

CHINA EASTERN AIRLINES CORP LTD  
Form 20-F  
June 11, 2009

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549  
FORM 20-F

- .. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008  
OR
- .. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934
- .. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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Commission file number 1-14550

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(Exact Name of Registrant as Specified in Its Charter)

China Eastern Airlines Corporation Limited  
(Translation of Registrant's Name Into English)

The People's Republic of China  
(Jurisdiction of Incorporation or Organization)

2550 Hongqiao Road  
Hongqiao Airport  
Shanghai 200335  
The People's Republic of China  
(8621) 6268-6268

(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares	The New York Stock Exchange
Ordinary H Shares, par value RMB1.00 per share	The New York Stock Exchange*

\* Not for trading, but only in connection with the registration of American Depositary Shares. The Ordinary H Shares are also listed and traded on The Stock Exchange of Hong Kong Limited.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2008, 3,300,000,000 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 1,566,950,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark if the registrant is a well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issue by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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## SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

In this Annual Report, unless otherwise specified, the term “dollars”, “U.S. dollars” or “US\$” refers to United States dollars, the legal tender currency of the United States of America, or the United States or the U.S.; the term “Renminbi” or “RMB” refers to Renminbi, the legal tender currency of The People’s Republic of China, or China or the PRC; and the term “Hong Kong dollars” or “HK\$” refers to Hong Kong dollars, the legal tender currency of the Hong Kong Special Administrative Region of China, or Hong Kong.

In this Annual Report, the term “we”, “us”, “our”, “our Company” or “China Eastern” refers to China Eastern Airlines Corporation Limited, a joint stock limited company incorporated under the laws of the PRC on April 14, 1995, and, unless the context otherwise requires, its subsidiaries, or, in respect of references to any time prior to the incorporation of China Eastern Airlines Corporation Limited, the core airline business carried on by its predecessor, China Eastern Airlines, which was assumed by China Eastern Airlines Corporation Limited pursuant to the restructuring described in this Annual Report. The term “CEA Holding” refers to our parent, China Eastern Air Holding Company, which was established on October 11, 2002 as a result of the merger of our former controlling shareholder, Eastern Air Group Company, or EA Group, with China Northwest Airlines Company and Yunnan Airlines Company.

For the purpose of this Annual Report, references to The People’s Republic of China, China and the PRC do not include Hong Kong, the Macau Special Administrative Region of China, or Macau, or Taiwan.

See “Item 3. Key Information - Exchange Rate Information” for details of exchange rates.

### CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain information contained in this Annual Report may be deemed to constitute forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
- the planned expansion of our cargo operations;
- the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;
- the impact of the CAAC policies regarding the restructuring of the airline industry in China;
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
- our expansion plans, including acquisition of other airlines;
- our marketing plans, including the establishment of additional sales offices;
- our plan to add new pilots; and
- the impact of unusual events on our business and operations.

The words or phrases “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions, as they relate to our Company management, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements are, by their nature, subject to inherent risks and uncertainties, some of which are beyond our control, and are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement, including, without limitation:

- any changes in the regulatory policies of the CAAC;
- the effects of competition on the demand for and price of our services;
- the availability of qualified flight personnel and airport facilities;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
  - changes in political, economic, legal and social conditions in China;
  - the fluctuation of interest rates;
- our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
  - general economic conditions in markets where our Company operates.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

ATK (available tonne-kilometers) the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown

ASK (available seat kilometers) the number of seats made available for sale multiplied by the distance flown

AFTK (available freight tonne-kilometers) the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the distance flown

Traffic measurements

revenue passenger-kilometers or RPK the number of passengers carried multiplied by the distance flown

revenue freight tonne-kilometers or RFTK cargo and mail load in tonnes multiplied by the distance flown

revenue passenger tonne-kilometers or RPTK passenger load in tonnes multiplied by the distance flown

revenue tonne-kilometers or RTK load (passenger and cargo) in tonnes multiplied by the distance flown

Load factors

overall load factor tonne-kilometers expressed as a percentage of ATK

passenger load factor passenger-kilometers expressed as a percentage of ASK

break-even load factor the load factor required to equate traffic revenue with our operating costs assuming that our total operating surplus is attributable to scheduled traffic operations

Yield and cost measurements

passenger yield (revenue per passenger-kilometer) revenue from passenger operations divided by passenger-kilometers

cargo yield (revenue per cargo tonne-kilometer) revenue from cargo operations divided by cargo tonne-kilometers

average yield (revenue per total tonne-kilometer) revenue from airline operations divided by tonne-kilometers

unit cost                                      operating expenses divided by ATK

Tonne    a metric ton, equivalent to 2,204.6 lbs

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## PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data from the consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and the selected financial data from the balance sheets as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, or IFRS, as adopted by the International Accounting Standards Board (“IASB”) and audited by PricewaterhouseCoopers, an independent registered public accounting firm in Hong Kong. PricewaterhouseCoopers’ reports in respect of the consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheets as of December 31, 2007 and 2008 and the related footnotes are included in this Annual Report.

Pursuant to SEC Release 33-8879 “Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP” eliminating the requirement for foreign private issuers to reconcile their financial statements to U.S. GAAP, we prepare our financial statements based on the IFRS and no longer provide a reconciliation between IFRS and U.S. GAAP.

The following information should be read in conjunction with, and is qualified in its entirety by our audited consolidated financial statements included in this Annual Report.

	Year Ended December 31,				
	2004(1)	2005(1)	2006(2)	2007(2)	2008
	RMB	RMB	RMB	RMB	RMB

(in millions, except per share or per ADS data)

Consolidated Income Statements Data:

IFRS:

Revenues	21,328	27,380	37,557	42,534	41,073
Other operating income and gains	85	245	499	488	672
Operating expenses	(20,117)	(27,562)	(40,795)	(42,894)	(56,828)
Operating profit / (loss)	1,296	63	(2,740)	128	(15,083)
Finance income / (costs), net	(641)	(578)	(731)	162	(267)
Profit / (loss) before income tax	650	(528)	(3,338)	378	(15,256)
Profit / (loss) for the year attributable to equity holders of the Company	385	(418)	(3,035)	379	(15,269)
	0.08	(0.09)	(0.62)	0.08	(3.14)

Basic and fully diluted earnings / (loss) per share(2)

Basic and fully diluted earnings / (loss) per ADS	7.91	(8.58)	(62.35)	(7.78)	(313.72)
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	Year Ended December 31,				
	2004(1)	2005(1)	2006(2)	2007(2)	2008
	RMB	RMB	RMB	RMB	RMB
	(in millions)				

Balance Sheet Data:

IFRS:

Cash and cash equivalents	2,114	1,864	1,987	1,655	3,451
Net current liabilities	(12,472)	(25,548)	(24,588)	(26,098)	(43,458)
Non-current assets	35,918	52,106	51,725	57,949	62,652

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	Year Ended December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB	2007(2) RMB	2008 RMB
	(in millions)				
Long term borrowing, including current portion	(10,736)	(12,659)	(14,932)	(14,675)	15,628
Obligations under finance lease, including current portion	(8,662)	(10,588)	(11,949)	(16,452)	(20,809)
Total share capital and reserves	5,897	5,561	2,534	2,361	(13,097)

- (1) The figures for the years ended December 31, 2004 and 2005 have been restated as a result of the changes of accounting policy.
- (2) The figures for the years ended December 31, 2006 and 2007 have been restated as a result of the changes of accounting policy. Please refer to Note 2(b) of the Financial Statements attached to this annual report on Form 20-F for more details.
- (3) The calculation of (loss)/earnings per share is based on the consolidated (loss)/profit attributable to shareholders and the weighted average number of shares of 4,866,950,000 in issue during the year.

#### Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual amounts that are in Renminbi or Hong Kong dollar amounts include a U.S. dollar equivalent at the exchange rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008 of RMB6.8225=US\$1.00 and HK\$7.7499=US\$1.00. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all.

The exchange rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8278 = US\$1.00 and HK\$7.7519 =US\$1.00 on May 29, 2009. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated based on the exchange rate in New York City for cable transfers of in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

	RMB per US\$1.00		HK\$ per US\$1.00	
	High	Low	High	Low
November 2008	6.8373	6.8220	7.7560	7.7497
December 2008	6.8842	6.8225	7.7522	7.7497
January 2009	6.8403	6.8225	7.7618	7.7504
February 2009	6.8470	6.8241	7.7551	7.7511
March 2009	6.8438	6.8240	7.7593	7.7494
April 2009	6.8361	6.8180	7.7508	7.7495
May 2009	6.8326	6.8176	7.7526	7.7500

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2004, 2005, 2006, 2007 and 2008, calculated by averaging the exchange rates on the last day of each month during the relevant year:

	RMB per US\$1.00	HK\$ per US\$1.00
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

#### Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2008, which are not audited. All references in this Annual Report to our cargo operations, cargo statistics or cargo revenues include figures for cargo and mail.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
<b>Selected Airline Operating Data:</b>					
<b>Capacity:</b>					
ATK (millions)	7,071.2	8,751.5	11,065.6	12,085.9	11,642.2
ASK (millions)	41,599.1	52,427.9	70,468.3	77,717.2	75,964.3
AFTK (millions)	3,327.3	4,033.0	4,723.4	5,091.3	4,805.4
<b>Traffic:</b>					
Revenue passenger-kilometers (millions)	27,580.8	36,380.6	50,271.9	57,182.6	53,785.3
Revenue tonne-kilometers (millions)	4,340.7	5,395.2	6,931.0	7,713.9	7,219.0
Revenue passenger tonne-kilometers (millions)	2,466.0	3,243.7	4,487.0	5,099.8	4,798.9
Revenue freight tonne-kilometers (millions)	1,874.7	2,151.5	2,444.0	2,614.1	2,420.1
Kilometers flown (millions)	242.8	287.7	434.6	478.1	467.0
Hours flown (thousands)	360.4	467.8	678.3	756.0	755.2
Number of passengers carried (thousands)	17,711.0	24,290.5	35,039.7	39,161.4	37,231.5
Weight of cargo carried (millions of kilograms)	663.6	775.5	893.2	940.1	889.5

	Year Ended December 31,				
	2004	2005	2006	2007	2008
Average distance flown (kilometers per passenger)	1,557.3	1,497.7	1,434.7	1,460.2	1,444.6
<b>Load Factor:</b>					
Overall load factor (%)	61.4	61.7	62.6	63.8	62.0
Passenger load factor (%)	66.3	69.4	71.3	73.6	70.8
Break-even load factor (based on ATK) (%)	62.2	66.0	71.1	67.7	90.7
<b>Yield and Cost Statistics (RMB):</b>					
Passenger yield (passenger revenue/passenger-kilometers)	0.56	0.57	0.61	0.62	0.62
Cargo yield (cargo revenue/cargo tonne-kilometers)	2.36	2.31	2.30	2.10	2.21
Average yield (passenger and cargo revenue/tonne-kilometers)	4.60	4.79	5.20	5.27	5.38
Unit cost (operating expenses/ATK)	2.86	3.16	3.70	3.57	4.88

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

An investment in our Company involves a number of risks, some of which may be special or significantly different from risks that are normally associated with an investment in a U.S. company. You should carefully consider the

following information about the risks in investing in our Company, along with the other information presented in this Annual Report.

#### Significant losses in 2008

We incurred significant losses in 2008, which materially weakened our financial condition. Although we earned an operating profit of RMB128 million in 2007, our operating loss in 2008 was approximately RMB15.1 billion, which included losses on fair value movements amounting to approximately RMB6,256 million on our aviation fuel hedging contracts. Our net cash generated from operations decreased by approximately RMB225 million from RMB3,080 million in 2007 to RMB2,856 million in 2008. We cannot assure you that we will not continue to experience significant losses in the future. As a result of our weakened financial condition, we may be more vulnerable to the impact of unexpected events, the deterioration of the global and domestic economies and any significant increase in competition.

### Impairments for Property Plant and Equipment

In accordance with the relevant accounting standards, we are required to test certain of our intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. In addition, we are required to test certain of our tangible assets for impairment if conditions indicate that an impairment may have occurred. In view of the decline in demand on the air transportation market under the current economic environment, we performed an impairment test on property, plant and equipment as of December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment which reflects their relatively lower operational efficiency and management's intention to retire these aircraft in the near future. In determining the recoverable amounts of the related assets, our management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values. After assessing the fair value less costs to sell as at the balance sheet date which was primarily determined by reference to estimated market value, we made an additional impairment loss of RMB235 million against certain aircraft and related flight equipment which have been classified as "non-current assets held for sale".

We may be required to recognize additional impairments in the future due to, among other factors, extreme fuel price volatility, tight credit markets, a decline in the fair value of certain tangible or intangible assets, unfavorable trends in historical or forecasted operating or cash flow losses and the uncertain economic environment, as well as other uncertainties. We cannot guarantee that a material impairment charge of tangible or intangible assets will not occur in any future period. The value of our aircraft could be adversely affected in future periods by changes in the market for these aircraft. An impairment charge could have a material adverse effect on our financial position and result of operations in the period of recognition.

### Liquidity

We have substantial debts, and will continue to have substantial debts in the future. In addition, we added, in 2008, a total of 19 aircraft to our fleet, including one A320 purchased by us and seven A320, five A321, one A330-200, three A330-300, one B737-700 and one B737-800 held under finance leases. In addition, we surrendered the lease of two aircraft, including one B737-300 and one B747F. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet". As of December 31, 2008, our total outstanding debt was RMB85,691 million. As of the same date, our current liabilities exceeded our current assets by RMB43,458 million. Short-term bank loans outstanding totaled RMB19,474 million as of December 31, 2008. Our substantial indebtedness and other obligations could make us more vulnerable to economic recessions and reduce our flexibility in responding to increased competition and changing business and economic conditions.

Moreover, we are largely dependent upon cash flows generated from our operations and external financing (including short-term bank loans) to meet our debt repayment obligations and working capital requirements, which may reduce the funds available for other business purposes. If our operating cash flow is materially and adversely affected by factors such as increased competition, a significant decrease in demand for our services, or a significant increase in jet fuel prices, our liquidity would be materially and adversely affected. We have arranged financing with domestic and foreign-funded banks in China as necessary to meet our working capital requirements. We have also tried to ensure our liquidity by structuring a substantial portion of our short-term bank loans to be rolled over upon maturity. These efforts, however, may ultimately prove insufficient. Our ability to obtain financing may be affected by our financial position and leverage and our credit rating, as well as by prevailing economic conditions and the cost of financing in general. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.





### Future Financing Requirements

We require significant amounts of external financing to meet our capital commitments for adding and upgrading aircraft and flight equipment and for other business expansion needs. We generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained, sometimes with the assistance of the CAAC, guarantees from Bank of China and other Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to continue to obtain bank guarantees in the future. The unavailability of guarantees from Bank of China or other acceptable banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow internationally or enter into international aircraft lease financings on acceptable terms. The current economic recession has severely disrupted the global capital markets, resulting in a diminished availability of financing and higher cost for financing that is obtainable. Our ability to obtain financing may also be impaired by our financial position and leverage and our credit rating. If we were unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft or expand our operations may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest cost associated with these debts might impair our future profitability and cause our earnings to be subject to a higher degree of volatility.

### Weaker Demand for Air Travel as a Result of the Global Economic Recession

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. As a result of the severe global economic downturn, we experienced significantly weaker demand for air travel, especially internationally, in the fourth quarter of 2008 and into 2009. To offset the decline in passenger volume, we reduced our international flights and reallocated our capacity by focusing more on the domestic market. Demand for air travel could continue to fall if the global economic recession continues, and overall demand may fall much lower than we are able prudently to reduce capacity. Continuation or worsening of the current global recession may lead us to further reduce domestic or international capacity, which would have a material adverse effect on our revenues, results of operations and liquidity.

In addition, the airline industry is characterized by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, the expenses relating to the operation of any given flight do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a decrease in revenues may result in a proportionately higher decrease in profits.

### Fuel Supply and Costs

The availability and cost of aviation fuel has a significant impact on our financial condition and results of operations. In the past, jet fuel shortages have occurred in China and, on limited occasions, required us to delay or cancel flights. Although jet fuel shortages have not occurred since the end of 1993, we cannot assure you that jet fuel shortages will not occur in the future. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries policies, the rapid growth of the economies in China and India, the levels of inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather conditions. These and other factors that impact the global supply and demand for aircraft fuel may affect our financial performance due to its sensitivity to fuel prices.

Fuel costs constitute a significant portion of our operating costs and, in 2008, accounted for approximately 32.5% of our operating expenses. Between 2007 and 2008, our fuel expenses rose by 22.3%, partially as a result of increased

weighted average domestic and international fuel prices. Between 2007 and 2008, the weighted average fuel prices that we paid increased by approximately 28.0%. Due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. Any jet fuel shortages or any increase in domestic or international jet fuel prices may materially and adversely affect our financial condition and results of operations.

### Fuel Hedging Arrangements

As a form of protection against potential spikes in fuel price, we from time to time hedge a portion of our future fuel requirements through various financial derivative instruments to lock in fuel costs within a hedged price range. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. As of December 31, 2008, the loss of fair value of the aviation fuel hedging contracts entered into by our Company has contributed to the loss incurred by our Company in 2008 in the amount of approximately RMB6,256 million. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

### Intensified Competition

We face intense competition in each of the domestic, regional and international markets that we serve. In our domestic markets, we compete against smaller domestic airline companies that operate with costs that are lower than ours. In our regional and international markets, we compete against international airline companies that have significantly longer operating histories, greater name recognition, more resources or larger sales networks than we do, or utilize more developed reservation systems than ours. See the section headed “Item 4. Information on the Company — Business Overview — Competition” for more details. The public’s perception of the safety records of Chinese airlines also materially and adversely affects our ability to compete against our international competitors. In response to competition, we have, from time to time in the past, lowered our airfares for certain of our routes, and we may be required to do the same in the future. Increased competition and pricing pressures from competition may have a material adverse effect on our financial condition and results of operations.

### Government Regulation

The Chinese civil aviation industry is subject to a high degree of regulation by the CAAC. Regulatory policies issued or implemented by the CAAC encompass virtually every aspect of airline operations, including, among other things:

- route allocation;
- pricing of domestic airfares;
- the administration of air traffic control systems and certain airports; and
- aircraft registration and aircraft airworthiness certification.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

### Government Ownership and Control of Our Company

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. CEA Holding currently holds 59.67% of our Company’s equity interests on behalf of the PRC Government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC Government as the ultimate controlling person of our Company and most of the other major Chinese airlines could conflict with the

interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all Chinese airlines, we cannot assure you that the CAAC will not favor other Chinese airlines over our Company.

On December 10, 2008, CEA Holding entered into the A Share Subscription Agreement with our Company and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement. Pursuant to the revised A Share Subscription Agreement, CEA Holding will, at the subscription price of RMB3.87 per share, subscribe in cash for 1,437,375,000 new A Shares with a total subscription price of approximately RMB5,563 million. Simultaneously with the entering into of the A Share Subscription Agreement and the revised A Share Subscription Agreement, CES Global Holdings (Hong Kong) Limited (“CES Global”), a wholly owned subsidiary of CEA Holding, entered into the H Share Subscription Agreement and the revised H Share Subscription Agreement with our Company. Pursuant to the revised H Share Subscription Agreement, CES Global will, at the subscription price of RMB1.0 per share, subscribe in cash for 1,437,375,000 new H Shares with a total subscription price of approximately RMB1,437 million. Immediately after completion of both subscriptions, CEA Holding will, directly and indirectly hold in aggregate 5,778,750,000 shares in our Company (including 4,341,375,000 A Shares and 1,437,375,000 H Shares), representing approximately 74.64% of the enlarged total share capital of our Company. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global.

On May 22, 2009, we received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share to CES Global. Pending the final approval to be issued by CSRC in relation to the issuance of the new A Shares, we will arrange for the new H Shares and the new A Shares to be issued.

As a controlling shareholder, CEA Holding has the ability to exercise a controlling influence over our business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- the management of our Company.

#### Insurance Coverage and Cost

As a result of the events of September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events, or war-risk coverage. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. We renew our insurance policies on a yearly basis and are currently insured through November 30, 2009. However, if the insurance carriers further reduce the amount of insurance coverage available or increase the premium for such coverage when we renew our insurance coverage, our financial condition and results of operations may be materially and adversely affected. In addition, although there was no major change to our insurance arrangements in 2008, the premium for our insurance coverage of aircraft hull deductibles increased by 19.7% at renewal due to the impact from downturn of global economic crisis.

#### Direct Air Link between Mainland China and Taiwan

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 regular direct flights per week with effect from 2009 between 16 cities in mainland China and eight cities in Taiwan. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. While we have currently been allocated 24 of the approximately 270 regular direct flights per week and are one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

### Chinese Aviation Infrastructure Limitations and Safety

The rapid increase in air traffic volume in China in recent years has put pressure on many components of the Chinese airline industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. Our ability to provide safe air transportation depends on the availability of qualified and experienced pilots in China and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at Chinese airports. If any of these is not available or is inadequate, our ability to provide safe air transportation will be compromised and our financial condition and results of operations may be materially and adversely affected.

### Related Party Transactions; Conflict of Interests

We have engaged in, from time to time, and may continue to engage in, in the future, a variety of transactions with CEA Holding and its various members, from whom we receive a number of important services, including support for in-flight catering and assistance with importation of aircraft, flight equipment and spare parts. Our transactions with CEA Holding and its members are conducted through a series of arm's length contracts, which we have entered into with CEA Holding and its members in the ordinary course of business. However, because we are controlled by CEA Holding and CEA Holding may have interests that are different from our interests, we cannot assure you that CEA Holding will not take actions that will serve its interests or the interests of its members over our interests.

### Acquisitions

We may expand our business through acquisitions of airline companies or airline-related businesses, such as our acquisition of an equity interest in CEA Wuhan and the acquisition of certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan. See "Item 4. Information on the Company" for details. Such acquisitions involve uncertainties and risks, including the following:

- difficulty with integrating the assets and operations of the acquired airline companies or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;
- difficulty with exercising control and supervision over the newly acquired operations; and
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses.

