increase of 2.7% compared with RMB25.5 cents for 2005. This was mainly due to a profit growth for 2006.

Revenue Contribution by Business Segment

(RMB'000)

	2006	2005	Change (%)
Airline operations	**43,708,683**	37,380,669	16.9
Engineering services	**481,021**	376,437	27.8
Airport terminal services	**496,741**	320,477	55.0
Others	**250,161**	213,383	17.2
Operating revenue	**44,936,606**	38,290,966	17.4

In 2006, the Group's operating revenue was RMB44.937 billion, representing an increase of 17.4% compared with 2005. The increase in the Group's operating revenue was mainly attributable to the rapid growth of the revenue from airline operation business, which increased by 16.9% in 2006. In 2006, the daily utilization of aircraft was 10.1 hours in average, which was approximately the same as that of last year.

Operating Revenue

The Group's operating revenue principally included air traffic and other operating revenue. Most of our operating revenue was from air traffic revenue, which represented 92.6% of the Group's operating revenue in 2006, while the other operating revenue represented only 7.4% of the total operating revenue. Among the air traffic revenues in 2006, 90.3% was generated from passenger services and 9.7% was from cargo and mail transport.

The revenue generated from passenger traffic increased by 18.93% to RMB37.565 billion in 2006 from RMB31.584 billion in 2005. It was mainly attributable to the increase in transport capacity, passenger load factor and profitability level. The Group's passenger traffic capacity in terms of available seat kilometres increased by 12.7% to 83.492 billion tonne kilometres in 2006 from 74.087 billion tonne kilometres in 2005. The Group's passenger load factor rose to 75.9% in 2006 compared with 74.0% in 2005. The Company's passenger yield increased by 1.7% to RMB0.59 in 2006 from RMB0.58 in 2005 (Air Macau inclusive).

Revenue from cargo service increased by 8.7% to RMB4.041 billion in 2006 from RMB3.716 billion in 2005. Such increase was primarily due to the improved the traffic capacity, cargo and mail load factor and profitability level. Cargo transport capacity in terms of available freight tonne-kilometres increased by 20.4% to 6.404 billion tonne kilometres in 2006 from 5.319 billion tonne kilometres in 2005.

The overall load factor of cargo transport decreased to 54.3% in 2006 from 55.1% in 2005. The overall cargo yield decreased by 6.8% to RMB2.06 per tonne kilometre in 2006 from RMB2.21 per tonne kilometre in 2005.

Revenue Contribution by Geographical Segment
(RMB'000)

	2006	2005	Change (%)
Mainland China	**23,868,328**	20,490,055	16.5
Hong Kong and Macau	**2,770,579**	2,269,256	22.1
Europe	**6,203,536**	5,081,774	22.1
North America	**3,806,678**	2,964,247	28.4
Japan and Korea	**4,256,753**	4,250,255	0.2
Asia Pacific and others	**4,030,732**	3,235,379	24.6
Operating revenue	**44,936,606**	38,290,966	17.4

Operating Expenses
(RMB'000)

	2006	2005	Change (%)
Jet fuel costs	**15,716,174**	11,777,129	33.4
Take-off, landing and depot charges	**5,136,388**	4,442,585	15.6
Depreciation	**5,274,033**	4,512,680	16.9
Aircraft maintenance, repair and overhaul costs	**1,812,647**	1,341,773	35.1
Employee compensation costs	**4,313,883**	3,406,825	26.6
Air catering charges	**1,320,123**	1,242,933	6.2
Others	**8,845,654**	7,893,225	12.1
Total operating expenses	**42,418,902**	34,617,150	22.5

The operating expenses of the Group primarily comprise jet fuel costs, take-off, landing and depot charges, depreciation, aircraft maintenance, repair and overhaul expenses, employee compensation costs and air catering charges. In 2006, the Group recorded RMB42.419 billion in operating expenses, representing an increase of 22.5% compared with RMB34.617 billion in 2005, primarily due to the increase of jet fuel costs.

Jet fuel costs increased by 33.4% to RMB15.716 billion in 2006 from RMB11.777 billion in 2005 and accounted for 37.0% of operating expenses compared with 34.0% in 2005. This increase was primarily due to a rise in jet fuel price and an increase in consumption of jet fuel as a result of the increased number of flights operated.