If we are unable to manage or integrate the newly acquired airlines or airline-related businesses successfully without substantial expense, delay or other operational or financial problems, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

### Limitation on Foreign Ownership

The current CAAC policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a Chinese airline company. At present, approximately 32.2% of our total outstanding shares are held by non-Chinese residents and Hong Kong, Macau or Taiwan residents (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will increase these limits in the near future or at all.

### Adverse Public Health Epidemics or Pandemics

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu, many of which have resulted in fatalities. In addition, outbreaks of and sporadic human infection with influenza A (H1N1), a highly contagious acute respiratory disease, have been reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or another outbreak of SARS or avian flu may have on our business. Any future outbreak of SARS, avian flu, influenza A (H1N1) or similar adverse public health developments may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for our services and have a material adverse effect on our financial condition and results of operations.

### Changes in the Economic Policies of the PRC Government

Since the late 1970s, the PRC Government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. These policies and measures, however, may from time to time be modified or revised. Adverse changes in economic and social conditions in China, in the policies of the PRC Government or in the laws and regulations of China, if any, may have a material adverse effect on the overall economic growth of China and investments in the domestic airline industry. These developments, in turn, may have material adverse effects on our business operations and may also materially and adversely affect our financial condition and results of operations.

### Convertibility of Renminbi

A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign currency transactions, but not under the capital account, which includes foreign direct investment, unless the prior approval of the State Administration of Foreign Exchange, or SAFE, is obtained. As a foreign invested enterprise approved by the PRC Ministry of Commerce, or MOC, we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. However, the relevant PRC Government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from



SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

### Fluctuations in Exchange Rates

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar of approximately 3.4% in 2006, 6.9% in 2007 and 7.0% in 2008. In May 2007, the PRC Government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3% to 0.5%. It is possible that the PRC Government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency.

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities at the end of the period are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. Where fluctuations in exchange rates are significant, the exchange losses resulting from the translation of foreign currency denominated liabilities would be greater and would affect the profitability and development of our Company.

### Withdrawal of, or Changes to, Tax Incentives

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant PRC Enterprise Income Tax Law. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008. The EIT Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Certain of our subsidiaries are entitled to preferential tax treatment, allowing us to enjoy a lower effective tax rate that would not otherwise be available to us. To the extent that there are any withdrawals of, or changes in, our preferential tax treatment, or increases in the applicable effective tax rate, our tax liability may increase correspondingly.

### Uncertainties Embodied in the PRC Legal System

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investment in China. However, the interpretation and enforcement of some of these laws, regulations and other legal requirements involve uncertainties that may limit the legal protection available to you.

### Legal Proceedings

On November 21, 2004, a CRJ-200 Bombardier-supplied aircraft then owned and operated by China Eastern Air Yunnan Company, or CEA Yunnan, crashed shortly after leaving Baotou city in the Inner Mongolia Autonomous Region. All 53 people aboard died in the aircraft accident. In 2005, family members of the deceased sued, among other defendants, our Company in a U.S. court for compensation, the amount of which had not been determined. On July 5, 2007, pursuant to several conditions with which our Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting

proceedings in the PRC. Moreover, the Superior Court scheduled and held a status conference on December 10, 2007, and intends to schedule subsequent status conferences every six months until the litigation in China is resolved or until the Superior Court determines otherwise. On February 20, 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay. The motion was denied by the Superior Court on May 6, 2008. Subsequently, the plaintiff filed the second motion with the Superior Court to lift the stay on July 10, 2008. On August 27, 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on February 26, 2009, dismissing the appeal of the plaintiff and affirming the original order. On March 16, 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and we have not received any notices or official summons from the court in Beijing as of May 31, 2009. We cannot assure you that the court will rule in favor of our Company in procedure or substance of the litigation.

#### Suspension and Reduction of Certain Flights in Yunnan, China

We experienced a suspension and reduction in our flight services in 2008 due to unforeseeable circumstances, including actions taken by our pilots which were beyond our anticipation or control. Between March 31, 2008 and April 1, 2008, 21 intra-provincial flights operated by the Yunnan branch of our Company took off and, without warning, subsequently returned to their departure airports without reaching their intended destinations due to various reasons determined by the CAAC Southwest Bureau, which included pilot mishandling. Pursuant to its investigation into the incident, the CAAC Southwest Bureau imposed a penalty on our Company of RMB1.5 million and suspended our right to operate flights for certain routes and reduced a number of our other flights in the Yunnan region. Although the suspension of our right to operate flights for certain routes has been lifted and the number of our other flights in the Yunnan region which had been reduced have resumed since October 2008, the occurrence of similar actions or events may be difficult to predict or foresee and may disrupt our business operations as well as result in administrative penalties, loss of revenues and harm to our reputation. See “Item 4. Information on the Company - Business Overview”.

#### Failure or Disruption of our Computer, Communications, Flight Equipment or other Technology Systems

We rely heavily on computer, communications, flight equipment and other technology systems to operate our business and enhance customer service. Substantially all of our tickets are issued to passengers as electronic tickets, and we depend on our computerized reservation system to be able to issue, track and accept these electronic tickets. In addition, we rely on other automated systems for crew scheduling, flight dispatch and other operational needs. These systems could be disrupted due to various events, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses, and other events beyond our control. We cannot guarantee that the measures we have taken to reduce the risk of some of these potential disruptions are adequate to prevent disruptions or failures of these systems. Any substantial or repeated failure or disruption in or breach of these systems could result in the loss of important data and could have an adverse impact on our business operations, profitability, reputation and customer services.

#### Item 4. Information on the Company

##### A. History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office is located at 2550 Hongqiao Road, Hongqiao Airport, Shanghai, China, 200335. The telephone number of our principal executive office is (86-21) 6268-6268. We currently do not have an agent for service of process in the United States.

Our Company was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China’s overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China’s airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor’s assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor’s equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our

Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See “Item 7. Major Shareholders and Related Party Transactions” for more details. In 2008, our Company’s total revenue from core operations accounted for approximately 94.0% of CEA Holding’s total revenue. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of May 31, 2009:

In February 1997, we completed our initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed our ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, and American Depositary Shares, or ADSs, representing our H Shares, on the New York Stock Exchange. In October 1997, we completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. Following the A Share offering, EA Group continued to own 3,000,000,000 ordinary domestic shares, which represent 90.91% of our total ordinary domestic shares. As of December 31, 2006, EA Group owned 61.64% of our issued and outstanding share capital. H Shares are our ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are our ordinary shares listed on the Shanghai Stock Exchange. Our H Shares and A Shares are identical in respect of all rights and preferences, except that the listed A Shares may only be held by Chinese domestic investors and certain qualified foreign institutional investors. In addition, dividends on the A Shares are payable in Renminbi.

Since our initial public offering, we have expanded our operations through acquisitions and joint ventures. In July 1998, our Company and China Ocean Shipping (Group) Company jointly established China Cargo Airlines Co., Ltd., which specializes in the air freight business. Our total investment in this joint venture was approximately RMB350 million, representing 70% of the equity interest of China Cargo Airlines Co., Ltd. In addition, we purchased from EA Group the assets and liabilities relating to airline operations of China General Aviation Company, for approximately RMB88 million in November 1999. China General Aviation Company was based in Shanxi Province in China and served primarily the northern region of China. Moreover, we completed our acquisition of Air Great Wall in June 2001 and established our Ningbo Branch following the acquisition. Air Great Wall was based in Ningbo, Zhejiang Province in China and served primarily the southeastern region of China.

In May 2002, our Company, jointly with Shanghai Civil Aviation Eastern China Kaiya System Integration Co., Ltd., established Shanghai Eastern Airlines Investment Co., Ltd., or SEAI. We hold a 99% equity interest in SEAI. SEAI serves as one of the investment vehicles of our Company for our investments in other industrial projects and provides consulting services. In August 2002, our Company, jointly with Wuhan Municipal State-owned Assets Management Committee Office and two other independent third parties, established China Eastern Airlines Wuhan Limited, or CEA Wuhan, in which our Company held a 40% equity interest. CEA Wuhan's operating results were consolidated with ours from January 2006, when we obtained control of CEA Wuhan. In March 2006, we completed our acquisition of a 38% equity interest and a 18% equity interest in CEA Wuhan from Wuhan Municipal State-owned Assets Supervision and Administration Committee and Shanghai Junyao Aviation Investment Company Limited, respectively, for an aggregate consideration of approximately RMB418 million. As a result, our equity interest in CEA Wuhan has increased to 96%. CEA Wuhan primarily serves the market in Central China. We also entered into an agreement with Rockwell Collins International Inc. of the United States to establish a joint venture avionics maintenance service company in China in September 2002. Moreover, in November 2002, our Company, jointly with China Aircraft Services Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which our Company holds a 60% equity interest. In order to expand our Company's operations in Jiangsu Province of China, we increased our investment in China Eastern Airlines Jiangsu Co., Ltd., or Eastern Jiangsu, in December 2002, together with other shareholders of Eastern Jiangsu. In 2004, our Company contributed additional capital of approximately RMB408 million to Eastern Jiangsu. As a result, our equity interest in Eastern Jiangsu increased from 55% to 63%.

On March 10, 2003, we entered into a joint venture agreement with Singapore Technologies Aerospace Ltd. to establish Shanghai Technologies Aerospace Company Limited, or STA, a Sino-foreign joint venture limited liability company established under the laws of the PRC. The registered capital of STA is US\$73 million with a total investment of US\$98 million. Pursuant to the joint venture agreement, our Company shall make an in-kind capital contribution of US\$37.23 million (which includes but is not limited to flight equipment and land use rights) in installments to STA. Our Company owns a 51% equity interest in STA. STA is primarily engaged in the provision of commercial aircraft maintenance, repair and overhaul services. STA commenced operations in late 2004.

In April 2003, we entered into a share transfer agreement with CEA Holding, pursuant to which we have acquired from CEA Holding a 45% equity interest in Eastern Aviation Import and Export Company, or EAIEC, for a consideration of approximately RMB44 million. EAIEC was a wholly-owned subsidiary of CEA Holding prior to the transaction. Under the share transfer agreement, our Company and CEA Holding each undertakes to the other party that it will not establish any other entity engaging in any business similar in nature or scope to the business conducted by EAIEC.

In December 2003, we also entered into a joint venture agreement with CEA Holding to establish China Eastern Air Catering Investment Company Ltd., or CEA Catering. The registered capital of CEA Catering is RMB350 million. Pursuant to the joint venture agreement, CEA Holding and our Company made capital contributions of approximately RMB192.5 million and RMB157.5 million, respectively. As a result, CEA Holding and our Company hold a 55% and a 45% equity interest in CEA Catering, respectively. CEA Catering is primarily engaged in the business of providing air and ground catering services, food and beverage supplies and other related services.

In addition, also in December 2003, we entered into an equity transfer and capital increase agreement with CEA Holding and Shanghai Eastern Development Corporation Limited, or SEDC, pursuant to which our Company acquired 10% of SEDC's then equity interest and 35% of CEA Holding's then equity interest in Shanghai Dong Mei Aviation Travel Corporation Limited, a company that is primarily engaged in the business of selling air tickets, hotel reservation, travel agency and other related services. After the transaction, our Company holds a 45% equity interest in Shanghai Dong Mei. Our aggregate investment in Shanghai Dong Mei was approximately RMB14.9 million.

On February 18, 2004, we entered into a joint venture agreement with CEA Holding to establish China Eastern Real Estate Investment Co., Ltd., or CEA Real Estate, a limited liability company established under the laws of the PRC. The registered capital of CEA Real Estate is RMB100 million. Pursuant to the joint venture agreement, our Company has made its capital contribution of RMB5 million in cash. As a result, our Company owns a 5% equity interest in CEA Real Estate. CEA Real Estate is primarily engaged in the real estate business, including the development and sales of commercial premises and property leasing in Shanghai, China.

On August 18, 2004, we entered into a joint venture agreement with China Ocean Shipping (Group) Company and China Cargo Airlines Co., Ltd. to establish Shanghai Eastern Logistics Co., Ltd., or Eastern Logistics, a limited liability company established under the laws of the PRC. The registered capital of Eastern Logistics is RMB200 million. Pursuant to the joint venture agreement, our Company has made its capital contribution of RMB138.6 million in cash to Eastern Logistics. Our Company, directly and indirectly, owns a 70% equity interest in Eastern Logistics. Eastern Logistics is primarily engaged in the provision of cargo logistics services. Eastern Logistics commenced operations after it obtained its business license from the relevant government authority on August 23, 2004.

Pursuant to the CAAC's airline industry restructuring plan, EA Group merged with Yunnan Airlines Company and China Northwest Airlines Company and formed CEA Holding in October 2002. Yunnan Airlines Company and China Northwest Airlines Company were restructured as wholly-owned subsidiaries of CEA Holding after the merger and renamed as China Eastern Air Yunnan Company, or CEA Yunnan, and China Eastern Air Northwest Company, or CEA Northwest, respectively. CEA Northwest is based in Xi'an, Shaanxi Province in China with approximately 30 jet aircraft and serves primarily the western region of China. CEA Yunnan is based in Kunming, Yunnan Province in China with approximately 26 jet aircraft and serves primarily the southwestern region of China. The airline operations conducted by CEA Yunnan and CEA Northwest previously competed with our Company, in particular, on the Shanghai-Wenzhou route, Shanghai-Harbin route, Shanghai-Qingdao route, Shanghai-Changsha route, Changchun-Kunming route, Changsha-Ningbo route, Changsha-Kunming route and Changsha-Nanjing route.

In order to further expand our business and enhance our market competitiveness, we acquired from CEA Holding certain selected assets and liabilities relating to the aviation businesses of CEA Yunnan and CEA Northwest pursuant to a conditional assets transfer agreement, or Acquisition Agreement, entered into by our Company, CEA Holding, CEA Yunnan and CEA Northwest on May 12, 2005. The certain selected assets acquired by our Company included aircraft, engines and aviation equipment and facilities, certain employees and operating contracts, and other fixed and current assets (whether owned or leased assets). We also assumed aggregate debts of RMB9,421 million. We expressly did not assume certain legal liabilities. Following the completion of the acquisitions of these assets and liabilities in June 2005, our Company assumed and took over the aviation operations and businesses previously carried out by CEA Yunnan and CEA Northwest in accordance with the Acquisition Agreement. The air routes of CEA Yunnan and CEA Northwest were also injected into our Company with such assets and liabilities. The total consideration paid by our Company under the Acquisition Agreement was approximately RMB640 million in cash.

Under the Acquisition Agreement, each of CEA Holding, CEA Northwest and CEA Yunnan has undertaken that at any time after completion of the Acquisition Agreement, it will not, and will procure its respective subsidiaries and associated companies (including members of CEA Holding) not to, carry out, engage in or otherwise become involved or interested in any business which competes or may compete, either directly or indirectly, with our Company's aviation business. The undertaking is not made for any definite period.

On March 14, 2006, we entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated our Company as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, we are entitled to a number of rights, including the use of the Bureau's logos and trademarks and the slogan "Better City, Better Life", and priority to purchase advertising space at the Expo site. We are also able to enjoy the privileges of being a market development participant of the World Expo. The total sponsorship fee under the agreement is RMB320 million, of which RMB160 million will be paid in cash in installments and the remaining RMB160 million will be settled by value-in-kind services. See Note 18(b) to our audited consolidated financial statements for details. We believe that, as the designated partner airline for World Expo 2010 Shanghai and with our core operations in Shanghai, one of China's principal air transportation hubs, we are well-positioned to enhance our brand image and overall operations.

On December 27, 2006, our Board of Directors passed a resolution to dispose of certain aged aircraft and related flight equipment in the forthcoming 12-months in light of the poor market reception and the high maintenance cost of these aircraft. These aircraft together with the related flight equipment and spare parts have been classified as non-current assets held for sale as of December 31, 2006. Prior to the reclassification, a valuation deficit of RMB1,035 million for these assets was recognized in the income statement as a result of the asset revaluation. For more details, see Note 40 to our audited consolidated financial statements.

On August 16, 2007, we established China Eastern Airlines Gifting Co., Ltd. , a limited liability company established under the laws of the PRC. The registered capital of China Eastern Airlines Gifting Co., Ltd. is RMB50 million. Our



Company directly owns a 100% equity interest in China Eastern Airlines Gifting Co., Ltd. China Eastern Airlines Gifting Co., Ltd., which commenced operations after obtaining its business license from the relevant government authority on August 17, 2007 and is primarily engaged in the provision of marketing services.

On September 2, 2007, we entered into a non-binding agreement with Singapore Airlines Limited (“SIA”) and Lentor Investments Pte. Ltd (“Temasek”) for a proposed investment by SIA and Temasek in our Company through a subscription for new H shares, subject to legally binding documents to be entered into at a later date. SIA is primarily engaged in providing air transportation services on a global basis. Temasek, an indirect, wholly-owned subsidiary of Temasek Holdings (Private) Limited, is an investment company. On November 9, 2007, we entered into several agreements with SIA and Temasek that provided detailed terms of the investment, including: (1) the Subscription Agreement between SIA, Temasek and our Company in which SIA and Temasek would subscribe for new H shares that would represent approximately 25% and 13%, respectively, of our existing H shares for an aggregate consideration of approximately US\$923.3 million (HK\$7.2 billion); (2) the CEA Holding Subscription Agreement between CEA Holding and our Company in which CEA Holding would subscribe for new H shares for approximately 23% of existing H shares (in addition to their current holdings) for an aggregate consideration of US\$538.6 million (HK\$4.2 billion); (3) the Cooperation Agreement between SIA and our Company in which the key areas of strategic alliance and cooperation between the two parties are described, subject to termination at the option of either party; and (4) the Personnel Secondment Agreement between SIA and our Company in which the terms for the secondment of SIA personnel to executive positions within our Company are detailed, subject to termination upon the termination of the Cooperation Agreement. As shareholders’ approval of the issuance of new H shares was a condition precedent in both the Subscription Agreement and the CEA Holding Subscription Agreement, we convened a general meeting on January 8, 2008 for shareholders to vote on the pending resolutions. We did not obtain shareholder approval at that meeting for the issuance of new H shares and currently have no plans to attempt another shareholder vote. Pursuant to the terms of the agreements, the Subscription Agreement and CEA Holding Subscription Agreement expired on August 9, 2008 because the conditions precedent were not fulfilled.

On November 16, 2007, our Company, CEA Holding and East China Care System Co., Ltd. entered into an equity transfer agreement regarding our interest in China Eastern Air Investment Company Limited. Our Company agreed to dispose of our entire interest of 98.8% in China Eastern Air Investment Company Limited for the consideration of RMB461.9 million, while East China Care System Co., Ltd. also agreed to dispose of its entire 1.2% interest in China Eastern Air Investment Company Limited for the consideration of RMB5.7 million.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US\$20,145,000 and US\$19,355,000, respectively, to the registered capital and holds 51% and 49%, respectively, of the equity interests in the joint venture.

The table below sets forth details of our operating fleet since 2005 (including our acquisition or assumption of ownership or leases of 60 aircraft as part of our acquisition of certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan in 2005) and planned additions for the years 2009 and 2010:

	No. of Aircraft Owned and under Finance Leases	No. of Aircraft Owned and under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft Owned and under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft Owned and under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft Owned and under Operating Leases	Planned Additions	
	2005	2006	2006	2007	2007	2008	2008	2009	2010	
A340-600	5	—	5	—	5	—	5	—	—	—
A340-300	5	—	5	—	5	—	5	—	—	—
A330-300	—	—	—	7	5	7	8	7	—	—
A330-200	—	—	—	3	1	3	2	3	—	—

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A300-600	10	3	9	—	8	—	7	—	—	—
A310	3	—	—	—	—	—	—	—	—	—
A321	4	—	6	—	10	—	15	—	—	—
A320	37	26	37	26	39	26	47	26	10	14
A319	—	10	3	10	5	10	5	10	—	—
MD-90	9	—	9	—	9	—	9	—	—	—
MD-82	—	3	—	—	—	—	—	—	—	—
B737NG	—	—	—	—	—	—	—	—	—	—
B737-800	—	3	—	7	—	7	—	8	3	2
B737-700	8	14	14	15	16	15	17	15	7	4
B737-300	13	6	13	10	16	7	16	6	—	—
B767-300	3	—	3	—	3	—	3	—	—	—
B787	—	—	—	—	—	—	—	—	—	4
EMB145	3	—	7	—	10	—	10	—	—	—
CRJ-200	5	—	5	—	5	—	5	—	—	—
A300F	—	2	1	1	2	—	3	—	—	—

	No. of Aircraft Owned and under Finance Leases 2005	No. of Aircraft Owned and under Finance Leases 2006	No. of Aircraft Owned and under Finance Leases 2007	No. of Aircraft Owned and under Finance Leases 2008	No. of Aircraft Owned and under Finance Leases 2009	No. of Aircraft Owned and under Finance Leases 2010	Planned Additions 2010
B747F	—	2	1	2	1	2	—
MD-11F	6	—	6	—	6	—	—
<b>Total</b>	<b>180</b>	<b>205</b>	<b>223</b>	<b>159</b>	<b>81</b>	<b>20</b>	<b>24</b>

## B. Business Overview

Our Company was one of the three largest air carriers in China in terms of revenue tonne-kilometers and number of passengers carried in 2008, and is the primary air carrier serving Shanghai, China's eastern gateway and largest city. As of December 31, 2008, we accounted for approximately 19.3% of the total commercial air traffic (as measured in revenue tonne-kilometers, or RTKs) handled by Chinese airlines. We operate primarily from Shanghai's Hongqiao Airport and Pudong International Airport. In 2008, in terms of flight take-off and landing statistics, our flights accounted for 36.1% and 27.8% of all the flight traffic at Hongqiao Airport and Pudong International Airport, respectively. In 2008, we accounted for approximately 31.9% of the total passenger traffic volume and 17.5% of the total freight volume on routes to and from Shanghai. In 2008, we were awarded an "Excellence Award for Customers' Satisfaction" by the CAAC's Passengers' Rating of Civil Aviation Award for the fourth consecutive year.

Compared to 2007, our traffic volume (as measured in RTKs) decreased by 6.4% from 7,713.9 million in 2007 to 7,219.0 million in 2008. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) decreased from 57,182.6 million in 2007 to 53,785.3 million in 2008, or 5.9%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) decreased by 7.4% from 2,614.1 million in 2007 to 2,420.1 million in 2008.

In May 2009, we received from CEA Holding, the controlling shareholder of our Company, notice of its intention to propose a resolution for the consideration and approval at our Annual General Meeting, which is scheduled to be held on June 13, 2009. In order to develop our business, CEA Holding proposed to expand the scope of business of our Company to include the "insurance agency services" and to amend the Articles of Association accordingly. According to the proposal, we may provide aircraft accident insurance agency services and travel insurance agency services once the resolution is passed, and may extend to other types of insurance agency services in the future.

### Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2008:

	2006 (millions of RMB)	2007 (millions of RMB)	2008 (millions of RMB)
<b>Traffic Revenues</b>			
Passengers (1)	33,413	37,550	35,528
Cargo and mail (2)	2,843	3,114	3,316
<b>Total Traffic Revenues</b>	<b>36,256</b>	<b>40,664</b>	<b>38,844</b>

- (1) includes revenues generated from cargo carried by passenger flights.
- (2) excludes revenues generated from cargo carried by passenger flights.

In accordance with industry practice, we exclude cargo carried by passenger flights when calculating passenger related operating statistics, such as passenger traffic volume, passenger capacity, passenger yield and passenger load factor, and we include cargo carried by passenger flights when calculating cargo and mail related operating statistics, such as cargo and mail traffic volume, cargo and mail capacity, cargo and mail yield and cargo and mail load factor. However, for financial reporting purposes, we include cargo carried by passenger flights in our financial information when calculating passenger revenues and exclude cargo carried by passenger flights from our financial information when calculating cargo and mail revenues. As such, the trends in our financial information are not representative of the trends in our operating statistics. The discussion of our operating statistics below follows industry practice.

## Passenger Operations

The following table sets forth certain passenger operating statistics of our Company by route for each of the three years ended December 31, 2007:

	2006	2007	2008
Passenger Traffic (in RPKs) (millions)	50,272	57,183	53,785
Domestic	31,272	35,492	35,352
Regional (Hong Kong, Macau and Taiwan)	3,522	3,305	3,058
International	15,478	18,386	15,375
Passenger Capacity (in Asks) (millions)	70,468	77,717	75,964
Domestic	42,687	46,166	47,588
Regional (Hong Kong, Macau and Taiwan)	5,554	5,075	4,562
International	22,227	26,476	23,814
	2006	2007	2008
Passenger Yield (RMB)	0.61	0.62	0.62
Domestic	0.61	0.61	0.61
Regional (Hong Kong, Macau and Taiwan)	0.71	0.65	0.64
International	0.58	0.61	0.66
Passenger Load Factor (%)	71.34	73.58	70.80
Domestic	73.26	76.88	74.29
Regional (Hong Kong, Macau and Taiwan)	63.39	65.12	67.02
International	69.64	69.44	64.56

The primary focus of our business is the provision of domestic, regional and international passenger airline services. We operated approximately 6,090 scheduled flights per week (excluding charter flights), serving a route network that covers 134 cities within China and abroad. In 2008, we operated a total of approximately 423 routes.

In 2008, we operated approximately 4,857 domestic flights per week on 332 routes. Our domestic routes generated approximately 63.9% of our passenger revenues. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen.

We also operated approximately 390 flights per week on 16 routes to and from Hong Kong, originating from Shanghai and 16 other major cities in eastern, northern and western China. In addition, we operated approximately 10 flights per week on five routes between mainland China and Taiwan. Our regional routes accounted for approximately 5.9% of our passenger revenues in 2008.

In 2008, we operated approximately 838 international flights per week on 75 routes, serving 46 cities in 21 countries, primarily linking Shanghai to major cities in Asian and Southeast Asian countries (such as Japan, Korea, India, Singapore, Thailand and Bangladesh) and certain strategic locations in Europe, the United States and Australia. Since 2006, we gradually introduced several routes to further improve our route network, including Shanghai-Frankfurt, Shanghai-New York, Beijing-Seoul, Hangzhou-Qing Zhou, Weimar-Seoul, Shanghai-Maldives-Johannesburg, Hongqiao-Hamada, Beijing-Dalian-Okayama, Shanghai-Seoul-Bangkok and Hongqiao-Gimp. In 2008, we introduced the Shanghai-Copenhagen route. Revenues derived from our operations on international routes accounted for

approximately 30.3% of our passenger revenues. Revenues derived from our operations on our 26 routes to and from Japan accounted for approximately 7.5% of our passenger revenues and approximately 24.6% of our international passenger revenues in 2008.

Following its investigation into an incident that involved the return of certain of our flights to their departure points without reaching their intended destination, the CAAC Southwest Bureau determined that certain flight returns were a result of pilot mishandling. As a result, two of our flight routes, namely the Kunming—Binna and Kunming—Dali routes, were suspended by the CAAC Southwest Bureau as of May 4, 2008. In addition, from April 26, 2008, the CAAC Southwest Bureau reduced the number of our Company's flights in the Yunnan region as follows: a decrease of six flights per day between Kunming and Lining, a decrease of six flights per day between Kunming and Zhenjiang, a decrease of two flights per day between Kunming and Manish, a decrease of two flights per day between Kunming and Linsang, a decrease of two flights per day between Kunming and Samoa and a decrease of two flights per day between Kunming and Wenham. Revenues derived from the suspended and reduced flights accounted for approximately 1.5% of our total revenue from principal operations in 2007. The Department of Transport of the CAAC issued a notice on October 6, 2008 to lift the suspension of our right to operate flights on the Kunming—Binna and Kunming—Dali routes and to resume the number of our flights in the Yunnan region which had been reduced, with effect from October 26, 2008. See "Item 3. Key Information – Risk Factors".

Most of our international and regional flights and a substantial portion of our domestic flights either originate or terminate in Shanghai, the central hub of our route network. Our operations in Shanghai are conducted primarily at Hongqiao Airport and Pudong International Airport. All of our international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is a newly constructed airport and is approximately 30 kilometers from the central business district of Shanghai.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi'an and Kunming, respectively. With Shanghai as our main hub and Xi'an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. The provincial hubs also enable us to provide convenient connections for passengers on certain flights to and from Shanghai. Aircraft used for regional operations are mainly maintained by us on site at the hubs, and our sales offices are also based at each provincial hub. In addition, we will continue to develop our operations in Beijing and Guangzhou as our principal bases for northern China and southern China, respectively. We will also focus on major cities, such as Nanjing, Hangzhou, Qingdao and other coastal cities in eastern China, to help increase our market shares.

#### Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of our Company by route for each of the three years ended December 31, 2008:

	Year Ended December 31,		
	2006	2007	2008
Cargo and Mail Traffic (in RFTKs) (millions)	2,444	2,614	2,420
Domestic	575	609	622
Regional (Hong Kong, Macau and Taiwan)	141	118	111
International	1,728	1,888	1,687
Cargo and Mail Capacity (in AFTKs) (millions)	4,723	5,091	4,805
Domestic	1,060	1,228	1,375
Regional (Hong Kong, Macau and Taiwan)	351	274	278
International	3,313	3,589	3,152



Cargo and Mail Yield (RMB)	2.30	2.10	2.21
Domestic	0.87	0.97	1.26
Regional (Hong Kong, Macau and Taiwan)	5.24	4.49	4.42
International	2.54	2.31	2.42
Cargo and Mail Load Factor (%)	51.74	51.34	50.36
Domestic	54.24	49.55	45.21
Regional (Hong Kong, Macau and Taiwan)	40.24	42.91	39.79
International	52.16	52.60	53.54

We are required to obtain from the CAAC the right to carry passengers or cargo on any domestic or international route. Our cargo and mail business generally utilizes the same route network used by our passenger airline business. China Cargo Airlines Co., Ltd. also maintains 16 cargo routes. We carry cargo and mail on our freight aircraft as well as in available cargo space on our passenger aircraft. Our most significant cargo and mail routes are international routes.

The development of cargo operations is an important part of our Company's growth strategy. We have six MD-11F freight aircraft under operating leases for cargo and mail operations. We also have three Airbus A300F as well as two Boeing 747F freighters for our cargo operations in 2008.

### Our Operations by Geographical Segment

Our revenues (net of business tax) by geographical segment are analyzed based on the following criteria:

- (1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong")) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC and Hong Kong or overseas markets is attributed to the segments based on the origin and destination of each flight segment.
- (2) Revenue from ticket handling services, airport ground services and other miscellaneous services are classified on the basis of where the services are performed.

The following table sets forth our revenues by geographical segment for each of the three years ended December 31, 2008:

	2006 (millions of RMB)	2007 (millions of RMB)	2008 (millions of RMB)
Domestic (the PRC, excluding Hong Kong)	20,901	24,134	24,333
Hong Kong (including Taiwan and Macau)	3,245	2,695	2,474
Japan	3,583	3,643	3,512
Other countries	9,828	12,062	10,753
<b>Total</b>	<b>37,557</b>	<b>42,534</b>	<b>41,072</b>

### Regulation

The PRC Civil Aviation Law provides the framework for regulation of many important aspects of civil aviation activities in China, including:

- the administration of airports and air traffic control systems;
- aircraft registration and aircraft airworthiness certification;
- operational safety standards; and
- the liabilities of carriers.

The Chinese airline industry is also subject to a high degree of regulation by the CAAC. Regulations issued or implemented by the CAAC encompass virtually every aspect of airline operations, including route allocation, domestic airfare, licensing of pilots, operational safety standards, aircraft acquisition, aircraft airworthiness certification, fuel prices, standards for aircraft maintenance and air traffic control and standards for airport operations. Although China's airlines operate under the supervision and regulation of the CAAC, they are accorded a significant degree of operational autonomy. These areas of operational autonomy include:

- whether to apply for any route;
- the allocation of aircraft among routes;
- the airfare pricing for the international and Hong Kong passenger routes;
- the airfare pricing within the limit provided by the CAAC for the domestic passenger routes;
- the acquisition of aircraft and spare parts;

- the training and supervision of personnel; and
- many other areas of day-to-day operations.

Although we have generally been allocated adequate routes in the past to accommodate our expansion plans and other changes in our operations, those routes are subject to allocation and re-allocation in response to changes in governmental policies or otherwise at the discretion of the CAAC. Consequently, we cannot assure you that our route structure will be adequate to satisfy our expansion plans.

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. We believe those policies will be beneficial to the development of and prospects for the Chinese airline industry as a whole. Nevertheless, those regulatory policies could limit our flexibility to respond to changes in market conditions, competition or our cost structure. Moreover, while our Company generally benefits from regulatory policies that are beneficial to the airline industry in China as a whole, the implementation of specific regulatory policies may from time to time materially and adversely affect our business operations.

Because our Company provides services on international routes, we are also subject to a variety of bilateral civil air transport agreements between China and other countries. In addition, China is a contracting state as well as a permanent member of the International Civil Aviation Organization, an agency of the United Nations established in 1947 to assist in the planning and development of the international air transportation. The International Civil Aviation Organization establishes technical standards for the international airline industry. China is also a party to a number of other international aviation conventions. The business operations of our Company are also subject to those international aviation conventions.

#### Domestic Route Rights

Chinese airlines must obtain from the CAAC the right to carry passengers or cargo on any domestic route. The CAAC's policy on domestic route rights is to assign routes to the airline or airlines suitable for a particular route. The CAAC will take into account whether an applicant for a route is based at the point of origin or termination of a particular route. This policy benefits airlines, such as our Company, that have a hub located at each of the active air traffic centers in China. The CAAC also considers other factors that will make a particular airline suitable for an additional route, including the applicant's safety record, previous on-time performance and level of service and availability of aircraft and pilots. The CAAC will consider the market conditions applicable to any given route before such route is allocated to one or more airlines. Generally, the CAAC will permit additional airlines to service a route that is already being serviced only when there is strong demand for a particular route relative to the available supply. The CAAC's current general policy is to require the passenger load factor of one or two airlines on a particular route to reach a certain level before another carrier is permitted to commence operations on such route.

#### Hong Kong Route Rights

Hong Kong routes and the corresponding landing rights were formerly derived from the Sino-British air services agreement. In February 2000, the PRC Government, acting through the CAAC, and Hong Kong signed the Air Transportation Arrangement between mainland China and Hong Kong. The Air Transportation Arrangement provides for equal opportunity for airlines based in Hong Kong and mainland China. Competition from airlines based in Hong Kong increased after the execution of the Air Transportation Arrangement. The CAAC normally will not allocate an international route or a Hong Kong route to more than one domestic airline unless certain criteria, including minimum load factors on existing flights, are met. There is more than one Chinese airline company on certain of our Hong Kong routes.

The CAAC and the Economic Development and Labor Bureau of Hong Kong announced that they have reached an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement will increase the routes between Hong Kong and mainland China to expand coverage to most major cities in mainland China. The capacity limits for passenger and/or cargo services on most routes will also be gradually lifted. Beginning from the winter of 2007, each side designated three airline companies to operate passenger and/or cargo flights and another airline company to operate all-cargo flights on the majority of the routes between Hong Kong and mainland China.

## International Route Rights

International route rights, along with the corresponding landing rights, are derived from air services agreements negotiated between the PRC Government, acting through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain points within each country. Under the new air services agreement entered into between China and the U.S. in May 2007, the number of daily round-trip flights will increase from current 12 to 23 before 2012. As a result, the CAAC also expects to receive applications from Chinese airlines to fly international passenger routes. The CAAC awards the relevant route to an airline based on various criteria, including:

- availability of appropriate aircraft and flight personnel;
- safety record;
- on-time performance; and
- hub location.

Although hub location is an important criterion, an airline may be awarded a route which does not originate from an airport where it has a hub. The route rights awarded do not have a fixed expiry date and can be terminated at the discretion of the CAAC.

## Airfare Pricing Policy

The PRC Civil Aviation Law provides that airfares for domestic routes are determined jointly by the CAAC and the agency of the State Council responsible for price control, primarily based upon average airline operating costs and market conditions. From February 1999 to March 2001, all domestic airlines were required to adhere to unified domestic airfares published by the CAAC from time to time and discounted sales were prohibited. In 2001, the CAAC gradually relaxed its control over domestic airfare pricing and, effective March 1, 2001, domestic airlines were permitted to offer discounts on several major domestic routes.

On March 17, 2004, China's State Council approved the Pricing Reform Plan for the Domestic Civil Aviation Industry, or the Pricing Reform Plan, effective April 20, 2004. Pursuant to the Pricing Reform Plan, the governmental authorities responsible for price control no longer directly set the airfares for domestic routes, but indirectly control the airfares for domestic routes by setting basic airfare levels and permitted ranges within which the actual fares charged by Chinese airlines can deviate from such basic airfare levels. Chinese airlines are able to set their own airfares for their domestic routes within the permitted ranges and adopt more flexible sales policies to promote their services.

The CAAC and the National Development and Reform Commission, or NDRC, jointly publish the pricing guidelines from time to time, which set forth the basic airfare levels and permitted ranges. Pursuant to the current pricing guidelines, the basic airfares for domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan (the average basic airfare for domestic routes is RMB0.75 per passenger-kilometer). Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25% higher and 45% lower than the basic airfare. Domestic routes that are not subject to the deviation range restrictions include short-haul routes between cities in the same province or autonomous region, or between a municipality and adjacent provinces, autonomous regions or another municipality. Certain tourist routes and routes served by only one Chinese airline are not subject to the bottom range restriction. The CAAC and the NDRC will announce the routes that are not subject to the deviation range restrictions through the airfare

information system known as Airtis.net. Chinese airlines may apply to the CAAC and the NDRC for exemption from the bottom range restriction for a particular route. Chinese airlines are also required to file the actual airfare they set for their domestic routes within the ranges through Airtis.net 30 days prior to its implementation.

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfare for particular domestic routes which, in their view, is not at a reasonable level. We expect that, as reforms continue in 2009, we will have more flexibility in operating our aviation business in the future. The promotion by Chinese regulators of a regulated and orderly market and a fair and positive competition mechanism will also provide a favorable environment for the growth of our business.

Under the PRC Civil Aviation Law, maximum airfares on Hong Kong and international routes are set in accordance with the terms of the air services agreements pursuant to which these routes are operated. In the absence of an air services agreement, airfares are set by the airlines themselves or by the CAAC with reference to comparable market prices, taking into account the international airfare standards established through the coordination of the International Air Transport Association, which organizes periodic air traffic conferences for the purpose of coordinating international airfares. Discounts are permitted on Hong Kong and international routes. For the airline industry in China as a whole, the airfare per kilometer is substantially higher for Hong Kong and international routes than for domestic routes.

#### Acquisition of Aircraft and Spare Parts

Most Chinese airlines are required to purchase their aircraft, aircraft spare parts and other aviation equipment through the China Aviation Supplies Import & Export Group Corporation, or the CASC Group, an entity controlled by the CAAC. If a Chinese airline plans to acquire an aircraft, the airline must first seek approval from the CAAC and NDRC and must, as a condition of approval, provide specific acquisition plans, which are subject to modification by the CAAC and NDRC. If approval of an aircraft acquisition is obtained, the airline negotiates the terms of the acquisition with the manufacturer together with the CASC Group because the CASC Group possesses the license required to import or export aircraft and is entitled to receive a commission. Our Company is permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC, which is 55% owned by CEA Holding and 45% owned by our Company, without the participation of CASC. This gives us freedom in rationalizing our maintenance practices by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain an approval from the NDRC for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

#### Domestic Fuel Supply and Pricing

The Civil Aviation Oil Supply Company, or CAOSC, which is controlled by the CAAC, is currently the dominant civil aviation fuel supply company in China. We currently purchase a significant portion of our domestic fuel supply from CAOSC. The PRC Government determines the fuel price at which the CAOSC acquires fuel from domestic suppliers and the CAAC issues a guidance price. The retail price at which the CAOSC resells fuel to airline customers is set within a specified range based on this guidance price.

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and CAAC from 2006 to 2008. Since the second half of 2008, international crude oil prices have decreased significantly, leading the NDRC and the CAAC to release an announcement on January 14, 2009 to suspend fuel surcharges for domestic passenger routes with effect from January 15, 2009.

#### Safety

The CAAC has made the improvement of air traffic safety in China a high priority. The CAAC is responsible for the establishment of operational safety, maintenance and training standards for all Chinese airlines, which have been



formulated based on international standards. Each Chinese airline is required to provide flight safety reports to the CAAC, including reports of flight incidents or accidents involving its aircraft which occurred during the relevant reporting period and other safety related problems. The CAAC conducts safety inspections on each airline periodically.

The CAAC oversees the training of most Chinese airline pilots through its operation of the pilot training college. The CAAC implements a unified pilot certification process applicable to all Chinese airline pilots and is responsible for the issuance, renewal, suspension and cancellation of pilot licenses. Each pilot is required to pass the CAAC-administered examinations before obtaining a pilot license and is subject to an annual examination in order to have such certification renewed.

All aircraft operated by Chinese airlines, other than a limited number of leased aircraft registered in foreign countries, are required to be registered with the CAAC. All of our aircraft are registered with the CAAC. All aircraft operated by Chinese airlines must have a valid certificate of airworthiness issued and annually renewed by the CAAC. In addition, maintenance permits are issued to a Chinese airline only after the maintenance capabilities of that Chinese airline have been examined and assessed by the CAAC. These maintenance permits are renewed annually. All aircraft operated by Chinese airlines may be maintained and repaired only by CAAC certified maintenance facilities, whether located within or outside China. Aircraft maintenance personnel must be certified by the CAAC before assuming aircraft maintenance posts.

### Security

The CAAC establishes and oversees the implementation of security standards and regulations based on the PRC laws and standards established by international civil aviation organizations. Each airline is required to submit to the CAAC an aviation security handbook describing specific security procedures established by the airline for the day-to-day operations and security training for staff. Such security procedures must be formulated based on the relevant CAAC regulations. Chinese airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements. We believe that our Company is in compliance with all applicable security regulations.

### Noise and Environmental Regulation

All airlines and airports in China are required to comply with noise and environmental regulations of the State Environmental Protection Agency that are modeled on international standards. The CAAC regulations allow Chinese airports to refuse take-off and landing rights to any aircraft that does not comply with State noise regulations. We believe that our Company is in compliance with all applicable noise and environmental regulations.

### Chinese Airport Policy

Prior to September 2003, all civilian airports in China were operated directly by the CAAC or by provincial or municipal governments. In September 2003, as part of the restructuring of the aviation industry in China, the CAAC handed over 93 civilian airports to provincial or municipal governments. The CAAC retained the authority to determine the take-off and landing charges, as well as charges on airlines for the use of airports and airport services. Prior to 2004, Chinese airlines were generally required to collect from their passengers on behalf of the CAAC a levy for contribution to the civil aviation infrastructure fund, which was used for improving China's civilian airport facilities. Our revenue for the previous years is shown net of this levy. In 2003, the levy was 5% of domestic airfares and 2% of international airfares. The levy was waived by the CAAC from May 1, 2003 to December 31, 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance, have been reflected in air fares of Chinese airlines rather than collected as a separate levy.

On December 28, 2007, the Civil Aviation Administration of China and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on March 1, 2008. This new plan divides airport charges into three parts: charges related to airline businesses; charges related to important non-airline items; and other non-airline charges. The charges related to airline businesses and important non-airline items must follow the national guided prices, in which the standard prices are rarely increased, while

reduced rates can be negotiated between the airport or the service provider and the users. The plan grants us the right to negotiate with airports on the airport charges.

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The civil aviation infrastructure levy has been waived again from January 2009 to June 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The waived levy for China's aviation industry will amount to approximately RMB4,000 million in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimize the airspace and air routes.

#### Limitation on Foreign Ownership

The CAAC's present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot aggregately hold a majority of our total outstanding shares. Currently, approximately 32.2% of our total outstanding shares are held by non-Chinese residents and Hong Kong, Macau or Taiwan residents (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC).