Take-off, landing and depot charges increased by 15.6% to RMB5.136 billion in 2006 from RMB4.443 billion in 2005, primarily due to the increased number of flights operated.

Depreciation expenses increased by 16.9% to RMB5.274 billion in 2006 from RMB4.513 billion in 2005, primarily due to the increased number of aircraft.

Aircraft maintenance, repair and overhaul costs increased by 35.1% to RMB1.813 billion in 2006 from RMB1.342 billion in 2005, primarily due to the substantial increase of provision for overhaul expenses because of the increased number of aircraft under operating leases.

Employee compensation costs increased by 26.6% to RMB4.314 billion in 2006 from RMB3.407 billion in 2005, primarily due to the increase in the number of flight hours, number of employees and employees' income.

Air catering charges increased by 6.2% to RMB1.320 billion in 2006 from RMB1.243 billion in 2005, primarily due to an increase in the number of passengers carried.

Other operating expenses, including the aircraft and engines operating lease expenses, other flight operating expenses, the selling and marketing expenses and the general and administrative expenses, increased by 12.1% to RMB8.846 billion in 2006 from RMB7.893 billion in 2005.

Expenses on operating leases of aircraft and engines increased from RMB1.531 billion in 2005 to RMB2.070 billion in 2006, mainly due to the increase in the number of leased aircraft, in particular the wet leases of aircraft from Dragonair and Shandong Airlines Company Limited.

Other flight operating expenses decreased to RMB3.659 billion in 2006 from RMB3.745 billion in 2005. By excluding the loss on derecognition of property, plant and equipment, other flight operation actually increased to RMB3.589 billion in 2006 from RMB3.315 billion in 2005.

Selling and marketing expenses increased to RMB2.027 billion in 2006 from RMB1.775 billion in 2005, as a result of an increase in operating revenue.

Analysis of Assets

As at 31 December 2006, the total assets of the Group amounted to RMB83.964 billion, representing an increase of 23.1% from 31 December 2005, of which the current assets accounted for RMB10.702 billion, representing 12.7% of the total assets, while the non-current assets accounted for RMB73.262 billion, representing 87.3% of the total assets. Among the current assets, cash and cash equivalents were RMB3.588 billion, increasing by 59.6% compared with those recorded as at 31 December 2005, while accounts receivable increased by 2.6% to RMB2.835 billion compared with those recorded as at 31 December 2005. Among the non-current assets, the net book value of property, plant and equipment as at 31 December 2006 was RMB54.768 billion, representing an increase of 16.1% compared with those recorded as at 31 December 2005.

Assets Mortgage

As at 31 December 2006, the Group mortgaged certain aircraft with an aggregate net book value of approximately RMB34.214 billion (compared with RMB26.958 billion as at 31 December 2005) pursuant to certain loan and finance lease agreements. In addition, certain bank deposits of the Group in the sum of approximately RMB212 million (compared with approximately RMB177 million as at 31 December 2005) were pledged against the obligations in respect of part of the Group's loans and certain operating leases and financial derivatives. The Group also pledged certain number of shares in an associate with an aggregate market value of approximately RMB7.695 billion as at 31 December 2006 (no such pledge existed as at 31 December 2005).

Debt Structure of the Group
(Unit: in RMB'000)

	Bank, other loans and corporate bonds		**Obligations under finance leases**	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Within one year	**11,139,021**	10,401,170	**2,354,905**	1,954,873
In the second year	**2,649,697**	2,747,158	**1,996,954**	1,949,802
In the third to fifth years, inclusive	**5,581,186**	4,699,654	**6,061,709**	6,071,492
After five years	**4,471,094**	5,376,067	**3,189,192**	57,377
Total	**23,840,998**	23,224,049	**13,602,760**	10,033,544

A significant portion of the Group's debts will fall due within one year. The Group will ensure its repayment of debts when due and payables with bank loans, its own capital and by other means. The Group is not exposed to any insolvency risk for the reasons set out in the sections headed "Liquidity and Capital Resources" and "Objectives and Policy of Financial Risk Management".