#### Competition

##### Domestic

Domestic competition from other Chinese airlines has been increasing recently as our competitors have increased capacity and expanded operations by adding new routes or additional flights to existing routes and acquiring other airlines. In addition, we faced intense competition from entrants to our domestic markets as new investments into China's civil aviation industry are made following the CAAC's relaxation of certain private-sector investment rules in July 2005. In December 2008, the CAAC announced ten measures to protect and encourage the domestic aviation industry, one of which provides that no new Chinese airlines will be licensed to incorporate and operate aviation businesses before 2010. If the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify. Our Company competes against our domestic competitors primarily on the basis of safety, quality of service and frequency of scheduled flights. With the combination of our dominant position in Shanghai, our route network and our continued commitment to safety and service quality, we believe that our Company is well-positioned to compete against our domestic competitors in the growing airline industry in China.

There are currently 41 Chinese airlines in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations. Each of these three airlines operates at least 250 routes and has a fleet of at least 240 jet aircraft. As of December 31, 2008, our Company, Air China and China Southern accounted for 19.3%, 26.2% and 24.6%, respectively, of the total commercial air traffic (as measured in RTKs) handled by Chinese airlines.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, our Company also competes against virtually all of the major domestic airlines on these routes. The number of airlines operating flights to and from Shanghai has increased significantly in recent years. We also face domestic competition from Shanghai Airlines, an airline based in Shanghai which is smaller than our Company. Competition between Shanghai Airlines and us increases as Shanghai Airlines expands its long-haul capacity and operates routes to more cities served by our Company.

## Regional

Our high yielding Hong Kong routes are highly competitive. The primary competitor on our Hong Kong routes is Hong Kong Dragon Airlines Limited, or Dragonair. We currently operate approximately 390 flights per week on routes between 16 Chinese cities and Hong Kong. Cathay Pacific Airways, or Cathay, and Dragonair compete with us on several of these routes, particularly the Shanghai-Hong Kong route. In addition to the frequency and convenience of our flights and the number of routes offered, our Company's competitive strategy for the Hong Kong routes also stresses safety and service quality. The new Air Transportation Arrangement signed between the PRC Government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition. Our Company also faces competition from Dragonair in our Hong Kong cargo operations.

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On September 28, 2006, Cathay, which previously owned approximately 17.79% of Dragonair, acquired the remaining 82.21% equity interest in Dragonair, turning Dragonair into a wholly-owned subsidiary of Cathay. In connection with the acquisition, Cathay doubled its shareholding in Air China to 20% and Air China acquired approximately 10.16% equity interest in Cathay. Cathay and Air China also entered into an agreement to enhance cooperation between them in a number of operational areas, including operating all the passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-share and revenue and cost-pooling arrangements. Cathay's acquisition of Dragonair and enhanced cooperation with Air China may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 regular direct flights per week with effect from 2009 between 16 cities in mainland China and eight cities in Taiwan. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. While we currently operate five direct routes to Taipei from Shanghai, Nanjing, Xi'an, Kunming and Wuhan, which accounts for 24 regular direct flights per week, and are one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

We previously competed with Air Macau on the Shanghai Pudong-Macau route. We operated 416 flights on our Shanghai Pudong-Macau route in 2008 but ceased to operate this route in October 2008. In addition, Air Macau's routes also provide an alternative to our Hong Kong routes for passengers traveling between Taiwan and mainland China.

#### International

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than us and have substantially greater financial resources than we do. Many of our international competitors also have significantly longer operating histories and greater name recognition than we do. Some international passengers, who may perceive these airlines to be safer than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of our international competitors have more extensive sales networks and utilize more developed reservation systems than ours, or engage in promotional activities, such as frequent flyer programs, that may be more popular than ours and effectively enhance their ability to attract international passengers. We also face significant competition in our international cargo operations. Moreover, China and the United States entered into an air service agreement on July 24, 2004. Pursuant to this agreement, five additional airlines from each country are allowed to serve the China-U.S. market over the next few years. It is expected that there will be a significant increase in China-U.S. air services over the next few years due to this agreement, which would further intensify competition in

this market. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China's entry into foreign freight markets.

Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China's operations, is the destination for most international flights to China. We compete with All Nippon Airways, Japan Airlines, Air China, Shanghai Airlines and Northwest Airlines, Inc. on our passenger routes to Japan. Hainan Airlines Company Limited, China Southern and Hong Kong Express Airways Limited also entered the Japan market and had some impact on sales for our Osaka, Nagoya and Okinawa routes. On our Korean routes, we compete with Asiana Airlines, Korean Air, China Southern and Shanghai Airlines. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines and China Southern. On our passenger flights to the United States, our principal competitors include Northwest Airlines, Inc., United Airlines, American Airlines, Air China and China Southern. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways and Lufthansa German Airlines. We compete with Air China and Qantas Airways Ltd. on our Australian routes. We compete in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements. To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in "Asia Miles", a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system.

#### Maintenance and Safety

The rapid increase in air traffic volume in China in recent years has put pressure on many components of China's airline industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. In recent years, the CAAC has placed increasing emphasis on the safety of airline operations in China and has implemented a number of measures aimed at improving the safety record of the airlines. Our ability to provide safe air transportation in the future depends on the availability of qualified and experienced pilots in China and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at Chinese airports. We have a good safety record and regard the safety of our flights as the most important component of our operations.

#### Maintenance Capability

We currently perform regular repair and maintenance checks on all of our aircraft. We are able to perform D1 checks on our Boeing 737NG and Airbus A320 and C checks on Boeing 737-300, 767-300, Airbus A300-600, MD-90, CRJ-200 and EMB-145LR. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao Airport. We have additional maintenance bases at Pudong International Airport and each of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We currently employ approximately 7,425 workers as maintenance and engineering personnel. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus Industries G.I.E., or Airbus, and Boeing Corporation, or Boeing. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have, over the past few years, acquired additional maintenance equipment, tools and fixtures and other assets, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

We entered into a joint venture with Honeywell International Inc., formerly Allied Signal Inc., in Shanghai for the purpose of performing maintenance and repairs on aircraft wheel assemblies and brakes. Since October 1997, we have operated a maintenance hangar at Hongqiao Airport which has the capacity to house two wide-body aircraft. Our Company and Rockwell Collins International Inc. of the United States have also co-established Collins Aviation Maintenance Service Shanghai Limited, which is primarily engaged in the provision of repair and maintenance services for avionics and aircraft entertaining facilities in China. Our Company and Rockwell Collins International Inc. holds 35% and 65%, respectively, of the equity interests in the joint venture. Moreover, in November 2002, our Company, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance



Limited, in which our Company holds 60% of the equity interests, to provide supplemental avionics and other maintenance services to our Company. STA, which was established in 2004 by our Company and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated March 10, 2003, also provides us with aircraft maintenance, repair and overhaul services.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US\$20,145,000 and US\$19,355,000, respectively, to the registered capital and holds 51% and 49%, respectively, of the equity interests in the joint venture.

The enhancement of our maintenance capabilities allows our Company to perform various maintenance operations in-house and continue to maintain lower spare parts inventory levels.

### Safety

The provision of safe and reliable air services for all of our customers is one of our primary operational objectives. We implement uniform safety standards and safety-related training programs in all operations. Our flight safety management division monitors and supervises our Company's flight safety. We have had a flight safety committee since the commencement of our business, comprised of members of our senior management, to formulate policies and implement routine safety checks at our Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review our overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. We have also implemented an employee incentive program, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and our safety procedures. We periodically evaluate the skills, experience and safety records of our pilots in order to maintain strict control over the quality of our pilot crews.

The management of each of our provincial hub operations is responsible for the flight safety operations at the respective hub under the supervision of our flight safety management division. We prepare monthly safety bulletins detailing recent developments in safety practices and procedures and distribute them to each of our flight crew, the maintenance department and the flight safety management department. The CAAC also requires our Company to prepare and submit semi-annual and annual flight safety reports.

All of our jet passenger aircraft pilots participated in the manufacturer training and support programs sponsored by Airbus and Boeing and are required to undergo recurrent flight simulator training and to participate in a flight theory course periodically. We use flight simulators for A300-600R, A320 and A330/340 at our own training facility, the training facility located in the CAAC training center or overseas training facilities.

### Fuel Supplies

Fuel costs represented approximately 32.5% of our operating expenses in 2008. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at five designated major airports in China, namely, the airports in Shanghai Pudong, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2008, our fuel expenses increased 22.3% as a result of increased weighted average domestic and international fuel prices. In particular, in 2008, the weighted average fuel prices paid by our Company increased by approximately 28.0%.

## Ground Facilities and Services

The center of our operations is Shanghai, one of China's principal air transportation hubs. Our Shanghai operations are based at Hongqiao Airport and Pudong International Airport. We currently also operate from various other airports in China, including Yaoqiang Airport in Jinan, Lukou Airport in Nanjing, Liuting Airport in Qingdao, Luogang Airport in Hefei, Changbei Airport in Nanchang, Wushu Airport in Taiyuan, Zhengding Airport in Shijiazhuang, Lishe Airport in Ningbo, Tianhe Airport in Wuhan, Wujiaba Airport in Kunming and Xianyang Airport in Xi'an. We own hangars, aircraft parking and other airport service facilities at Hongqiao Airport and Pudong International Airport and lease from CEA Holding certain buildings at Hongqiao Airport where our principal executive offices are located.

We have our own ground services and other operational services, such as aircraft cleaning and refueling and the handling of passengers and cargo for our operations at Hongqiao Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao Airport and Pudong International Airport. We generally contract for ground services with other airports served by our Company or the principal airlines based at other airports served by our Company for fees and other charges which are typically based on passenger or cargo volume or aircraft tonnage.

In-flight meals and other catering services for our Shanghai-originated flights are provided primarily by Shanghai Eastern Air Catering Limited Liability Company, a joint venture company affiliated with CEA Holding. We generally contract with local catering companies for flights originating from other airports. We have improved the quality of our in-flight meal service in recent years.

We incur certain airport usage fees and other charges for services performed by the airports from which we operate flights, such as air traffic control charges, take-off and landing fees, aircraft parking fees and fees payable in connection with the use of passenger waiting rooms and check-in counter space. At domestic airports, such fees are generally charged at rates prescribed by the CAAC, which are lower than rates generally in effect at airports outside China.

## Marketing and Sales

### Passenger Operations

Our marketing strategy with respect to passenger operations is primarily aimed at increasing our market share for all categories of air travelers. With respect to our Hong Kong and international routes, we are permitted to market our services on the basis of price. We also have limited flexibility in setting our airfares for domestic routes and adjust our domestic airfares in response to market demand. As part of our overall marketing strategy, we emphasize our commitment to safety and service quality. We believe that emphasis on safety is a critical component of our ability to compete successfully.

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our "Golden Swallow" frequent flyer program in 1998 and joined the "Asia Miles" frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we changed the name of our frequent flyer program to "Eastern Miles" and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels and restaurants that are our strategic partners. As a result of our continual efforts to develop the "Eastern Miles" program, the number of members of the frequent flyer program reached approximately 4.3 million in 2008, with a flight-taking rate of 10.4%, bringing the influence of our products into full play. The special services hotline "95808" call center was established and came into operation in 2004.



In 2000, we launched the “China Eastern Airlines-Great Wall” co-branded credit card jointly with the Bank of China, which provides our customers with benefits such as airfare discounts, hotel room reservation packages and increased baggage allowances. In 2004, working with partner hotels, we launched our Eastern Holiday product series to attract more leisure travelers. In addition, we continued to promote our “China Eastern Express” services on our Shanghai-Hong Kong and Shanghai-Beijing routes and our “China Shuttle” transit services. Our “China Eastern Express” services (including “BTBT” and “Shanghai Beijing Express”) provide more scheduled flights on some of our heavily traveled routes, such as Shanghai-Hong Kong and Shanghai-Beijing, compared with our other routes. Our “China Shuttle” services provide expedited transit services at Hongqiao Airport and Pudong International Airport for transit travelers on domestic routes and certain international routes, significantly enhancing our customer service. We streamlined the transfer and connection procedures, rationally allocated flights, and also introduced different fares for connection flights to meet the needs of different travelers. In 2005, we launched international routes originating from Shenyang, Dalian, Xi’an, Shenzhen, Chongqing, Chengdu and Harbin under internal code-sharing arrangements. We also introduced the “Single Check-in for Transit Passengers and Luggage” service in 23 cities, including Shantou and Xiamen. All of these efforts improved the quality of our transit services and, as a result, the number of passengers who used our transit services exceeded 800 thousand and 690 thousand persons/time in 2007 and 2008, respectively. In June 2004, we officially introduced our China Eastern Service Scheme to the public at large. Under this scheme, we devote efforts to flight scheduling, assurance and maintenance and enhance our non-regular services.

We have entered into code-sharing arrangements with American Airlines, Japan Airlines, Korean Airlines, Asiana Airlines, Qantas Airways, Air France, Thai Airways, Shanghai Airlines and China Southern Airlines. We are also contemplating more code-sharing arrangements with other airlines and plan to continue to strengthen our existing cooperation with other international airlines.

Our advertising, marketing and other promotional activities include the use of radio, television and print advertisements. We plan to continue to use advertising and promotional campaigns to increase sales on new routes and competitive routes.

In 2002, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. We continue to encourage our customers to book and purchase tickets via the Internet. We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents. Our tickets are sold throughout China through over 6,700 large- and mid-sized sales agencies and travel agencies who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at Hongqiao Airport and Pudong International Airport in Shanghai and in Anhui, Jiangsu, Zhejiang, Jiangxi, Shandong, Shanxi, Hebei, Hubei, Yunnan and Shaanxi provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Ningbo, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents, we maintain overseas sales or representative offices in Los Angeles, New York, Vancouver, Madrid, Paris, London, Frankfurt, Munich, Moscow, Sydney, Melbourne, Tokyo, Osaka, Nagasaki, Fukuoka, Nagoya, Okinawa, Niigata, Sapporo, Kagoshima, Hiroshima, Fukushima, Okayama, Matsuyama, Komatsu, Singapore, Bangkok, Seoul, New Delhi, Kuala Lumpur, Mumbai, Maldives, Johannesburg and Hong Kong, which facilitate the sale of international and Hong Kong air tickets and provide reservation confirmation and other services. In addition, we established our Hong Kong operations division in 2005 to facilitate our marketing and sales in Hong Kong. We also established a Taipei office in May 2009 to provide administrative and support services for passengers, as well as to prepare supplies for our flight crew.

As of June 1, 2008, we stopped issuing paper tickets for air travel in accordance with a mandate from the International Air Transport Association (IATA). The IATA represents approximately 240 airlines and comprises 94% of scheduled international air traffic. As a result of the mandate, we now issue electronic itineraries and receipts as well as electronic tickets to our passengers. We believe the transition to 100% electronic ticketing will decrease

administrative costs and increase flexibility and travel options for passengers in addition to benefiting the environment through the reduced need for paper. All of our direct passenger ticket sales are recorded on our computer systems. All Chinese airlines, including us, are required to use the passenger reservation service system provided by the CAAC's computer information management center, which is linked with the computer systems of major Chinese commercial airlines. We have also entered into membership agreements with several international reservation systems, including ABACUS, the largest computer reservation system in southeast Asia, TOPAS of Korea, SABRE, GALILEO and WORLDSPAN of the United States, AMADEUS of Europe, INFINI and AXESS of Japan and Sirena-Travel of Russia, which have made it easier for customers and sales agents to make reservations and purchase tickets for our international flights.

## Cargo Operations

We maintain a network of cargo sales agents domestically and internationally. We established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in Hong Kong, Tokyo, Osaka, Nagoya, Seoul, Los Angeles, Dallas, Seattle, Chicago, San Francisco, New York, Anchorage, Paris, Luxembourg and our other overseas flight destinations. In 2005, we established our northern China, southern China, southeastern China and overseas sales management centers to improve coordination among our sales offices.

## Ancillary Airline Activities

In addition to our airline operations, we also generate commission revenues from tickets sold on behalf of other airlines. Commission rates for these sales are determined by the CAAC and are based on the price of the tickets sold.

Moreover, we derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present we are the principal provider of these services at Hongqiao Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2008, we generated revenues of approximately RMB1,624 million from our airport ground services and cargo handling services.

## Patents and Trademarks

We own or have obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to our business. While patents, patent applications and trademarks are important to our competitive position, no single one is material to us as a whole.

We own various trademarks related to our business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of our trademarks are registered in China.

## Insurance

The CAAC purchases fleet insurance from PICC Property and Casualty Company Limited, or PICC, and China Pacific Property Insurance Company Ltd., on behalf of all Chinese airlines. PICC has reinsured a substantial portion of its aircraft insurance business through Lloyd's of London. The fleet insurance is subject to certain deductibles. The premium payable in connection with the insurance is allocated among all Chinese airlines based on the aircraft owned or leased by these airlines. Under the relevant PRC laws, the maximum civil liability of Chinese airlines for injuries to passengers traveling on domestic flights has been increased to RMB400,000 per passenger in March 2006, for which our Company also purchases insurance. As of July 31, 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 100,000 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not due to negligence or other wrongful act of the carrier (and its agents) or if the damage solely arose from the negligence or other wrongful act of a third party. We believe that we maintain adequate insurance coverage for the civil liability that can be imposed due to injuries to passengers under Chinese law, the Montreal Convention and any agreement we are subject to. We also maintain hull all risk, hull war risk and aircraft legal liability insurance, including third party liability insurance, of the types and in amounts customary for Chinese airlines. See also "Item 3. Key Information — Risk Factors — Insurance coverage and cost" for more information on our Company's insurance coverage.

## C. Organizational Structure

See the section headed “Item 4. Information on the Company — Business Overview”.

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## D. Property, Plant and Equipment

## Fleet

As of December 31, 2007, we operated a fleet of 223 aircraft, including 197 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters. In 2008, we added a total of 19 aircraft to our fleet, including the purchase of one A320 aircraft and the finance lease of seven A320 aircraft, five A321 aircraft, one A330-200 aircraft, three A330-300 aircraft, one B737-700 aircraft and one B737-800 aircraft and surrendered the lease of two aircraft, including one B737-300 aircraft and one B747F aircraft. We did not dispose of any older aircraft and related flight equipment in 2008. On January 30, 2008, we entered into an agreement with Boeing to purchase 30 737 NG Series aircraft (with engines). On June 27, 2008, we entered into a sale and purchase agreements with ICBC Financial Leasing Co., Ltd. regarding the sale and purchase of three Airbus A340 series aircraft, including the engines, accessories and documents in connection with such aircraft and lease agreements with ICBC Financial Leasing Co., Ltd. regarding the leasing-back of the aircraft. We plan to continue to expand our scale in 2009 and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

## Existing Fleet

As of December 31, 2008, we had a fleet of 240 aircraft, including 214 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters. The following table sets forth the details of our fleet as of December 31, 2008:

	Total Number of Aircraft	Number of Aircraft Owned and under Finance Lease	Aircraft under Operating Lease	Average Number of Seats	Average age (in years) (1)
<b>Jet Passenger Aircraft:</b>					
<b>Wide-body:</b>					
A340-600	5	5	—	322	5.0
A340-300	5	5	—	289	12.2
A330-300	15	8	7	300	1.7
A330-200	5	2	3	264	2.2
A300-600R	7	7	—	269	14.0
B767-300	3	3	—	263	12.2
<b>Narrow-body:</b>					
MD-90	9	9	—	157	10.5
A321	15	15	—	185	1.8
A320	73	47	26	158	6.2
A319	15	5	10	122	5.7
Boeing 737-800	8	—	8	158	4.3
Boeing 737-700	32	17	15	122	4.7
Boeing 737-300	22	16	6	138	12.5
EMB 145LR	10	10	—	50	2.2
CRJ-200	5	5	—	50	6.8
<b>Total Passenger Aircraft:</b>	<b>229</b>	<b>154</b>	<b>75</b>	<b>—</b>	<b>—</b>
<b>Cargo Aircraft:</b>					

MD-11F	6	—	6	—	16.0
A300-600R	3	3	—	—	18.5
B747-400ER	2	2	—	—	1.8
Total Fleet	240	159	81	—	—

(1) The average aircraft age is weighted by the number of available seats.

Our daily average aircraft utilization rate was 9.1 hours in 2008, representing a decrease of 0.7 hours compared to 2007. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2008:

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	2006	2007	2008
	(in hours)		
Wide-body:			
A340-600	14.0	13.7	10.9
A340-300	12.1	11.7	9.5
A330-300	9.3	9.6	8.9
A330-200	11.5	14.2	13.3
A300-600	8.6	9.3	7.9
B767-300	9.1	10.1	7.7
Narrow-body:			
MD-90	8.1	7.7	5.6
A321	9.0	9.6	9.1
A320	9.3	9.8	9.3
A319	7.8	10.0	9.3
Boeing 737-800	10.5	10.6	9.8
Boeing 737-700	9.9	10.0	9.8
Boeing 737-300	9.0	9.4	8.9
EMB 145	7.6	8.0	6.5
CRJ-200	7.4	8.5	7.8

Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. Our Airbus A340-300 and A340-600 aircraft are primarily used for our routes to the United States, Europe, Hong Kong, Korea and other international destinations, including Los Angeles, New York, London, Paris, Seoul, and Bangkok, and on major domestic routes to cities such as Dalian. Our Airbus A330 aircraft are primarily used for our Beijing-Shanghai and Shanghai-Hong Kong and Singapore, Australia, India, Japan and Korea routes. Our Airbus A320, MD-90 and Boeing B737 aircraft are suitable for middle and short distance flights and are primarily used for our domestic routes. Our EMB145LR and CRJ-200 aircraft are mainly used on our regional short-distance routes.

Our MD-11F, A300-600R and B747-400ER aircraft are used for our cargo operations and carry cargo to the United States, Europe and Japan. Our general aviation services customers include provincial authorities in charge of agriculture, forestry and geology.