Gearing Ratio

As at 31 December 2006, the Group's gearing ratio, which represents total liabilities divided by total assets, was 62.2%, dropped by 6.2 percentage points from 68.4% as at 31 December 2005.

Interest Expense

In 2006, interest expense of the Group increased from RMB1.79 billion in 2005 to RMB1.98 billion, primarily due to the expanded scale of debts.

Interest Cover

In 2006, earnings before finance revenue and finance costs (including interest expense, interest income, exchange gains/losses, net gains on fuel derivatives and dividend income from available-for-sale investments), enterprise income tax, gain on disposal of an associate, share of profits and losses of associates and depreciation ("EBITDA") as computed under IFRS, divided by finance costs, were 4.15 times, compared with 4.62 times in 2005. The increase in interest cover was attributable to the rise in EBITDA.

Commitments and Contingent Liabilities

As at 31 December 2006, capital commitments of the Group increased substantially from RMB38.51 billion in 2005 to approximately RMB42.94 billion, primarily used for the purchase of certain aircraft and relevant flight equipment to be delivered in the coming years and the construction of certain properties.

As at 31 December 2006, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. Details of contingent liabilities of the Group will be set out in note 44 to the Group's 2006 annual consolidated financial statements.

Liquidity and Capital Resources

The Group finances its operations through cash inflow from operating activities and bank loans. Like many other airline groups in the PRC, the Group has been operating with a net current liabilities position. As at 31 December 2006 and 31 December 2005, the net current liabilities of the Group were RMB15.25 billion and RMB16.01 billion respectively. The decrease in net current liabilities was primarily due to a better growth of current assets as compared with the previous period.

In 2006, the Group's net cash inflow from operating activities increased by 2.7% to RMB6.212 billion from RMB6.048 billion in 2005. Net cash outflow from investing activities during the year decreased by 2.8% to RMB12.15 billion from RMB12.5 billion in 2005. The Group recorded a net cash inflow from financing activities of RMB7.31 billion, primarily due to the issuance of A shares and the additional issue of H shares to Cathay. The major sources of finance of the Group are bank loans and finance leases. As at 31 December 2006, the Group had obtained bank facilities of up to RMB66.09 billion from a number of banks in the PRC.

On 29 August 2006, the Company successfully issued short-term commercial papers in the amount of RMB2 billion.

Capital Expenditure

For 2006, the capital expenditure of the Company was totaled at RMB15.368 billion. Among the capital expenditure of the Company, total investment in aircraft (including purchase of spare engines) was RMB8.420 billion, including a prepayment of RMB2.831 billion for purchasing aircraft from 2007 onwards.

Other investments in capital expenditure items were RMB6.948 billion, which mainly involved the improvement of first class and business class cabins of certain aircraft, investment in the ancillary project in No. 3 Terminal of Beijing International Airport, as well as in certain long-term investment projects etc.

Objectives and Policy of Financial Risk Management

The Group is exposed to the fluctuations in jet fuel price in its daily operation. International jet fuel prices have been historically, and will in the future continue to be, subject to price volatility and fluctuation in supply and demand. The Group's strategy for managing its jet fuel price risk aims to protect itself against sudden and significant price increases. To the extent as permitted by the relevant laws of the PRC, the Group has been engaging in fuel hedging transactions since March 2001. The subjects of hedging instruments were mainly the Singapore jet fuel together with the Brent crude oil and New York crude oil derivatives that are closely linked to jet fuel. In 2006, the Group applied hedging to 44% of the procured jet fuel, and the net gain on jet fuel derivatives was RMB113 million, representing a decrease of 49.1% compared with RMB222 million in 2005.

Foreign currency denominated liabilities constitute a large proportion of the Group's liabilities. As at 31 December 2006, loans denominated in US dollar and Hong Kong dollar were equivalent to RMB13.522 billion and RMB1.224 billion respectively. Appreciation of the Renminbi will benefit the Company with exchange gains. In 2006, the net exchange gains of the Group were RMB984 million (while the net exchange gains of the Group in 2005 were RMB918 million). The Group basically maintains balance of its foreign currency denominated incomes and expenditures. To achieve a balance in receipts and payments denominated in foreign currency so as to minimize the risk of exchange rate fluctuation, the Group will consider using exchange rate derivatives in future.