#### Future Fleet Development

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. The following table summarizes our currently anticipated jet aircraft deliveries from 2009 to 2010 as of December 31, 2008:

	2009E	2010E	Total
Aircraft			
A320	10	14	24
B737-800	3	2	5
B737-700	7	4	11
B787	—	4	4
Total	20	24	44

The actual acquisition of any of these aircraft or any additional aircraft may depend on such factors as the general economic conditions, our operating results and other capital requirements. We believe that our aircraft acquisition plan will help us accomplish our expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

#### Fleet Financing Arrangements

We generally acquire aircraft through either long-term capital leases or operating leases. Under the terms of most capital leases, we generally are obligated to make lease payments that finance most of the purchase price of the aircraft over the lease term. Upon the expiration of the lease term, we must either purchase the aircraft at a specified price or pay any amount by which such price exceeds the proceeds from the disposition of the aircraft to third parties. Alternatively, some capital leases provide for ownership of the aircraft to pass to us upon satisfaction of the final lease payment. Under capital leases, aircraft are generally leased for approximately the whole of their estimated working life, and the leases are either non-cancelable or cancelable only on a payment of a major penalty by the lessee. As a result, we bear substantially all of the economic risks and rewards of ownership of the aircraft held under capital leases. Operating leases, however, are customarily cancelable by the lessee on short notice and without major penalty. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

We intend to increase the use of operating leases to improve the flexibility of our operations. However, each decision on our financing alternatives will depend on an evaluation of the following factors:

- our aircraft requirements and anticipated future deliveries;
- capital structure and cash flow situation;
- prevailing interest rates; and
- other market conditions in effect at the time of any such acquisition or financing.

All of our payment obligations under current aircraft leases have been guaranteed by banks in China.

#### Operating Facilities

The Company (including branches) has operations on 33 parcels of land, occupying a total area of 1,564,573 square meters. The Company has obtained the land use rights certificates and building ownership certificates for certain parcels of land and, with CEA Holding's assistance, is currently in the process of applying for the certificates with respect to the remaining parcels. Our five major holding subsidiaries, including China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., own and have operations on 36 parcels of land, occupying a total area of 1,688,550 square meters.

The Company (including branches) owns 1,305 buildings, with a total gross floor area of 524,976 square meters. Our five major holding subsidiaries, including China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., own 53 buildings, with a total gross floor area of approximately 244,059 square meters.

We lease from CEA Holding the office buildings in Hongqiao Airport and the properties of our Shanxi branch, Hebei branch and Northwest branch.

In accordance with the lease agreements between our Company and CEA Holding, we lease from CEA Holding 351 properties in total, including 40 parcels of land, occupying a total area of 1,113,307 square meters and 311 buildings and facilities, with a total gross floor area of 305,977 square meters.

#### Item 4A. Unresolved Staff Comments

None.

#### Item 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our audited consolidated financial statements, together with the related notes, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with IFRS.

## Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger and cargo airline services. Our overall capacity on an available tonne kilometer, or ATK, basis decreased by 3.7%, from 12,085.9 million ATKs in 2007 to 11,642.2 ATKs in 2008, and our passenger capacity on an available seat kilometer, or ASK, basis decreased by 2.3%, from 77,717.2 million Asks in 2007 to 75,964.3 million Asks in 2008. Total traffic on a revenue tonne kilometer, or RTK, basis decreased by 6.4%, from 7,713.9 million RTKs in 2007 to 7,219.0 RTKs in 2008.

The historical results of operations discussed in this Annual Report may not be indicative of our future operating performance. Like those of other airlines, our operations depend substantially on overall passenger and cargo traffic volume and are subject to seasonal and other variations that may influence passenger travel demand and cargo volume and may not be under our control, including unusual political events, changes in the domestic and global economies and other unforeseen events. Our operations will be affected by, among other things, fluctuations in aviation fuel prices, aircraft acquisition and leasing costs, maintenance expenses, take-off and landing charges, wages, salaries and benefits, other operating expenses and the rates of income taxes paid.

Our financial performance is also significantly affected by factors associated with operating in a highly regulated industry, as well as a number of other external variables, including political and economic conditions in China, competition, foreign exchange fluctuations and public perceptions of the safety of air travel with Chinese airlines. Because nearly every aspect of our airline operations is subject to the regulation of the CAAC, our operating revenues and expenses are directly affected by the CAAC regulations with respect to, among other things, domestic airfares, level of commissions paid to sales agents, the aviation fuel price, take-off and landing charges and route allocations. The nature and extent of airline competition and the ability of Chinese airlines to expand are also significantly affected by various CAAC regulations and policies. Changes in the CAAC's regulatory policies, or in the implementation of such policies, are therefore likely to have a significant impact on our future operations.

## Certain Financial Information by Business Segment

Since 2006, our Company has operated in two business segments, namely the passenger business segment (including cargo carried by passenger flights) and cargo and mail transportation business segment, in view of the continued growth of our cargo and mail transportation services.

The following table sets forth our segment results for the year ended December 31, 2008:

	Passenger RMB	Cargo and logistics RMB	Unallocated RMB	Total RMB
	(in millions)			
Traffic revenues	35,528	3,316	—	38,844
Other revenues and operating income	1,477	1,092	257	2,826
Total segment revenue	37,005	4,408	257	41,670
Inter-segment revenue	(426)	—	(171)	(597)
Revenues	36,579	4,408	86	41,073
Operating (loss)/profit - segment results	(15,149)	(4)	70	(15,083)
Finance income	1,960	101	—	2,061

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Finance costs	(2,157)	(147)	(25)	(2,329)
Share of results of associates	—	—	70	70
Share of results of jointly controlled entities	—	—	24	24
(Loss)/profit before income tax	(15,346)	(50)	139	(15,257)
Income tax	10	(74)	(10)	(74)
(Loss)/profit for the year	(15,336)	(124)	129	(15,331)

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The following table sets forth our segment results for the year ended December 31, 2007:

	Passenger RMB	Cargo and logistics RMB	Unallocated RMB	Total RMB
	(in millions)			
Traffic revenues	37,550	3,113	—	40,663
Other revenues and operating income	1,209	901	208	2,318
<b>Total segment revenue</b>	<b>38,759</b>	<b>4,014</b>	<b>208</b>	<b>42,981</b>
Inter-segment revenue	(349)	—	(98)	(448)
<b>Revenues</b>	<b>38,410</b>	<b>4,014</b>	<b>110</b>	<b>42,534</b>
Operating (loss)/profit - segment results	(93)	182	39	128
Finance income	2,055	84	1	2,140
Finance costs	(1,799)	(165)	(14)	(1,978)
Share of results of associates	—	—	58	58
Share of results of jointly controlled entities	—	—	30	30
<b>Profit before income tax</b>	<b>163</b>	<b>101</b>	<b>114</b>	<b>378</b>
Income tax	39	(58)	(4)	(23)
<b>Profit for the year</b>	<b>202</b>	<b>43</b>	<b>110</b>	<b>355</b>

The following table sets forth our segment results for the year ended December 31, 2006:

	Passenger RMB	Cargo and mail RMB	Unallocated RMB	Total RMB
	(in millions)			
Traffic revenues	33,413	2,843	—	36,256
Other revenues	1,212	709	140	2,061
<b>Total segment revenue</b>	<b>34,625</b>	<b>3,552</b>	<b>140</b>	<b>38,317</b>
Inter-segment revenue	(690)	—	(70)	(760)
<b>Revenues</b>	<b>33,935</b>	<b>3,552</b>	<b>70</b>	<b>37,557</b>
Operating (loss)/profit - segment results	(2,566)	(196)	22	(2,740)
Finance income	1,016	18	1	1,035
Finance costs	(1,654)	(104)	(8)	(1,766)
Share of results of associates	—	—	104	104
Share of results of jointly controlled entities	—	—	30	30
<b>(Loss)/Profit before income tax</b>	<b>(3,204)</b>	<b>(282)</b>	<b>149</b>	<b>(3,337)</b>
Income tax	198	(30)	(5)	163
<b>(Loss)/Profit for the year</b>	<b>(3,006)</b>	<b>(312)</b>	<b>144</b>	<b>(3,174)</b>



## A. Operating Results

The following tables set forth our summary income statements and balance sheet data:

	Year Ended December 31,				2008 RMB
	2004(1) RMB	2005(1) RMB	2006(2) RMB	2007(2) RMB	
	(in millions)				
<b>Summary Income Statements Data</b>					
<b>IFRS</b>					
Revenues	21,328	27,380	37,557	42,534	41,073
Other operating income and gains	85	245	499	488	672
Operating expenses	(20,117)	(27,562)	(40,795)	(42,894)	(56,828)
Operating profit/(loss)	1,296	63	(2,740)	128	(15,083)
Finance income/(costs), net	(641)	(578)	(731)	162	(267)
Profit/(loss) before income tax	650	(528)	(3,338)	378	(15,256)

	Year Ended December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB (in millions)	2007(2) RMB	2008 RMB
Profit/(loss) for the year attributable to equity holders of the Company	385	(418)	(3,035)	379	(15,269)
Earnings/(loss) per share attributable to equity holders of the Company (2)	0.08	(0.09)	(0.62)	0.08	(3.14)

	As of December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB (in millions)	2007(2) RMB	2008 RMB
<b>Summary Balance Sheet Data</b>					
Cash and cash equivalents	2,114	1,864	1,987	1,655	3,451
Net current liabilities	(12,475)	(25,548)	(24,588)	(26,098)	(43,458)
Non-current assets	35,918	52,106	51,725	57,949	62,652
Long term borrowings, including current portion	(10,736)	(12,659)	(14,932)	(14,675)	(15,628)
Obligations under finance leases, including current portion	(8,662)	(10,588)	(11,949)	(16,452)	(20,809)
Total share capital and reserves	5,897	5,561	2,534	2,361	(13,097)

- (1) The figures for the years ended December 31, 2004 and 2005 have been restated as a result of the changes of accounting policy.
- (2) The figures for the years ended December 31, 2006 and 2007 have been restated as a result of the changes of accounting policy. Please refer to Note 2(b) of the Financial Statements attached to this Annual Report on Form 20-F for more details.
- (3) The calculation of (loss)/earnings per share is based on the consolidated (loss)/profit attributable to shareholders and the weighted average number of shares of 4,866,950,000 in issue during the year.

## 2008 Compared to 2007

### Revenues

Our revenues decreased by 3.4% from RMB42,534 million in 2007 to RMB41,073 million in 2008 (net of the applicable PRC business tax). This decrease was primarily due to a decrease in the revenues of our passenger business segment, as a result of decreased traffic volume. The decrease in our total revenue was partly offset by the increase of revenue from the cargo and logistics business segment. In 2008, we transported a total of 37.2 million passengers, representing a decrease of 4.9% from 39.2 million passengers in 2007. Our total passenger traffic (as measured in RPKs) decreased by 5.9% from 57,183 million passenger-kilometers in 2007 to 53,785 million passenger-kilometers in 2008 and our total cargo and mail traffic (as measured in RFTKs) decreased by 7.4% from 2,614 million freight tonne-kilometers in 2007 to 2,420 million freight tonne-kilometers in 2008. Our average yield for the passenger business segment remained at RMB0.62 per passenger-kilometer, whereas our average yields for the cargo and

logistics business segment increased by 5.2% from RMB2.1 per tonne-kilometer in 2007 to RMB2.2 per tonne-kilometer in 2008.

This decrease was primarily due to a decline in demand for global air transportation due to the global economic crisis in 2008, as well as a series of natural disasters and unexpected incidents that occurred in China, which weakened the demand for domestic travel and transportation and reduced the incentive for foreign travellers to visit China.

#### Passenger business segment revenues

Our total passenger business segment revenues, including revenues generated from cargo carried by passenger flights, decreased by 4.5% from RMB38,759 million in 2007 to RMB37,005 million in 2008. Total passenger business segment revenues after elimination of inter-segment revenues, which accounted for 89.0% of our total revenues, decreased by 4.8% from RMB38,410 million in 2007 to RMB36,579 million in 2008.

For financial reporting purposes, our passenger business segment includes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our passenger related operating statistics, such as passenger traffic volume and passenger yield, exclude cargo carried by passenger flights. The following discussion of our passenger revenues (excluding cargo carried by passenger flights) and passenger related operating statistics conform to industry practice.

Our passenger traffic revenues decreased by RMB1,692 million, or 4.8%, from RMB35,178 million in 2007 to RMB33,486 million in 2008, which accounted for 86.2% of our total traffic revenues in 2008. The decrease was due to a decline in demand for global air transportation due to the global economic crisis in 2008, as well as a series of natural disasters and unexpected incidents that occurred in China, which weakened the demand for domestic travel and transportation and reduced the incentive for foreign travellers to visit China.

Our domestic passenger traffic revenues (excluding Hong Kong passenger revenues), which accounted for 63.9% of our total passenger traffic revenues in 2008, decreased by 1.7% from RMB21,756 million in 2007 to RMB21,389 million in 2008. The decrease was mainly due to a series of catastrophic natural disasters and unexpected incidents, coupled with the increasing impact of the global financial crisis on the PRC economy, which resulted in a rapid decline in demand in the domestic air transportation market. However, because the 2008 Olympic Games and other large-scale events were held in China, the number of passengers carried did not decrease significantly and the passenger-kilometers yield on domestic routes remained the same as last year. Compared to 2007, our domestic passenger traffic (as measured in RPKs) decreased by 0.4%, from 35,492 million tonne-kilometers in 2007 to 35,352 million tonne-kilometers in 2008. The number of passengers carried on domestic routes decreased by 2.4%, from 31.2 million in 2007 to 30.4 million in 2008. Our passenger-kilometers yield for domestic routes remained at RMB0.61 per passenger-kilometer.

International passenger traffic revenues, which accounted for 30.3% of our total passenger traffic revenues in 2008, decreased by 10.2% from RMB11,280 million in 2007 to RMB10,134 million in 2008. This decrease was primarily due to a decrease in our international passenger traffic, which resulted from the reduced number of flights on long-distance routes, as well as a decrease in revenue as a result of fluctuations of exchange rates. Our international passenger traffic (as measured in RPKs) decreased by 16.4% in 2008, from 18,386 million in 2007 to 15,375 million in 2008. The number of passengers carried on international routes decreased by 17.2%, from 5.7 million in 2007 to 4.7 million in 2008. Our passenger-kilometers yield for international routes increased from RMB0.61 per passenger-kilometer in 2007 to RMB0.66 per passenger-kilometer in 2008.

Hong Kong passenger traffic revenues, which accounted for 5.9% of our total passenger traffic revenues in 2008, decreased by 8.4% from RMB2,142 million in 2007 to RMB1,963 million in 2008. This decrease was due to intensified competition and reduced capacity, which led to a decrease of 7.5%, from 3,305 million in 2007 to 3,058 million in 2008, in our Hong Kong passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong routes decreased by 8.4%, from 2.3 million in 2007 to 2.1 million in 2008. Our passenger-kilometers yield for Hong Kong routes decreased from RMB0.65 per passenger-kilometer in 2007 to RMB0.64 per passenger-kilometer in 2008.

#### Cargo and logistics segment revenues

We generate cargo and mail revenues from our cargo and mail transportation services. Our total revenues from our cargo and logistics business segment, excluding revenues generated from cargo carried by passenger flights, increased by 9.8% from RMB4,014 million in 2007 to RMB4,408 million in 2008. There were no inter-segment revenues in 2008. The increase was primarily due to an increase in the average cargo yield, partly offset by a decrease in our cargo and mail traffic caused by decreases in service volume. Cargo and mail yield increased from RMB2.10 in 2007 to RMB2.21 in 2008 per cargo tonne-kilometer primarily due to increase in domestic cargo market price.

For financial reporting purposes, our cargo and logistics business segment excludes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our cargo and mail related operating statistics, such as cargo and mail traffic volume and cargo and mail yield, include cargo carried by passenger flights. The following discussion of our cargo and mail revenues (including cargo carried by passenger flights) and cargo and mail related operating statistics conform to industry practice.



Our cargo and mail traffic revenues decreased by RMB128 million, or 2.3%, from RMB5,486 million in 2007 to RMB5,358 million in 2008, which accounted for 13.8% of our total traffic revenues in 2008. The signing of the Air Rights Agreement between China and the United States and the Trade in Services Agreement between China and six ASEAN countries in July 2007 removed the restrictions on China's entry into foreign freight markets, which boosted the growth in revenues in the first half of the year. However, the import and export trading demand was largely inhibited due to the global financial crisis in the second half of the year, leading to a decline in traffic volume on principle routes, such as the United States and Europe routes, where the traffic volume decreased by 20% and 11%, respectively, compared to the same period in 2007.

Our domestic cargo and mail traffic revenues (excluding Hong Kong cargo and mail revenues), which accounted for 14.7% of our total cargo and mail traffic revenues in 2008, increased by 32.4% from RMB593 million in 2007 to RMB785 million in 2008. This increase was primarily due to an increase in service charges. Compared to 2007, our domestic cargo and mail traffic (as measured in RFTKs) increased by 2.2%, from 609 million in 2007 to 622 million in 2008. The weight of cargo and mail carried on domestic routes slightly decreased by 0.2%, from 464 million kilograms in 2007 to 463 million kilograms in 2008. Our freight tonne-kilometers yield for domestic routes increased from RMB0.97 per tonne-kilometer in 2007 to RMB1.26 per tonne-kilometer in 2008.

International cargo and mail traffic revenues, which accounted for 76.2% of our total cargo and mail traffic revenues in 2008, decreased by 6.4% from RMB4,364 million in 2007 to RMB4,083 million in 2008, due to a decrease of 11.6% in the weight of cargo and mail carried on international routes from 396 million kilograms in 2007 to 350 million kilograms in 2008. Our freight tonne-kilometers yield for international routes increased from RMB2.31 per tonne-kilometer to RMB2.42 per tonne-kilometer.

Hong Kong cargo and mail traffic revenues, which accounted for 9.1% of our total cargo and mail traffic revenues in 2008, decreased by 7.4% from RMB528 million in 2007 to RMB489 million in 2008. This decrease was primarily due to a decrease of 5.9%, from 118 million in 2007 to 111 million in 2008, in our Hong Kong cargo and mail traffic (as measured in RFTKs). The amount of cargo and mail carried on Hong Kong routes also decreased by 4.9%, from 80 million kilograms in 2007 to 76 million kilograms in 2008. Our freight tonne-kilometers yield for Hong Kong routes decreased from RMB4.49 per tonne-kilometer to RMB4.42 per tonne-kilometer.

#### Other revenues

We also generated revenues other than passenger and cargo and mail services from airport ground services and ticket handling services. Airport ground services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao Airport and Pudong International Airport. Our total other revenues increased by 21.9% from RMB2,318 million in 2007 to RMB2,826 million in 2008 due to the expansion of our logistics business.

#### Operating Expenses

Our two business segments, namely, our passenger business segment and our cargo and mail business segment, incur similar operating expenses which are subject to similar trends. As a result, we do not provide segmental analysis for our operating expenses and the following discussion is based on our business as a whole.

Our total operating expenses increased by 32.5% from RMB42,894 million in 2007 to RMB56,828 million in 2008 primarily due to a significant increase in aviation fuel expenses, aircraft maintenance expenses, depreciation of assets and losses arising from fair value movements of derivative financial instruments. Our total operating expenses as a percentage of our revenues increased from 100.8% in 2007 to 138.4% in 2008.

Aircraft fuel expenses increased by 22.3% from RMB15,117 million in 2007 to RMB18,488 million in 2008. This increase was primarily due to a substantial increase in the average price of aviation fuel. In 2008, we consumed a total of approximately 2.4 million tonnes of aviation fuel, representing a decrease of 5.5% compared to 2007. Although our weighted average fuel price per tonne in 2008 increased substantially by approximately 28% from 2007, our aircraft fuel expenses accounted for 32.5% of our total operating expenses in 2008, as compared to 35.2% in 2007. Aircraft fuel expenses accounted for 32.5% of our total operating expenses in 2008, as compared to 35.2% in 2007.

Changes in fair value of financial derivatives resulted in a loss of RMB6,401 million, compared to an income of RMB84 million during the same period in 2007. The difference was mainly due to sharp fluctuations in international oil prices in 2008, which plunged rapidly after reaching a historical high in July 2008. In 2008, the fair value movements of financial derivatives charged to the income statement accounted for 11.26% of our total operating costs. As of December 31, 2008, the loss of fair value in our aviation fuel hedging contracts had contributed to the loss of our Company in the amount of approximately RMB6,256 million. See Note 3(a) to our audited consolidated financial statements for details.

Take-off and landing charges, which accounted for 9.3% of our total operating expenses in 2008, increased by 2.0% from RMB5,174 million in 2007 to RMB5,280 million in 2008 primarily due to the increase in the number of flights of aircraft with higher take-off and landing charges in 2008. Moreover, the Civil Aviation Airport Charges Reform Implementation Plan, which was issued by the CAAC and NDRC on December 28, 2007 and which became effective on March 1, 2008, substantially increased the level of passenger service fees, which resulted in a considerable increase in the unit charges for aircraft take-off and landing.

Wages, salaries and benefits, which accounted for 8.0% of our total operating expenses in 2008, increased by 5.0% from RMB4,327 million in 2007 to RMB4,545 million in 2008, primarily due to the increase in the number of our employees from 40,477 employees as of December 31, 2007 to 44,153 employees as of December 31, 2008 as we continued to expand our core businesses. However, we experienced a substantial decline in operating performance in 2008 and, accordingly, staff performance bonus payments were reduced compared to the same period in 2007.

Office, administration and other expenses, which were largely incurred by our passenger business segment, increased by 5.8% from RMB3,834 million in 2007 to RMB4,056 million in 2008 primarily due to the increased expenses relating to our business expansion, including the increase in overseas crew expenses, office expenses, travel expenses, value added tax and custom duties related to operating leases, maintenance expenses and handling fees charged by financial institutions.

Selling and marketing expenses, which were largely incurred by our passenger business segment, decreased by 13.4% from RMB1,805 million in 2007 to RMB1,563 million in 2008, accounting for 2.8% of our total operating expenses in 2008. The decrease was primarily due to the decrease in agency business handling fees and distribution system service fees as a result of a decrease in the number of passengers carried as well as the decrease in overseas distribution system fees resulting from the depreciation of the U.S. dollar against the Renminbi.

Aircraft operating lease expenses decreased by 4.1% from RMB2,851 million in 2007 to RMB2,735 million in 2008. The decrease was mainly due to the expiry of operating leases of certain aircraft in 2007 and the appreciation of the Renminbi against the U.S. dollar. The number of aircraft operated by us increased from 223 as of December 31, 2007 to 240 as of December 31, 2008. Depreciation and amortization expenses increased by 1.3% from RMB4,720 million in 2007 to RMB4,782 million in 2008 primarily due to the expansion of the scale of our operations and an increase in the number of our aircraft.

Aircraft maintenance expenses, which accounted for 5.8% of our total operating expenses in 2008, increased by 36.8% from RMB2,392 million in 2007 to RMB3,273 million in 2008. This was principally due to an increase in aircraft overhaul expenses, a substantial increase in the number of engines under operating leases sent for overhaul in 2008 compared to the same period in 2007, and an increase in repair and maintenance provisions relating to the surrender of aircraft under operating leases which will expire and be surrendered in 2009.

Impairment losses for assets increased from RMB227 million in 2007 to RMB2,977 million in 2008, mainly attributable to our impairment charge on property, plant and equipment, including certain aircraft models which have relatively lower operational efficiency and which management intends to retire in the near future, as well as provision for goodwill.





## Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies and income from disposal of aircraft and relevant assets. The total amount of our other operating income and other gains increased from RMB488 million in 2007 to RMB672 million in 2008 primarily due to income derived from the disposal of aircraft and relevant assets of RMB267 million in 2008. The government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

## Finance Costs

Our finance costs increased by 17.7% from RMB1,979 million in 2007 to RMB2,328 million in 2008 primarily due to interest expenses of RMB1,945 million on loans from banks and other financial institutions, representing an increase of 19.4% from 2007, as well as the interest expense of RMB651 million on finance lease obligations, representing a decrease of 11.1% from 2007.

## Net Profit / (Loss)

As a result of the foregoing operating results, the net loss attributable to equity holders was RMB15,269 million in 2008, as compared to a net profit of RMB379 million in 2007.

## Fixed Assets

Our Company had approximately RMB52,678 million of fixed assets as of December 31, 2008, including aircraft, engines and flight equipment.

In view of the decline in demand in the air transportation market under the current economic environment, we performed an impairment test on property, plant and equipment (“PP&E”) as of December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft models and related equipment which reflects their relatively lower operational efficiency and management’s intention to retire these aircraft in the near future. See Note 10 to our audited consolidated financial statements for details. In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.

## 2007 Compared to 2006

### Revenues

Our revenues increased by 13.0% from RMB37,557 million in 2006 to RMB42,534 million in 2007 (net of the applicable PRC business tax). This increase was primarily due to an increase in the revenues of our passenger business segment and cargo and mail business segment, as a result of increased traffic volume, partly offset by the average yield. In 2007, we transported a total of 39.2 million passengers, representing an 11.8% increase from 35.0 million passengers in 2006. Our total passenger traffic (as measured in RPKs) increased by 13.8% from 50,272 million passenger-kilometers in 2006 to 57,183 million passenger-kilometers in 2007 and our total cargo and mail traffic (as measured in RFTKs) increased by 7.0% from 2,444 million freight tonne-kilometers in 2006 to 2,614 million freight tonne-kilometers in 2007. Our average yield for the passenger business segment increased to RMB0.62 per passenger-kilometer, whereas our average yields for the cargo and mail business segment decreased by 8.7% from RMB2.3 per tonne-kilometer in 2006 to RMB2.1 per tonne-kilometer in 2007.

### Passenger business segment revenues

Our total passenger business segment revenues, including revenues generated from cargo carried by passenger flights, increased by 11.9% from RMB34,625 million in 2006 to RMB38,759 million in 2007. Total passenger business segment revenues after elimination of inter-segment revenues, which accounted for 90.3% of our total revenues, increased by 12.9% from RMB33,935 million in 2006 to RMB38,410 million in 2007. The increase was primarily due to the increase in traffic revenues for the passenger business segment.

For financial reporting purposes, our passenger business segment includes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our passenger related operating statistics, such as passenger traffic volume and passenger yield, exclude cargo carried by passenger flights. The following discussion of our passenger revenues (excluding cargo carried by passenger flights) and passenger related operating statistics conform to industry practice.

Our passenger traffic revenues increased by RMB4,548 million, or 14.8%, from RMB30,630 million in 2006 to RMB35,178 million in 2007, due to the increase in traffic revenues generated from our domestic and international services, partly offset by those generated from our regional services.

Our domestic passenger traffic revenues (excluding Hong Kong passenger revenues), which accounted for 61.8% of our total passenger traffic revenues in 2007, increased by 13.7% from RMB19,137 million in 2006 to RMB21,756 million in 2007. This increase was primarily due to an increase in our domestic passenger traffic following increases in our capacity. Compared to 2006, our domestic passenger traffic (as measured in RPKs) increased by 13.5%, from 31,272 million tonne-kilometers in 2006 to 35,492 million tonne-kilometers in 2007. The number of passengers carried on domestic routes increased by 12.3%, from 27.7 million in 2006 to 31.2 million in 2007. Our passenger-kilometers yield for domestic routes remained at RMB0.61 per passenger-kilometer.

International passenger traffic revenues, which accounted for 32.1% of our total passenger traffic revenues in 2007, increased by 24.2% from RMB9,084 million in 2006 to RMB11,280 million in 2007. This increase was primarily due to an increase in our international passenger traffic, which resulted from increases in our capacity, as well as an increase in air fares. Our international passenger traffic (as measured in RPKs) increased by 18.8% in 2007, from 15,478 million in 2006 to 18,386 million in 2007. The number of passengers carried on international routes increased by 18.0%, from 4.8 million in 2006 to 5.7 million in 2007. Our passenger-kilometers yield for international routes increased from RMB0.58 per passenger-kilometer in 2006 to RMB0.61 per passenger-kilometer in 2007.

Hong Kong passenger traffic revenues, which accounted for 6.1% of our total passenger traffic revenues in 2007, decreased by 11.1% from RMB2,409 million in 2006 to RMB2,142 million in 2007. This decrease was due to a slight decrease of 6.2%, from 3,521 million in 2006 to 3,305 million in 2007, in our Hong Kong passenger traffic (as measured in RPKs), as well as a decrease in the average price of our regional airfares. The number of passengers carried on Hong Kong routes decreased 6.3%, from 2.5 million in 2006 to 2.3 million in 2007. Our passenger-kilometers yield for Hong Kong routes decreased from RMB0.71 per passenger-kilometer in 2006 to RMB0.65 per passenger-kilometer in 2007.

#### Cargo and mail segment revenues

We generate cargo and mail revenues from our cargo and mail transportation services. Our total revenues from our cargo and mail business segment, excluding revenues generated from cargo carried by passenger flights, increased by 13.0% from RMB3,552 million in 2006 to RMB4,014 million in 2007. There were no inter-segment revenues in 2006 and 2007. The increase was primarily due to an increase in our cargo and mail traffic caused by increases in service volume as a result of the expansion of our capacity, partly offset by the average cargo yield. Cargo and mail yield decreased from RMB2.30 in 2006 to RMB2.10 in 2007 per cargo tonne-kilometer primarily due to fare decreases resulting from intensified market competition.

For financial reporting purposes, our cargo and logistics business segment excludes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our cargo and mail related operating statistics, such as cargo and mail traffic volume and cargo and mail yield, include cargo carried by passenger flights. The following discussion of our cargo and mail revenues (including cargo carried by passenger flights) and cargo and mail related operating statistics conform to industry practice.

Our cargo and mail traffic revenues decreased by RMB140 million, or 2.5%, from RMB5,625 million in 2006 to RMB5,486 million in 2007, due to the decrease in traffic revenues generated from our international services and regional services.

Our domestic cargo and mail traffic revenues (excluding Hong Kong cargo and mail revenues), which accounted for 10.8% of our total cargo and mail traffic revenues in 2007, increased by 17.2% from RMB506 million in 2006 to RMB593 million in 2007. This increase was primarily due to an increase in our domestic cargo and mail traffic, as well as an increase in service charges. Compared to 2006, our domestic cargo and mail traffic (as measured in RFTKs) increased by 5.9%, from 575 million in 2006 to 609 million in 2007. The weight of cargo and mail carried on domestic routes increased by 5.7%, from 439 million kilograms in 2006 to 464 million kilograms in 2007. Our freight tonne-kilometers yield for domestic routes increased from RMB0.87 per tonne-kilometer to RMB0.97 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 79.6% of our total cargo and mail traffic revenues in 2007, decreased slightly by 0.7% from RMB4,396 million in 2006 to RMB4,364 million in 2007, due to a significant decrease in service charges despite the increase of 10.3% in the weight of cargo and mail carried on international routes from 359 million kilograms in 2006 to 396 million kilograms in 2007. Our freight tonne-kilometers yield for international routes decreased from RMB2.54 per tonne-kilometer to RMB2.31 per tonne-kilometer.

Hong Kong cargo and mail traffic revenues, which accounted for 9.6% of our total cargo and mail traffic revenues in 2007, decreased by 27.0% from RMB723 million in 2006 to RMB528 million in 2007. This decrease was primarily due to a decrease of 16.8%, from 141 million in 2006 to 118 million in 2007, in our Hong Kong cargo and mail traffic (as measured in RFTKs). The amount of cargo and mail carried on Hong Kong routes also decreased by 16.6%, from 96 million kilograms in 2006 to 80 million kilograms in 2007. Our freight tonne-kilometers yield for Hong Kong routes decreased from RMB5.24 per tonne-kilometer to RMB4.49 per tonne-kilometer.

#### Other revenues

We also generated revenues other than passenger and cargo and mail services from airport ground services and ticket handling services. Airport ground services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao Airport and Pudong International Airport. Our total other revenues increased by 12.5% from RMB2,061 million in 2006 to RMB2,318 million in 2007 due to the increase in ticketing services as a result of increases in ticket refund charges and airport ground services as a result of increased air traffic.

#### Operating Expenses

Our two business segments, namely, our passenger business segment and our cargo and mail business segment, incur similar operating expenses which are subject to similar trends. As a result, we do not provide segmental analysis for our operating expenses and the following discussion is based on our business as a whole.

Our total operating expenses increased by 5.1% from RMB40,795 million in 2006 to RMB42,894 million in 2007 primarily due to a significant increase in aviation fuel expenses, wages, salaries and other benefits, take off and landing charges, office, administration and other expenses and selling and marketing expenses, partly offset by the decrease in aircraft operating lease and aircraft maintenance expenses. However, our total operating expenses as a percentage of our revenues decreased from 108.6% in 2006 to 100.8% in 2007.

Aviation fuel expenses, which accounted for 35.2% of our total operating expenses in 2007, increased by 11.1% from RMB13,609 million in 2006 to RMB15,117 million in 2007. This increase was primarily due to rising fuel prices, the increase in fuel consumption due to the substantial increase in our total flying hours and mileage in 2007. In 2007, we consumed a total of 2.55 million tonnes of aviation fuel, representing an increase of 9.5% compared to 2006. We paid a weighted average fuel price of RMB5,879 per tonne in 2007, representing an increase of RMB99 per tonne, or

approximately 1.7%, from RMB5,780 per tonne in 2006. Aviation fuel expenses accounted for 35.2% of our total operating expenses in 2007, as compared to 33.3% in 2006.

Take-off and landing charges, which accounted for 12.1% of our total operating expenses in 2007, increased by 3.71% from RMB4,989 million in 2006 to RMB5,174 million in 2007 primarily due to the increase in our flights from approximately 340,000 in 2006 to approximately 370,000 in 2007, while partly offset by a decrease in the average take-off and landing charges.

Wages, salaries and benefits, which accounted for 10.0% of our total operating expenses in 2007, increased by 22.3% from RMB3,538 million in 2006 to RMB4,327 million in 2007, primarily due to the increase in the number of our employees following the expansion of our core business operations, the improvement of basic salaries and the increase in flying hour payments resulting from the increase in the flying hours of our pilots.

Office, administration and other expenses, which was largely incurred by our passenger business segment, increased by 5.9% from RMB3,619 million in 2006 to RMB3,834 million in 2007 primarily due to our business expansion, an increase in overseas crew expenses and an increase in settlement fees due to flight delays resulting from the additional number of flights.

Selling and marketing expenses, which was largely incurred by our passenger business segment, increased by 4.0% from RMB1,735 million in 2006 to RMB1,805 million in 2007, accounting for 4.2% of our total operating expenses in 2007. The increase was primarily due to the increase in agency business handling fees and distribution system service fees as a result of an increase in the number of passengers carried as well as an increase in the price of overseas distribution systems.

Aircraft operating lease expenses decreased by 3.5% from RMB2,955 million in 2006 to RMB2,851 million in 2007. The decrease was mainly due to the expiry of operating leases of certain aircraft in 2007 and the appreciation of the Renminbi against the U.S. dollar. The number of aircraft operated by us increased from 205 as of December 31, 2006 to 223 as of December 31, 2007. Depreciation and amortization expenses increased by 5.9% from RMB4,456 million in 2006 to RMB4,720 million in 2007 primarily due to the expansion of the scale of our operations and the introduction of additional aircraft.

Aircraft maintenance expenses, which accounted for 5.6% of our total operating expenses in 2007, decreased by 9.6% from RMB2,647 million in 2006 to RMB2,392 million in 2007. This was principally due to the timing of overhauls of aircraft under operating leases.

#### Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies. The net amount of our other operating income and gains increased due to an increase in government subsidies from RMB462 million in 2006 to RMB488 million in 2007. The government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

#### Finance Costs

Our finance costs increased by 12.1% from RMB1,766 million in 2006 to RMB1,979 million in 2007 primarily due to interest expenses of RMB732 million on finance leases, representing an increase of 34.6% from 2006, and interest expenses of RMB1,629 million on loans from banks and other financial institutions, representing an increase of 3.1% from 2006. However, the above amounts were partly offset by the recognition of a net exchange gain of RMB2,023 million arising from the retranslation of U.S. dollar denominated liabilities.

#### Net Profit

As a result of the foregoing operating results, the net profit attributable to equity holders was RMB379 million in 2007, as compared to a net loss of RMB3,035 million in 2006.

#### Fixed Assets



Our Company had approximately RMB47,270 million of fixed assets as of December 31, 2007, including aircraft, engines and flight equipment with a value of approximately RMB42,758 million.

In December 2006, our Board of Directors passed a resolution to dispose of certain older aircraft and related flight equipment within the following 12 months. Accordingly, these aircraft together with related flight equipment and spare parts were classified as non-current assets held for sale as of December 31, 2006. Despite our Company's continuing efforts to locate and negotiate with potential buyers, no agreement to dispose of these assets had been reached as of December 31, 2008. As of the same date, it was our management's intention to dispose of these assets within the following 12 months and our management is continuing to take active steps to locate potential buyers. They have therefore been classified as non-current assets held for sale as of December 31, 2008. An impairment loss of RMB235 million has been recognized in the income statement in relation to these assets with reference to the estimated market values as at the balance sheet date. See Note 10(c) to our audited consolidated financial statements for details.

## B. Liquidity and Capital Resources

We typically finance our working capital requirements through a combination of funds generated from operations and short-term bank loans. As a result, our liquidity could be materially and adversely affected to the extent there is a significant decrease in demand for our services or if there is any delay in obtaining bank loans. As of December 31, 2007 and 2008, we had cash and cash equivalents of RMB1,655 million and RMB3,451 million, respectively.

As of December 31, 2008, our accumulated losses amounted to approximately RMB18.1 billion. In addition, our current liabilities exceeded our current assets by approximately RMB43.5 billion and our total liabilities exceeded total assets by approximately RMB12.6 billion. As a consequence, our directors have taken active steps to seek additional sources of finance to improve our liquidity position. We had credit facilities of RMB13.5 billion from certain banks as of December 31, 2008, and have since then successfully obtained additional credit facilities in an aggregate amount of RMB56 billion from certain banks and financial institutions. See the discussion below under “–Working Capital and Liabilities”.

### Cash Flows from Operating Activities

In 2008, we generated a net cash inflow from operating activities of RMB2,856 million as a result of our cash generated from operations of RMB2,942 million less income tax we paid in 2008. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB112 million and changes in working capital of RMB2,831 million. The operating profit before working capital changes of RMB112 million was a result of the loss before income tax of RMB15,256 million, mainly adjusted for (i) loss arising from fair value movements of derivative financial instruments of RMB6,401 million, (ii) depreciation of property, plant and equipment of RMB4,756 million, (iii) impairment loss of RMB2,977 million and (iv) interest expenses of RMB2,328 million, partly offset by net foreign exchange gains of RMB1,971 million. Changes in working capital mainly consisted of the (i) decrease in flight equipment spare parts of RMB529 million, (ii) increase in other long-term liabilities of RMB432 million, (iii) decrease in amounts due from related parties of RMB223 million, and (iv) decrease in prepayments, deposits and other receivables of RMB217 million, partly offset by the (i) increase in trade payables and notes payables of RMB2,007 million, (ii) increase in other payables and accrued expenses of RMB1,902 million, and (iii) increase in trade receivables of RMB910 million.

In 2007, we generated a net cash inflow from operating activities of RMB3,080 million as a result of cash generated from operations of RMB3,143 million less income tax we paid in 2007. Our cash generated from operations of RMB3,143 million was mainly due to operating profit before working capital changes of RMB5,996 million and changes in working capital of RMB2,853 million. The operating profit before working capital changes of RMB5,996 million was a result of the profit before income tax of RMB378 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB4,695 million, and (ii) interest expenses of RMB1,978 million, partly offset by net foreign exchange gains of RMB2,023 million. Changes in working capital mainly consist of the (i) decrease in flight equipment spare parts of RMB409 million, (ii) decrease in trade receivables of RMB479 million, and (iii) decrease in

prepayments, deposits and other receivables of RMB337 million, partly offset by the (i) increase in amounts due from related parties of RMB350 million, and (ii) increase in sales in advance of carriages of RMB320 million.

In 2006, we generated a net cash inflow from operating activities of RMB5,118 million as a result of cash generated from operations in the amount of RMB5,140 million less income tax we paid in 2006. Our cash generated from operations amounted to RMB5,140 million was mainly due to our operating profit before working capital changes of RMB3,402 million and changes in working capital of RMB1,738 million. The operating profit before working capital changes of RMB3,402 million was a result of the loss before income tax of RMB3,337 million, mainly adjusted for (i) depreciation of property, plant and equipment of RMB4,425 million, (ii) interest expenses of RMB1,822 million, and (iii) impairment loss of RMB888 million. Changes in working capital mainly consisted of other payables and accrued expenses in the amount of RMB1,552 million, partly offset by the (i) decrease in flight equipment spare parts of RMB583 million, (ii) decrease in prepayments, deposits and other receivables in the amount of RMB563 million, and (iii) increase in trade payables and notes payables in the amount of RMB1,499 million.

#### Cash Flows from Investing Activities

In 2008, our net cash outflow from investing activities was RMB925 million. Our net cash outflow from investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB3,604 million and (ii) additions of property plant and equipment of RMB1,289 million, partly offset by (i) refunds of advanced payments upon deliveries of aircraft of RMB2,422 million and (ii) proceeds from the disposal of property, plant and equipment of RMB1,856 million.

In 2007, our net cash outflow from investing activities was RMB1,756 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB3,737 million and (ii) additions of property, plant and equipment of RMB1,592 million, partly offset by the refund of advanced payments upon delivery of aircraft of RMB3,065 million.

In 2006, our net cash outflow from investing activities was RMB1,679 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB4,561 million and (ii) additions of property, plant and equipment of RMB880 million, partly offset by the refund of advanced payments upon delivery of aircraft of RMB3,745 million.

#### Cash Flows from Financing Activities

In 2008, our net cash outflow from financing activities was RMB92 million. Our net cash outflow from financing activities mainly consisted of (i) repayments of short-term bank loans of RMB19,987 million, (ii) repayments of long-term bank loans of RMB3,923 million, (iii) interest paid of RMB2,742 million and (iv) principal repayments of finance lease obligations of RMB2,594 million, partly offset by (i) proceeds from draw down of short-term bank loans of RMB25,403 million and (ii) proceeds from draw down of long-term bank loans of RMB4,748 million.

In 2007, our net cash outflow from financing activities was RMB1,640 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB16,020 million, (ii) repayments of long-term bank loans of RMB2,985 million, (iii) principal repayments of finance lease obligations of RMB2,975 million and (iv) interest paid of RMB2,241 million, partly offset by (i) proceeds from draw down of short-term bank loans of RMB18,465 million and (ii) proceeds of draw down of long-term bank loans of RMB3,383 million.

In 2006, our net cash outflow from financing activities was RMB3,358 million. Our net cash outflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB14,749 million, (ii) proceeds from draw down of long-term bank loans of RMB6,910 million, partly offset by (i) repayments of short-term bank loans of RMB15,134 million, (ii) repayments of long-term bank loans of RMB4,179 million, (iii) repayment of debentures of RMB2,000 million and (iv) interest paid of RMB2,097 million.

#### Working Capital and Liabilities

We generally operate with a working capital deficit. As of December 31, 2008, our current liabilities exceeded our current assets by RMB43,458 million. In comparison, our current liabilities exceeded our current assets by RMB26,098 million as of December 31, 2007. The increase in our current liabilities in 2008 was primarily due to an increase in the current portion of borrowings, other payables and accrued expenses, including accrued fuel cost, accrued take-off and landing charges, accrued aircraft overhaul expenses and other accrued operating expenses, and derivative liabilities. Short-term loans outstanding totaled RMB15,189 million and RMB19,474 million as of December 31, 2007 and 2008, respectively. Long-term outstanding bank loans totaled RMB14,675 million and RMB15,628 million as of December 31, 2007 and 2008, respectively.