Information on financial risk management objectives and polices in other aspects of the Group's operations are set out in note 47 to the Group's 2006 annual consolidated financial statements.

OUTLOOK FOR 2007

Looking into 2007, the Company will remain to focus on enhancing its profitability and to plan various operating activities in a scientific manner; optimize and strengthen its principal business and improve the harmonious development of its ancillary business along with its principal business; promote hubs-building outside and inside China; implement the strategy of "forming airline partnerships for better development and effecting internal integration for improving capability"; ardently provide the SCCS services to enhance its brand competence; proactively increase incomes and reduce expenses by making market-oriented initiatives; implement the teambuilding strategy for further development of the Company; and lay a solid foundation for further development to guard against various risks. In addition, the Company will attempt to complete the following eight goals by closely adhering to the eight strategies set forth above: to complete the corporate restructuring in a satisfactory manner; to significantly enhance the operating quality; to effect a fundamental reform on the European and American routes; to obtain actual benefits via the "Two Stars" co-operation (i.e. by joining the Star Alliance and the consummation of Project Star); to break through the IT bottleneck; to accelerate the regional integration and regional hub construction; to substantially increase the cargo transport capacity; to promote the brand awareness of the Company by offering products relating to the Olympic Games. The Company will also fully take advantage of the business opportunities arising from the 2008 Olympic Games to be held in Beijing, the entry to Star Alliance and the business cooperation with Cathay. The Company will also proactively promote the five strategies, namely strategies in relation to the hub network, cost advantage, balanced development of cargo and passenger services, brand, alliance and cooperation strategies. The Company is committed to become the most valuable and profitable airline in the PRC and the airline most recognized amongst mainstream passengers with international competitive strength.

SHARE CAPITAL

1. Share Capital Structure Information

The Company issued 1,179,151,364 H shares in 2006, the total number of H shares in issue at the end of this reporting period was 4,405,683,364 shares. As at 31 December 2006, the total share capital of the Company was RMB12,251,362,273, divided into 12,251,362,273 shares with a par value of RMB1.00 each. The following table sets out the share structure of the Company as of 31 December 2006:

Category of Shares	Number of shares	Percentage of the total share capital
Domestic shares	7,845,678,909	64.04%
H Shares	4,405,683,364	35.96%

2. Substantial Shareholders

As at 31 December 2006, to the knowledge of the directors (the "Directors"), supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, supervisor or chief executive of the Company) who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the Securities and Futures Ordinance (the "SFO"), or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group are as follows:

(a) Substantial interests in the Company

Name	Type of interests	Type and number of shares of the Company	Percentage of the total issued share capital of the Company	Percentage of the total issued domestic shares of the Company	Percentage of the total issued H shares of the Company	Short Position
China National Aviation Holding Company ("CNAHC")	Beneficial owner	4,949,066,567 domestic shares	40.40%	63.08%	–	–
CNAHC[1]	Attributable interests	1,380,482,920 domestic shares	11.27%	17.60%	–	–
China National Aviation Corporation (Group) Limited ("CNACG")	Beneficial owner	1,380,482,920 domestic shares	11.27%	17.60%	–	–
Cathay	Beneficial owner	2,124,818,455 H Shares	17.34%	–	48.23%	–
Swire Pacific Limited[2]	Attributable interests	2,124,818,455 H Shares	17.34%		48.23%	–
John Swire & Sons Limited[2]	Attributable interests	2,124,818,455 H Shares	17.34%	–	48.23%	–
John Swire & Sons (H.K.) Limited[2]	Attributable interests	2,124,818,455 H Shares	17.34%	–	48.23%	–
JP Morgan Chase & Co.[3]	Investment manager	391,255,100 H Shares	3.19%	–	8.88%	–
		128,628,100 H Shares (Lending Pool)	1.05%	–	2.92%	–
Morgan Stanley[4]	Investment manager	302,497,168 H Shares	2.47%	–	6.87%	–
		54,121,293 H Shares (Short position)	0.44%	–	1.23%	–

Notes:

Based on the information available to the Directors, chief executive and Supervisors of the Company (including such information available on the website of the Stock Exchange) and so far as the Directors, chief executive and Supervisors are aware, as at the Latest Practicable Date:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC is deemed to be interested in the 1,380,482,920 domestic 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 33.28% equity interest and 54.35% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 39.95% interest in Cathay, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited are deemed to be interested in the 2,124,818,455 H shares of the Company directly held by Cathay.