Our consolidated interest-bearing borrowings as of December 31, 2007 and 2008 for the purpose of calculating the indebtedness of our Company, were as follows:

	As of December 31	
	2007	2008
	(RMB million)	
Secured bank loans	4,767	5,768
Unsecured bank loans	25,097	29,333
Total	29,864	35,101

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2007 and 2008 was as follows:

	As of December 31	
	2007	2008
	(RMB million)	
Within one year	18,495	26,513
In the second year	5,927	4,148
In the third to fifth year inclusive	4,217	3,665
After the fifth year	1,226	775
Total	29,864	35,101

As of December 31, 2008, our interest rates relating to short-term borrowings ranged from 2.7% to 7.5%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 4.5% to 8.4%. Our bank loans are denominated in Renminbi, U.S. dollars, Euro and Hong Kong dollars. As of December 31, 2008, our total bank loans denominated in Renminbi amounted to RMB21,956 million, our total bank loans denominated in U.S. dollars amounted to RMB13,008 million, our total bank loans denominated in Euro amounted to RMB112 million, while our bank loans denominated in Hong Kong dollar were equivalent to approximately RMB26 million. See Note 31 to the consolidated financial statements for more information on our borrowings.

We have entered into credit facility agreements to meet our future working capital needs. However, our ability to obtain financing may be affected by our financial position and leverage and credit ratings, as well as by prevailing economic conditions and the cost of financing generally. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be materially and adversely affected. On January 15, 2009, we entered into an entrusted loan agreement with CEA Holding, as the principal, and Eastern Finance, as the trustee, pursuant to which we will obtain a short-term loan of RMB5.55 billion from CEA Holding through Eastern Finance. In addition, to further meet our future working capital needs, we obtained a two-year credit facility of RMB10 billion from the Shanghai Pudong Development Bank on January 19, 2009, a three-year credit facility of RMB15 billion from the Agricultural Bank of China on February 13, 2009, and a three-year credit facility of RMB11 billion from the Construction Bank of China on March 16, 2009. In addition, on April 28, 2009, we obtained a one-year credit facility of RMB20 billion from the Bank of China. Based on our past experience, we believe it is likely these facilities will be rolled over in future years if required.

We have, and in the future may continue to have, substantial debts. As of December 31, 2007, our long-term debt to equity ratio was 9.8. However, our equity as of December 31, 2008 was a negative figure, therefore the long-term debt to equity ratio may not be indicative. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

### Capital Expenditures

We expect our capital expenditures for aircraft and related equipment, including deposits, through 2015 to be in aggregate approximately RMB52,534 million, including RMB8,852 million in 2009 and RMB13,174 million in 2010, in each case subject to contractually stipulated increases or any increase relating to inflation. Construction of our facilities at the Pudong International Airport and the purchase of maintenance equipment and other property and equipment will continue to require additional capital expenditures in 2009. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

C. Research and Development, Patents and Licenses, etc.

None.

D. Trend Information

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2008 to December 31, 2008 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements other than our operating lease arrangements:

- We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity;
- We have not entered into any obligations under any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements; and
- We do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2008:



Payments Due by Period  
(RMB millions)

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-2 Years	2-5 Years	More Than 5 Years
Long-Term Debt	15,628	7,039	4,418	3,666	775
Capital Leases	25,144	2,766	2,704	7,806	11,868
Operating Leases	16,752	2,874	2,455	4,924	6,499
Unconditional Purchase Obligations	52,534	8,852	13,174	22,353	8,155
Other Long-term Obligations (1)	1,321	—	—	—	—
Post-retirement Benefit Obligations (1)	1,516	—	—	—	—
Deferred Tax Liabilities	55	—	—	—	—
Short-term Bank Loans	18,190	18,190	—	—	—
Interest Obligations	6,350	2,121	1,056	1,906	1,267
Under Finance Lease	4,335	849	688	1,602	1,196
Under Bank Loans	2,015	1,272	368	304	71
Fixed Rate	1,382	907	250	190	35
Variable Rate (2)	633	365	118	114	36
Total	131,140	39,721	22,481	38,749	27,297

(1) Figures of payments due by period are not available.

(2) For our variable rate loans, interest rates range from 3 months LIBOR + 0.25% to 6 months LIBOR + 1%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2008. A 1% increase in the interest rate would increase the interest obligations by RMB64 million in total with RMB21 million in year 1, RMB11 million in years 2, RMB19 million in years 3 to 5 and RMB13 million for subsequent years.

Other Commercial Commitments	Total Amounts Committed (RMB millions)	Amount of Commitment Expiration Per Period (RMB millions)			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Lines of Credit	28,478	1,233	27,245	—	—
Standby Letters of Credit	—	—	—	—	—
Guarantees	—	—	—	—	—
Standby Repurchase Obligations	—	—	—	—	—
Other Commercial Commitments	—	—	—	—	—
Total	28,478	1,233	27,245	—	—

#### Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions.

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the

purposes of giving a true and fair view of our results and financial position. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The critical accounting policies adopted and estimates made in the preparation of these financial statements are identified as follows:

Estimated impairment of property, plant and equipment and intangible assets

We test whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(n) to the financial statements. The recoverable amounts of cash generating units is the higher of fair value less costs to sell and value-in-use. The calculation of value-in-use using cash flow projections based on financial budgets approved by management and the key assumptions are disclosed in Note 18(a). Different assumptions could significantly affect the value-in-use calculation and estimated impairment of property, plant and equipment and intangible assets.

#### Revenue recognition

We recognize passenger, cargo and mail revenues in accordance with the accounting policy stated in Note 2(f) to the financial statements. Unused tickets are recognized in traffic revenues based on current estimates. Management annually evaluates the balance in the sales in advance of carriage account (“SIAC”) and records any adjustments, which can be material, in the period the evaluation is completed.

These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

#### Frequent flyer program

We operate a frequent flyer program called “Eastern Miles” that provides travel awards to program members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits. Any remaining unutilized benefits are recognized as deferred revenue.

#### Depreciation of components related to overhaul costs

Depreciation of components related to airframe and engine overhaul costs are based on our historical experience with similar airframe and engine models and taking into account anticipated overhauls costs, timeframe between each overhaul, ratio of actual flying hours and estimated flying hours between overhauls. Different judgments or estimates could significantly affect the estimated depreciation charge and materially impact the results of operations.

#### Provision for costs of return condition checks for aircraft and engines under operating leases

Provision for the estimated costs of return condition checks for aircraft and engines under operating leases is made based on the estimated costs for such return condition checks and taking into account anticipated flying hours, flying cycles and the timeframe between each overhaul. These judgments or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgments or estimates could significantly affect the estimated provision for costs of return condition checks.

#### Retirement benefits

We operate and maintain defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees’ service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees’ turnover rate. The discount rate is based on management’s review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees’ turnover rate is based on historical trends of our Company. Additional information regarding the retirement benefit plans is disclosed in Note 36 to the financial statements.

#### Deferred income tax

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2(k) to the financial statements, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of our ability to utilize the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

## Foreign Currency Transactions

We have debts denominated in U.S. dollars, Japanese yen or Euro in addition to our debts denominated in Renminbi. We generate a significant amount of foreign currency revenues, including U.S. dollar, Japanese yen, Euro, Korean won, Hong Kong dollar, Singapore dollar, Australian dollar, and Thailand baht revenues, from ticket sales made in overseas offices. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings subject to the approval of SAFE. We have also designated certain personnel to manage the foreign currency risks through derivative financial products such as forward foreign exchange contracts and interest rate swaps. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2008, the notional amount of outstanding interest rate swap agreements was approximately US\$471 million, compared to US\$624 million as of December 31, 2007. These interest rate swap agreements will expire between 2009 and 2016. In addition, we use currency forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2008, the notional amount of the outstanding currency forward contracts was approximately US\$121 million, compared to US\$33 million as of December 31, 2007. These currency forward contracts will expire between 2009 and 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by the People's Bank of China. The net exchange gains or losses are recognized and reflected in the income statement for the relevant year. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Primarily due to an appreciation of Renminbi against certain foreign currencies (including the U.S. dollar and the Japanese yen) following the measures introduced by the PRC Government in July 2005 to reform the Renminbi exchange rate regime, we recorded a decrease in net exchange gains from RMB2,023 million as of December 31, 2007 to RMB1,958 million as of December 31, 2008.

## Taxation

Since we changed our registered address to Pudong district in Shanghai on July 1, 2001, we have been subject to income tax at the rate of 15%. Our effective tax rate, however, may be higher than the rate of 15% because some of our subsidiaries are incorporated in jurisdictions where the applicable income tax rate is 33% rather than 15%. We had carried forward tax losses of approximately RMB5,380 million and RMB11,465 million as of December 31, 2007 and 2008, respectively, which can be used to set off against future taxable income before 2008 and 2012, respectively.

On March 16, 2007, the National People's Congress approved the Enterprise Income Tax Law (the "EIT Law"), which took effect on January 1, 2008. The PRC enterprise income tax rate for the Company and all its subsidiaries, except those registered in Hong Kong, has been changed to a standard tax rate of 25%. The Company and certain of its subsidiaries located in Pudong District, Shanghai, are entitled to a transitional period to gradually increase the applicable corporate income tax rate to 25% in the next five years. For the year ended December 31, 2008, the corporate income tax rate applicable to the Company and these subsidiaries was 18%. The net deferred tax position of the Company and its subsidiaries as of December 31, 2008 is insignificant and the change in tax rate has no material impact on our deferred tax position. Except for those subsidiaries that are incorporated in Hong Kong and therefore subject to a Hong Kong corporate income tax rate of 16.5%, other subsidiaries of the Company are generally subject to the PRC standard income tax rate of 25%.

## Inflation

In recent years, China has not experienced significant inflation and in 2006, inflation did not have a significant effect on our business. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8% and 5.9% in 2007 and 2008, respectively.

Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

## New Pronouncements

The following standards, amendments and interpretations to existing standards, which have been published and are relevant to our Company's operations, are mandatory for accounting periods beginning on or after January 1, 2009 or later periods. We are still assessing the impact of these new/revised standards and interpretations in detail.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009)
- IFRS 8, 'Operating segments' (effective from January 1, 2009)
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after July 1, 2009)
  - IFRS 3 (Revised) "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after July 1, 2009)
    - IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009)
    - IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009)
    - IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009)
  - IFRS 7 (Amendment), 'Financial instruments: Disclosure' (effective from January 1, 2009)

## G. Safe Harbor

See the section headed "Cautionary Statement With Respect To Forward-Looking Statements".

## Item 6. Directors, Senior Management and Employees

## A. Directors and Senior Management

The following table sets forth certain information concerning our current Directors, supervisors and senior management members. Except as disclosed below, none of our Directors, supervisors or members of our senior management was selected or chosen as a result of any arrangement or understanding with any major shareholders, customers, suppliers or others. There is no family relationship between any Director, supervisor or senior management member and any other Director, supervisor or senior management member of our Company.

Name	Age	Shares Owned	Position
Liu Shaoyong(1)	51	0	Chairman of the Board of Directors
Li Jun	56	0	Vice Chairman
Ma Xulun (2)	45	0	Director and President
Luo Chaogeng	59	6,600 A Shares	Director
Luo Zhuping	56	11,616 A Shares	Director and Secretary of the Board
Hu Honggao	55	0	Independent Non-executive Director
Peter Lok	72	0	Independent Non-executive Director
Wu Baiwang	66	0	Independent Non-executive Director
Zhou Ruijin	70	0	Independent Non-executive Director

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Xie Rong	57	0	Independent Non-executive Director
Liu Jiangbo	59	0	Chairman of the Supervisory Committee
Xu Zhao	40	0	Supervisor
Yan Taisheng (3)	55	5,000 A Shares	Supervisor
Feng Jinxiong (4)	47	0	Supervisor
Liu Jiashun	52	3,960 A Shares	Supervisor
Zhang Jianzhong	54	0	Vice President
Li Yangmin	46	3,960 A Shares	Vice President
Fan Ru	60	3,696 A Shares	Vice President



Name	Age	Shares Owned	Position
Wu Yongliang (5)	46	3,696 A Shares	Chief Financial Officer

- 
- (1) Mr. Liu Shaoyong has served as Chairman of our Company since February 3, 2009.
- (2) Mr. Ma Xulun has served as Director of our Company since February 3, 2009 and President of our Company since December 12, 2008.
- (3) Mr. Yan Taisheng has served as Supervisor of our Company since March 26, 2009.
- (4) Mr. Feng Jinxiong has served as Supervisor of our Company since March 26, 2009.
- (5) Mr. Wu Yongliang has served as Chief Financial Officer of our Company since April 2009.

On February 3, 2009, during the extraordinary general meeting, the shareholders of our Company approved the resignation of Mr. Li Fenghua as the Chairman and non-executive director of our Company and approved the appointment of Mr. Liu Shaoyong as director to the fifth session of the Board of our Company. The shareholders of our Company also approved the termination of office of Cao Jianxiong as the President and director of our Company, and approved the appointment of Mr. Ma Xulun as the President and the executive director of our Company.

On March 26, 2009, during the 2009 first group meetings of the 5th meetings of the 4th session employee's representatives conference, the employee representatives of our Company approved the termination of Ms. Wang Taoying, due to her retirement, and Ms. Yang Jie, due to her relocation of appointment, as the employee representative supervisors of our Company and further elected Mr. Yan Taisheng and Mr. Feng Jinxiong as employee representative supervisors of the fifth session of the supervisory committee of our Company. On March 31, 2009, during the meeting of the fifth session of the Board, the Directors of our Company approved the resignation of Mr. Luo Weide as the Chief Financial Officer of our Company and approved the appointment of Mr. Wu Yongliang as the Chief Financial Officer of our Company.

#### Directors

Mr. Liu Shaoyong has served as Chairman of our Company since February 2009. He is currently a deputy party secretary and general manager of CEA Holding. Mr. Liu joined the civil aviation industry in 1978. He held the positions of Captain of the Flying Squadron of China General Aviation Corporation and was appointed as the Deputy General Manager of China General Aviation Corporation and Deputy Director of Shanxi Provincial Civil Aviation Administration. He also served as the General Manager of the Shanxi branch of the Company and as the Chief of the Flying Model Division of the Civil Aviation Administration of China. He was the General Manager of the Company from December 2000 to October 2002. From October 2002 to August 2004, he was appointed as the Vice Minister of Civil Aviation Administration of China. From August 2004 to December 2008, Mr. Liu has served as the General Manager of China Southern Air Holding Company and from November 2004 to December 2008, he has served as Chairman of directors of China Southern Airlines Company Limited. He served as Deputy Party Secretary and General Manager of CEA Holding since December 2008. Mr. Liu graduated from China Civil Aviation Flying College. He has obtained a master degree in executive business administration from Tsinghua University in 2005. He is a qualified First Class Pilot. Mr. Liu is the Director General of China Air Transport Association, a director of International Air Transport Association and a director of Association for Relations Across the Taiwan Straits.

Mr. Li Jun has served as the Vice Chairman of the Board of our Company since 2007. He also serves as a party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1972. Since 1977, Mr. Li served as officer in the Political Department and office secretary of CAAC. Mr. Li served as person-in charge of Policy Research

Department in the Civil Aviation Bureau in 1984, deputy director of Policy Research Department in the Civil Aviation Bureau in 1986, deputy manager of Planning Department in CAAC in 1989, manager of Planning Department in CAAC in 1994, director of the General Office in CAAC in 1996, manager of Personnel Education Department in CAAC in 2000, and deputy head and party committee member of CAAC in 2001. Since 2006, Mr. Li has served as party secretary of CEA holding. Mr. Li graduated from the Party School of the Central Committee of the C.P.C. He holds a bachelor degree in Economic Management and is a qualified Economist.

Mr. Ma Xulun has served as a Director of our Company since February 2009 and President of our Company since December 12, 2008. He is currently a deputy party secretary of CEA Holding, executive director, Deputy Party Secretary and General Manager of the Company. Mr. Ma joined the civil aviation industry in 1997. He used to serve as Deputy General Manager of China Commodities Storing and Transportation Corporation, Deputy Director General of Financial Department of CAAC, and Vice President of Air China. After the restructuring of the China civil aviation industry in 2002, he became the Vice President of the general affairs of Air China. From September 2004 to January 2007, he became the President and Deputy Party Secretary of Air China. From December 2004 to December 2008, he was a Party member of China National Aviation Holdings Company. From January 2007 to December 2008, he was Deputy General Manager of China National Aviation Holding Company. Since December 2008, he has served as Deputy Party Secretary of CEA Holding, Deputy Party Secretary and General Manager of the Company. Mr. Ma graduates from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma has a master degree and is a qualified accountant.

Mr. Luo Chaogeng has served as a Director of our Company since 2005. Mr. Luo joined the civil aviation industry in 1970. Mr. Luo was a flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration Bureau from August 1970 to August 1972. From August 1972 to March 1989, he was the flight mechanic of the 8th Civil Aviation Flight Team. From March 1989 to August 1994, he was the deputy commissar, commissar and party secretary of the Xian Flight Team of China Northwest Airlines. From August 1994 to October 1997, he was the party secretary of the aircraft maintenance plant of China Northwest Airlines. From October 1996 to March 1997, he was the party secretary and deputy general manager of the aircraft maintenance base of China Northwest Airlines. From March 1996 to December 2000, he was the deputy director of the Civil Aviation Administration Bureau of China Northwest Airlines. From December 2000 to November 2001, Mr. Luo was the general manager of Yunnan Airlines and the director and deputy party secretary of Civil Aviation Administration Bureau of Yunnan. From November 2001 to September 2002, he was the general manager and deputy party secretary of Yunnan Airlines. From September 2002 to September 2004, he also served concurrently as the general manager of Yunnan Airlines. From September 2004 to the present, he has been the party constitution member and vice president of China Airlines Group Company, and from September 2004 to October 2006, he served as president and deputy party secretary of China Airlines Corporation Limited. From September 1998 to June 2001, Mr. Luo studied a postgraduate course for incumbent leading cadres in professional economics and management at the Central Party School of Shaanxi. Mr. Luo has obtained first class competency in flight mechanics.

Mr. Luo Zhuping has served as a Director of our Company since 2004 and the secretary of our Board of Directors since 1997. Mr. Luo joined CEA in 1988. He was deputy chief and then chief of the enterprise management department of China Eastern Airlines from 1992 to 1997. He was deputy head of the share system office from 1993 to 1996. In 1997, he became the secretary of our Board of Directors and, from 1997 to 2008, he also served as the head of the secretariat of our Board of Directors. He became a Director of our Company in June 2004. Mr. Luo graduated from the Faculty of Philosophy and the Faculty of Law of Anhui University in 1979 and 1985, respectively. In 1994, Mr. Luo received a Master's degree from the Economics Department of Eastern China Normal University, majoring in global economics. In 1998, he participated in the training program for senior managers of large state-owned enterprises organized in the U.S.A. by the State Economic and Trade Commission and Morgan Stanley.

Mr. Hu Honggao has served as an independent non-executive Director of our Company since 1996. He is the vice-dean and professor of law at Fudan University School of Law as well as the head of the Civil and Commercial Law Research Centre of Fudan University, supervising doctoral students majoring in civil and commercial law at Fudan University. He is also a senior lawyer at the Shanghai Shen Yang Law Office. Mr. Hu is a managing director of China Commercial Law Research Society, a managing director of China Economic Law Research Society, a member of the Legislative Consultation Committee of the Shanghai Municipal Government, a member of the Legislative Profession Consultation Committee of the Shanghai Standing Committee of the People's Congress, vice-chairman of the Shanghai Economic Law Research Society and an arbitrator of the Shanghai Arbitration Committee.

Mr. Peter Lok has served as an independent non-executive Director of our Company since 1998. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England from 1968 to 1973. In 1982, he became assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became deputy director in 1988, and subsequently became director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996 and has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

Mr. Wu Baiwang has served as an independent non-executive Director of our Company since 1998. Mr. Wu joined the civil aviation industry in 1959 and was deputy fleet leader and subsequently became fleet leader of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From 1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. From September 1995 to 1998, he became president of China General Aviation Corporation. He was the party secretary and vice-president of Guangzhou Baiyun International Airport Group Company and the Chairman of the board of directors of Guangzhou Baiyun International Airport Company Limited from 1998 to September 2003. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

Mr. Zhou Ruijin has served as an independent non-executive Director of our Company since 2000. Mr. Zhou was deputy editor-in-chief and the East China regional director of the People's Daily. From 1988 to 1993, Mr. Zhou was party secretary and deputy editor-in-chief of the Liberation Daily. From April 1993 to 1996 he was deputy editor-in-chief of the People's Daily and from 1996 to 2000 he was deputy editor-in-chief and the East China regional director of the People's Daily. After he retired, he became vice-chairman of the China Productivity Council and Chairman of the Shanghai Productivity Council. Mr. Zhou graduated from the journalism department of Fudan University in 1962.

Mr. Xie Rong has served as an independent non-executive Director of our Company since 2003. Mr. Xie is a certified accountant in the People's Republic of China and the deputy head of Shanghai National Accounting Institute. He taught at the faculty of accounting of Shanghai University of Finance and Economics from December 1985 to March 1997, and had been an assistant professor, a professor, a doctorate-tutor and the deputy dean of the faculty. Mr. Xie was a partner of KPMG Huazhen from December 1997 to October 2002, and has been the deputy head of Shanghai National Accounting Institute since October 2002. Mr. Xie graduated from Shanghai University of Finance and Economics and has a doctorate degree in Economics.

#### Supervisory Committee

As required by the PRC Company Law and our articles of association, our Company has a supervisory committee, or the Supervisory Committee, whose primary duty is the supervision of our senior management, including our Board of Directors, managers and senior officers. The Supervisory Committee consists of five supervisors.

Ms. Liu Jiangbo has served as the Chairman of the supervisory committee of our Company (the "Supervisory Committee") since 2007, and is also a party member, vice president, and the head of disciplinary inspection group of CEA holding. Ms. Liu Jiangbo joined the civil aviation industry in 1979. Since then, Ms. Liu had been an officer in the Beijing Administrative Bureau of Civil Aviation of China and the deputy secretary of the committee of C.P.C. of the transportation business division. Ms. Liu served as secretary of the committee of the Communist Youth League of the National Civil Aviation in 1985, deputy director of the personnel department of the Traffic Control Bureau of the Aviation of China in 1987, supervisor to the Civil Aviation Administration of China appointed by the Supervisory Bureau of China in 1990, deputy director of the transportation division of CAAC in 1994, secretary of the committee of C.P.C. and vice president of Yunnan Airlines Corporation Limited in 2000, and the party member, vice president and head of the disciplinary examination committee of CEA holding in 2002. Ms. Liu graduated from the Graduate School of Chinese Academy of Social Sciences, majoring in business management of industrial economics, having the qualification of post-graduate and senior political work instructor.