3. JPMorgan Chase & Co, through its controlled entities, had an attributable interest in 391,255,100 H shares of the Company and 128,628,100 H shares of the Company as lending pool, out of which the interest in 128,628,100 H shares was held directly by JPMorgan Chase Bank, N.A., 215,790,000 H shares was held directly by JF Asset Management Limited, 13,746,000 H shares was held directly by JF International Management Inc., 7,909,000 H shares was held directly by J.P. Morgan Whitefriars Inc., 1,400,000 H shares was held directly by J.P. Morgan Securities Ltd., 22,720,000 H shares was held directly by JPMorgan Asset Management (Japan) Limited and 1,062,000 H shares was held directly by JF Asset Management (Singapore) Limited.

4. Morgan Stanley, through its controlled entities, had an attributable interest in 305,497,168 H shares of the Company and maintained a short position of 54,121,293 H shares of the Company, out of which Morgan Stanley Investment Management Company directly held 229,336,000 H shares, Morgan Stanley & Co International Limited directly held 15,427,895 H shares and maintained a short position of 5,415,748 H shares, Morgan Stanley Dean Witter Hong Kong Securities Limited directly held 31,657 H shares and maintained a short position of 100,000 H shares, Morgan Stanley Asset & Investment Trust Management Co., Limited directly held 10,946,000 H shares, MSDW Equity Finance Services (Cayman) Limited directly held 13,414,000 H shares and maintained a short position of 13,414,000 H shares, Morgan Stanley Capital (Cayman Islands) Limited maintained a short position of 4,326,000 H shares, Morgan Stanley Capital Services Inc. directly held 449,634 H shares and maintained a short position of 169,720 H shares, Morgan Stanley Capital (Luxembourg) S.A. directly held 5,086,200 H shares, and Morgan Stanley & Co. Inc. directly held 30,805,782 H shares and maintained a short position of 30,695,825 H shares.

(b) Substantial interests in CNAC

As at 31 December 2006, the interests and short positions of the following persons in the shares and underlying shares of CNAC, as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	**Type of interests**	**Number of relevant ordinary shares of CNAC**	**Percentage of the total issued share capital of CNAC**
CNAHC	Attributable interest	2,264,628,000(1)	68.36%
Air China Limited	Beneficial owner	2,264,628,000(2)	68.36%
Novel Credit Limited	Attributable interest	322,856,000(3)	9.75%
Novel Enterprises (BVI) Limited	Attributable interest	322,856,000(3)	9.75%
Novel Enterprises Limited	Attributable interest	322,856,000(3)	9.75%
Novel Holdings (BVI) Limited	Attributable interest	322,856,000(3)	9.75%
Novel Investment Holdings Limited	Attributable interest	322,856,000(3)	9.75%
On Ling Investments Limited	Attributable interest	322,856,000(3)	9.75%
Westleigh Limited	Attributable interest	322,856,000(3)	9.75%
Best Strikes Limited	Beneficial owner	187,656,000	5.66%

Notes:

(1) CNAHC owns approximately 51.66% of the total issued share capital of the Company and the entire issued share capital of CNACG, a company incorporated in Hong Kong, which in turn owns approximately 11.27% of the total issued share capital of the Company. Accordingly, CNAHC's interests in CNAC duplicate those in the Company.

(2) CNACG, the former immediate controlling shareholder of CNAC, transferred approximately 69% shareholding interest in CNAC to the Company in September 2004 by way of capital contribution in exchange for the Company's foreign shares (excluding H shares). As such, the Company became the immediate controlling shareholder of CNAC. Accordingly, CNAHC's interests in CNAC duplicate those held by the Company.

(3) The respective 5.6% interest held by each of these companies in CNAC duplicates with Best Strikes Limited's interest in CNAC. The interests of these companies in CNAC also duplicate each other.

(c) Substantial interests in other members of the Group

Member of the Group capital	Name	Approximate % of share
Air Macau	CNAC	51%
Air Macau	Sociedale de Turismo e Diversaes de Macau	14%
Air Macau	Servico, Administracao e Participacoes, Lda.	20%
Ameco	Deutsche Lufthansa AG	40%
Air China Cargo	Capital Airport Holding Company	24%
Air China Cargo	CITIC Pacific Limited	25%

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

3. Disclosure of Interests of Directors and Supervisors

As at 31 December 2006, Mr. Zhang Xianlin, a Supervisor of the Company, had interests in 33,126,000 shares, which represents approximately 1% of the share capital of CNAC.

Save as disclosed above, as at 31 December 2006, none of the Directors, supervisors or chief executive of the Company has interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers. For this purpose the relevant provisions of the SFO will be interpreted as if they applied to the Company's supervisors.

None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting as at 31 December 2006 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 concurrently Mr. Christopher Dale Pratt is chairman and executive director of Cathay, which is a substantial shareholder of the Company and wholly owns Dragonair. Mr. Li Jiaxiang is the chairman and a non-executive director of the Company and concurrently Mr. Li Jiaxiang is a non-executive director of Cathay. Cathay and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Save as above, none of the Directors or supervisors of the Company and their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2006, neither the Company nor any of it subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the year of 2006, except for the following deviations:

	Relevant code provision	**Deviation and considered reasons and or subsequent compliance**
1.	Code provision E.1.2 requires, among others, the chairman of the board should attend the annual general meeting.	Our Chairman, Mr. Li Jiaxiang, who is a member of the Chinese government delegation, was required to attend the signing ceremony for the Framework Agreement with Boeing and was therefore unable to attend the annual general meeting of the Company on 12 June 2006.
2.	Code provision A.1.3 requires, among other things, notice of at least 14 days should be given of a regular board meeting.	Meetings of the Board of the Company are convened by a 10-day notice served to all directors. The reason for the Board's practice is that a 10-day notice served to the directors is deemed sufficient by the PRC laws. Article 98 of the articles of association of the Company has been amended so that a notice of at least 14 days must be serviced to all directors before a meeting of the Board, except for extraordinary meeting. The amendment to the articles of association of the Company has been approved by the extraordinary general meeting held on 28 March 2006 and will become effective upon approval by the relevant authorities.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made enquiry to all Directors of the Company, all Directors have confirmed that they have complied with the Model Code throughout the period from 1 January 2006 to 31 December 2006.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.492 per 10 shares for the year ended 31 December 2006, totalling approximately RMB603 million. A resolution for the dividend payment will be submitted for consideration at the annual general meeting to be convened on 30 May 2007. The dividend will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the mean of the average rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the PRC provide for any preemptive rights requiring the Company to offer new shares to existing shareholders in proportion to their existing shareholdings.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

Each of the Directors except Mr. Christopher Dale Pratt and Mr. Jia Kang has entered into a service contract with the Company for a term of three years from 30 September 2004 other than Mr. Fan Cheng, whose service contract has a term of three years from 18 October 2005 and the service contract is thereafter subject to termination by either party giving written notice to the other party. Mr. Christopher Dale Pratt and Mr. Jia Kang have entered into a service contract, respectively, with the Company with a term that shall begin as of 12 June 2006 and 5 June 2006 respectively and end on the expiry of the term of the current session of the Board.

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2006 containing all information required by Appendix 16 of the Listing Rules will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

We would like to caution readers of this announcement that the airline operations are substantially influenced by global political and economical developments. Accidental and unexpected incidents may have a material impact on our operations or the industry as a whole. This 2006 Annual Results Announcement of the Group contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT COMMITTEE

The annual results of the Company have been reviewed by the audit committee of the Board of Directors of the Company.

By order of the Board
Air China Limited
Li Jiaxiang
Chairman of the Board

Beijing, PRC, 19 March 2007

*As at the date of this announcement, the Directors of the Company are Messrs Li Jiaxiang, Kong Dong, Wang Shixiang, Yao Weiting, Christopher Dale Pratt, Ma Xulun, Cai Jianjiang, Fan Cheng, Hu Hung Lick, Henry**, *Wu Zhipan**, *Zhang Ke** *and Jia Kang**.

* *Independent non-executive Director of the Company*

"Please also refer to the published version of this announcement in South China Morning Post"