Mr. Xu Zhao has served as a Supervisor of our Company since 2007, and the chief accountant of CEA holding. Mr. Xu joined the civil aviation industry in 2007. Mr. Xu served as engineer and accountant in Dongfeng Motor Group Company Limited in 1991 and 1997 respectively, Mr. Xu joined Shanghai Yanhua High Technology Limited Company as a manager in finance department in 2000, and joined Shaanxi Heavy Duty Automobile Co. Limited as a chief financial officer in 2002. Since January 2007, Mr. Xu has served as the chief accountant in CEA holding. Mr.

Xu graduated from Chongxing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

Mr. Yan Taisheng is currently a Supervisor and the Vice Chairman of the Labor Union of our Company. Mr. Yan joined the civil aviation industry in 1973, and has served in the Command Centre and the General Office of Shanghai Civil Aviation Administration Bureau. From 1990 to 1993, he served as the Chief of the Secretarial Section in the General Office of China Eastern Airlines Company. He served as the Manager of Shanghai Civil Aviation Dong Da Industry Company from 1993 to 1998 and was the Deputy Director of General Office of the Labor Union of the Company from 1998 to 2002. From 2002 to 2005, he served as the Director of General Office of Labor Union of the Company. He has been the Vice Chairman of the Labor Union and the Director of the General Office of the Labor Union of the Company since 2005. Mr. Yan graduated from East China Normal University.

Mr. Feng Jinxiong is currently a Supervisor and general manager of Audit Department of our Company. Mr. Feng joined the civil aviation industry in 1982, and has served in the Planning Department of Shanghai Civil Aviation Administration Bureau as well as the Planning Department of China Eastern Airlines Company. He served as the Deputy Director of the Planning Department of China Eastern Airlines Company from 1992 to 1997, the Director of the Planning Department of our Company from 1997 to 1998, the Director of the Finance Department of China Eastern Air Holding Company from 1998 to 2000. He was the Deputy Chief Accountant of China Eastern Air Holding Company from 2000 to 2001, the Manager of the Human Resources Department of our Company from 2001 to 2003, the Party Committee Secretary and Vice President of China Eastern Air Jin Rong Company from 2003 to 2005, the Party Committee Secretary and Deputy General Manager of the Shanghai Security Department of our Company from 2005 to 2007, as well as the President and the Deputy Party Committee Secretary of the China Eastern Airlines Wuhan Co., Ltd. from 2007 to 2009. Since February 2009, he has been the General Manager of the Audit Department of our Company. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Sciences, holding a master's degree.

Mr. Liu Jiashun is currently a Supervisor of our Company. From 1993 to 1999, Mr. Liu was a party secretary, deputy president and secretary of the disciplinary committee of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. From 1997 to 1999, he was also the chief director in charge of fuel supply engineering at Haikou's Meilan Airport and served as a director of Meilan Airport Co., Ltd. and the vice chairman of the board and president of Meiya Industrial Co., Ltd. From 1999 to 2007, he was deputy party secretary, and subsequently the secretary of the disciplinary committee of China Aviation Fuel East China Company and he has been the general manager of Shanghai Puhang Oil Co., Ltd. since 2006. Mr. Liu received post-graduate education and is qualified as a senior political work instructor.

#### Senior Management

Mr. Zhang Jianzhong has served as a Vice President of our Company since 2004. Mr. Zhang joined the civil aviation industry in 1982. From April 1982 to December 1987, he was an assistant of the Shanghai Civil Aviation Planning Bureau. From December 1987 to April 1990, he was the deputy director of the planning department of Shanghai Hongqiao Airport. From April 1990 to January 1996, he was the director of the planning department of China Eastern Airlines. From January 1996 to April 1999, he was the manager of the sales and marketing department of our Company. From April 1999 to April 2003, he was the Assistant to the President of our Company. From September 2000 to December 2001, he served concurrently as the director of the office of strategic study of our Company. From December 2001 to May 2003, he served concurrently as the general manager of the computer information centre of our Company. From April 2003 to June 2004, he was the chief economic official of our Company. From May 2003 to June 2004, he served concurrently as the general manager of the sales and marketing department of our Company. Mr. Zhang graduated from the Faculty of Mechanical Engineering of Zhejiang University and Professional Study in Economics and Management at Fudan University, where he obtained his master's degree.

Mr. Li Yangmin has served as a Vice President and deputy general manager of our Company since 2005. Mr. Li joined the civil aviation industry in 1985. From July 1985 to October 1996, he was the deputy head of the aircraft

maintenance workshop, head of technology office and secretary of the workshop branch of Northwest Company. From October 1996 to June 2002, he was the deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company. From June 2002 to March 2004, he was the general manager of the aircraft maintenance base of China Eastern Air Northwest Company. From March 2004 to October 2005, he was the vice president and a member of the standing committee to the party committee of China Eastern Air Northwest Company. Mr. Li graduated from China Civil Aviation Academy. He is a qualified senior engineer.



Mr. Fan Ru has served as Vice President of our Company since 2006. Mr. Fan started his civil aviation career in 1966. He was a deputy fleet leader of China Eastern Airlines' Shanghai Fleet since 1988 and was the head of aviation technology management office of China Eastern Airlines since 1995. He was appointed as the deputy chief pilot and the head of aviation technology management office of the Company in 1997. He was the chief pilot of our Company from 1999 to November 2006. Mr. Fan graduated from Advanced Aviation School for professional flying. He has received tertiary education and has obtained first class technical qualifications for pilots.

Mr. Wu Yongliang is currently the Chief Financial Officer of our Company. Mr. Wu joined the civil aviation industry in 1984. He was the deputy director of the Finance Department of China Eastern Airlines Company from 1993 to 1997, the deputy director and subsequently the director of the Finance Department of our Company from 1997 to 1998, the director of Planning and Finance Department of our Company from 1998 to 2000, the head of the Finance Department of CEA Holding from 2000 to 2001, the deputy chief accountant and the head of the Finance Department of CEA Holding from 2001 to March 2009. Mr. Wu graduated from the Economic Management Department of Civil Aviation University of China, specializing in planning and finance. He also graduated from Fudan University, specializing in business administration. Mr. Wu has the qualification of post-graduate and holds the title of Accountant.

## B. Compensation

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2008 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB1,614,000. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees. Our Company does not have any bonus or profit sharing plan or any stock option plan.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2008 are as follows:

Name and Principal Position	2008		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
<b>Directors</b>	—	—	—
Liu Shaoyong*	—	—	—
Ma Xulun*	—	—	—
Li Fenghua*	—	—	—
Luo Chaogeng*	—	—	—
Cao Jainxiong*	—	—	—
Li Jun*	—	—	—
Luo Zhuping	173	—	173
<b>Independent non-executive Directors</b>			
Hu Honggao	120	—	120
Peter Lok	117	—	117
Wu Baiwang	120	—	120
Zhou Ruijin	120	—	120
Xie Rong	120	—	120
<b>Supervisors</b>			

Liu Jiangbo*	—	—	—
Xu Zhao*	—	—	—
Yang Jie	45	—	45
Wang Taoying	162	—	162
Liu Jiashun	—	—	—
Senior Management			
Zhang Jianzhong	203	—	203
Li Yangmin	188	—	188
Fan Ru	654	—	654
Luo Weide	189	—	189
Total	2,211	—	2,211

\*Certain Directors of our Company received emoluments from CEA Holding, our parent company, part of which is in respect of their services to our Company and our subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to our Company and their services to CEA Holding.

During the year ended December 31, 2008, no Directors and supervisors waived their compensation.

### C. Board Practices

All of our Directors and supervisors serve a term of three years or until such later date as their successors are elected or appointed. Directors and supervisors may serve consecutive terms. Two of the supervisors are employee representatives appointed by our employees, and the rest are appointed by the shareholders. The following table sets forth the number of years our current Directors, executive officers and supervisors have held their positions and the expiration of their current term.

Name	Held Position Since	Expiration of Term
Liu Shaoyong	February 3, 2009	June 29, 2010
Li Jun	June 29, 2007	June 29, 2010
Ma Xulun	February 3, 2009	June 29, 2010
Luo Chaogeng	June 29, 2007	June 29, 2010
Luo Zhuping	June 29, 2007	June 29, 2010
Hu Honggao	June 29, 2007	June 29, 2010
Peter Lok	June 29, 2007	June 29, 2010
Wu Baiwang	June 29, 2007	June 29, 2010
Zhou Ruijin	June 29, 2007	June 29, 2010
Xie Rong	June 29, 2007	June 29, 2010
Liu Jiangbo	June 29, 2007	June 29, 2010
Xu Zhao	June 29, 2007	June 29, 2010
Yan Taisheng	March 26, 2009	June 29, 2010
Feng Jinxiong	March 26, 2009	June 29, 2010
Liu Jiashun	June 29, 2007	June 29, 2010
Zhang Jianzhong	June 29, 2007	June 29, 2010
Li Yangmin	June 29, 2007	June 29, 2010
Fan Ru	June 29, 2007	June 29, 2010
Wu Yongliang	March 31, 2009	June 29, 2010

None of our Directors, supervisors or members of our senior management has entered into any agreement or reached any understanding with us requiring our Company to pay any benefits as a result of termination of their services.

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. On June 29, 2007, the fifth session of the Board of our Company held the first meeting for 2007 and elected Mr. Xie Rong, Mr. Hu Honggao and Mr. Zhou Ruijin as the members of the Audit Committee and appointed Mr. Xie Rong as the chairman of the Audit Committee. The audit committee is authorized to, among other things, examine our internal control system and review auditing procedures and financial reports with our auditors. Subject to the approval of the shareholders' meeting, the audit committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the audit committee. The audit committee holds at least four meetings each year. The audit committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding

accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The audit committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the audit committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

On June 29, 2007, the fifth session of the Board of the Company held the first meeting for 2007 and appointed Mr. Zhou Ruijin, Mr. Luo Chaogeng and Mr. Wu Baiwang as the remuneration and assessment committee of the Company (the “Remuneration and Assessment Committee”), and Mr. Zhou Ruijin was elected as the chairman of the Remuneration and Assessment Committee. The remuneration and assessment committee is authorized to review the performance of our Directors, supervisors and management as well as determine their annual compensation level. The remuneration and assessment committee submits to our Board of Directors or shareholders’ meeting for approval compensation plans and oversee the implementation of approved compensation plans. The remuneration and assessment committee may consult financial, legal or other outside professional firms in carrying out its duties. The Remuneration and Assessment Committee did not hold any meeting in 2008. Under the guidance of the Remuneration and Assessment Committee, we have provided liability insurance for our Directors, supervisors and senior management in August 2008.

#### D. Employees

Through arrangements with CEA Holding and others, we provide certain benefits to our employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Our Company does not have any bonus or profit sharing plan or any stock option plan. See Notes 35 and 36 to our audited consolidated financial statements. Our employees are members of a labor association which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association. The table below sets forth the number of our employees as of December 31, 2006, 2007 and 2008, respectively:

	As of December 31,		
	2006	2007	2008
Pilots	2,696	2,873	3,048
Flight attendants	5,069	5,851	6,036
Maintenance personnel	5,595	6,043	7,425
Sales and marketing	2,863	2,483	2,922
Other	22,169	23,227	24,722
Total	38,392	40,477	44,153

#### E. Share Ownership

See Item 6.A and Item 6.B above.

#### Item 7. Major Shareholders and Related Party Transactions

##### A. Major Shareholders

The following table sets forth certain information regarding ownership of our capital stock as of May 29, 2009 by all persons who were known to us to be the beneficial owners of 5% or more of our capital stock:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Total	
			Percent of Class	Shares
Domestic A Shares	CEA Holding	2,904,000,000	88%	59.67%
H Shares	HKSCC Nominees Limited (1)	1,544,484,799	98.57%	31.73%

(1) As custodian of the Depositary for American Depositary Shares representing H Shares.

CEA Holding has held 59.67% of our issued and outstanding capital stock since its establishment in October 2002, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2008 and May 29, 2009, there were 1,566,950,000 H Shares issued and outstanding. As of December 31, 2008 and May 29, 2009, there were, respectively, 52 and 52 registered holders of American depositary receipts evidencing 1,159,318 and 1,064,596 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

Our Company is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of China State-owned Assets Supervision and Administration Commission, or SASAC. CEA Holding's shareholding in our Company is in the form of ordinary domestic shares, through which it, under the supervision of the SASAC, enjoys shareholders' rights and benefits on behalf of the PRC Government.

## B. Related Party Transactions

### Relationship with CEA Holding and Associated Companies

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 43 to our audited consolidated financial statements.

### Related Business Transactions

As our Company and EA Group and its subsidiaries were a single group prior to the restructuring in 2002, certain arrangements among us have continued after the restructuring and the establishment of CEA Holding. Each of these arrangements is non-exclusive, although we do not currently intend to enter into any equivalent contracts with third parties.

Eastern Aviation Import and Export Corporation, or EAIEC, a 55% owned subsidiary of CEA Holding.

Our Company and EAIEC have entered into an import/export agency agreement dated May 12, 2005 to supersede our agreement dated January 7, 1997, regarding the import and export of aircraft-related accessories, machinery and equipment for a term of three years commencing from July 1, 1999. The agreement is subject to renewal. For the year ended December 31, 2008, the handling charges paid to EAIEC were approximately RMB47 million in total.

We have certain balances with EAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 43(b) to our audited consolidated financial statements for more details.

On April 29, 2008, we entered into an agreement to renew our agreement dated May 12, 2005 regarding the import and export of aircraft-related accessories, machinery and equipment in substantially the same terms for an additional term of three years commencing from July 1, 2008.

Shanghai Eastern Aviation Advertising Service Co., Ltd., or Eastern Advertising, a 55% owned subsidiary of CEA Holding.

Our Company and Eastern Advertising have entered into an advertising service agreement dated May 12, 2005 to supersede our agreement dated December 30, 1996, regarding the provision of advertising services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. For the year ended December 31, 2008, the aggregate amount we paid to Eastern Advertising for advertising services was approximately RMB4 million.

On April 29, 2008, we entered into an agreement to renew our agreement dated May 12, 2005 regarding the provision of advertising services in substantially the same terms, for an additional term of three years commencing from July 1,

2008.

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China Eastern Air Catering Investment Co., Ltd., or CEA Catering, a 55% subsidiary of CEA Holding. The remaining 45% is owned by our Company.

On May 12, 2005, our Company entered into certain catering service agreements with a number of subsidiaries of CEA Catering (including Shanghai Eastern Air Catering Co., Ltd.) regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company's daily airline operations and civil aviation business. For the year ended December 31, 2008, the aggregate amount we paid to the subsidiaries of CEA Catering for the supply of in-flight meals and other services was approximately RMB372 million.

On April 29, 2008, we entered into a service agreement with CEA Catering in substantially the same terms to supersede our agreements dated May 12, 2005. The agreement, regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company's daily airline operations and civil aviation business, is for a term of three years commencing from July 1, 2008.

Eastern Air Group Finance Co., Ltd., or Eastern Finance, which is 46.3% owned and controlled by CEA Holding and other subsidiaries of CEA Holding.

Our Company and Eastern Finance have entered into a financial services agreement dated May 12, 2005 to supersede our agreement with Eastern Finance dated January 8, 1997, regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Pursuant to this agreement, we may place deposits with, and obtain loans from, Eastern Finance. As of December 31, 2008, we had short-term deposits amounting to RMB1,203 million placed with Eastern Finance, which paid interest to us at 0.4% per annum. In addition, our Company had short-term loans of RMB295 million from Eastern Finance. During the year ended December 31, 2008, the weighted average interest rate on the loan was 4.3% per annum.

Pursuant to the financial services agreement, Eastern Finance shall deposit all moneys deposited by our Company under the agreement with commercial bank(s) in China, including, for example, Industrial and Commercial Bank of China, China Construction Bank, Bank of Agriculture and Bank of Communications. Eastern Finance has also undertaken under the financial services agreement that all outstanding loans it provides to CEA Holding and its subsidiaries (other than our Company) will not at any time and from time to time exceed the aggregate amount of its equity capital, surplus reserves and deposits received from other parties.

On April 29, 2008, we entered into a financial services agreement to renew our agreement dated May 12, 2005 regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references, in substantially the same terms, for an additional term of three years commencing from July 1, 2008. The new financial services agreement was approved, confirmed and ratified by independent shareholders at our Annual General Meeting held on June 30, 2008.

TravelSky Technology Ltd., which is 33% owned by CEA Holding.

We pay ticket reservation service charges to TravelSky, which is 33% owned by CEA Holding, in connection with our use of its computer reservation system. For the year ended December 31, 2008, we paid ticket reservation service charges to TravelSky of approximately RMB241 million.

CEA Development Co., a non-wholly owned subsidiary of CEA Holding.

On October 28, 2008, our Company and CEA Development Co. entered into an automobile repair service agreement, pursuant to which CEA Development Co. will, from time to time, provide maintenance and repair services for our automobiles that are used in our ground services and daily operations for a term commencing from January 1, 2008 to December 31, 2010. On April 29, 2008, we entered into a service agreement with Shanghai Eastern Aviation Equipment Manufacturing Corporation, or SEAEMC, a wholly owned subsidiary of CEA Development Co., to renew our agreement with SEAEMC dated May 12, 2005, in substantially the same terms. The agreement regarding the provision of comprehensive services in relation to maintenance, repair and overhaul of aircraft and aviation equipment, and procurement of related equipment and materials required in our daily operations extends for an additional term of three years commencing from July 1, 2008.

For the year ended December 31, 2008, automobile maintenance fees paid to CEA Development Co. and SEAEMC amounted to approximately RMB24 million.

#### Ticket Sales

On May 12, 2005, our Company entered into certain sales agency services agreements with several subsidiaries of CEA Holding regarding the sales of our air tickets by such subsidiaries of CEA Holding as our sales agents and the provision of complementary services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Under such agreements, the sales agents charge commissions at rates with reference to those prescribed by the CAAC and the International Aviation Transportation Association, as determined following arm's length negotiations. Such commissions are payable monthly in arrears. The parties will perform an annual review of the then prevailing commission rate before the 31st of December in each calendar year, and agree on any required adjustments to such commission rate in respect of the next calendar year. For the year ended December 31, 2007, the aggregate amount of commissions we paid to those sales agents for the sales agency services was approximately RMB9 million.

On April 29, 2008, we entered into certain sales agency service agreements to renew our agreements dated May 12, 2005 regarding the sales of our air tickets by certain subsidiaries of CEA Holding as our sales agents and the provision of complementary services, in substantially the same terms, for an additional term of three years commencing from July 1, 2008.

#### Property Leases

Our Company and EA Group had entered into an office lease agreement dated January 7, 1997 in respect of office premises located at 2550 Hongqiao Road, Shanghai, China. The lease term is one year and renewable by the parties, subject to mutual agreement with respect to rental terms. The total rental payment is approximately RMB158,342 per month. In addition, our Company and EA Group had entered into a staff dormitory lease agreement dated December 31, 1996, pursuant to which EA Group had agreed to enter into lease arrangements with our employees for dormitories in Shanghai, Anhui Province, Shandong Province and Jiangxi Province. The term of the lease and the rental payments are set in accordance with Chinese regulations and the rate prescribed by the Shanghai Municipal Government. CEA Holding has assumed EA Group's rights and liabilities under those lease agreements after its establishment.

On May 12, 2005, we entered into a property leasing agreement with CEA Holding, CEA Northwest and CEA Yunnan for a term of three years, subject to renewal of another three years. Pursuant to this property leasing agreement, we leased from CEA Holding, for our use in daily airlines and other business operations: (i) a maximum of altogether 33 land properties owned by CEA Holding through, and registered in the name of, CEA Northwest, covering an aggregate site area of approximately 692,539 square meters located primarily in Xi'an, Xianyang and Yongdeng, together with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square meters; and (ii) a maximum of altogether seven land properties owned by CEA Holding through, and registered in the name of, CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 81 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 457,722 square meters. Under the property leasing agreement, our Company shall pay annual rentals to CEA Holding. The rentals are payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. In 2007, we paid a rental of RMB55 million under this property leasing agreement.



On April 29, 2008, we entered into an agreement to renew the property leasing agreement dated May 12, 2005 for an additional term of three years commencing July 1, 2008. Pursuant to the agreement, we will renew our lease on all properties covered by the previous property leasing agreement entered into on May 12, 2005, except that where we previously leased 81 building properties and related construction, infrastructure and facilities, we will instead lease 77 building properties and related construction, infrastructure and facilities covering an aggregate floor area of approximately 452,949 square meters. In addition, CEA Holding will be the only counterparty in the property leasing renewal agreement. Under the property leasing renewal agreement, our Company will pay annual rentals of approximately RMB55.14 million. The rental payments will be payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. The property leasing renewal agreement was approved, confirmed and ratified by independent shareholders at our Annual General Meeting held June 30, 2008.

#### Guarantee by CEA Holding

As of December 31, 2008, certain unsecured long-term bank loans of the Group with an aggregate amount of RMB357 million were guaranteed by CEA Holding. See Note 31 to our audited consolidated financial statements.

#### Subscription Agreement with CEA Holding

Our Company and CEA Holding entered into a subscription agreement on November 9, 2007 for CEA Holding to subscribe in cash for 1,100,418,000 new H Shares, which would represent approximately 23% of our existing H shares, for an aggregate consideration of HK\$4.2 million. The subscription agreement was part of a proposed investment by SIA and Temasek. See the section headed “Item 4. Information on the Company – History and Development of the Company”. As of August 9, 2008, the transaction contemplated under the agreements between CEA Holding and our Company did not proceed to completion and the Subscription Agreement and CEA Holding Subscription Agreement expired because the conditions precedent were not fulfilled on or before August 9, 2008.

On December 10, 2008, CEA Holding entered into an A Share Subscription Agreement (the “Original A Share Subscription Agreement”) with our Company to subscribe for new A shares to be issued by our Company. Simultaneously with entering into the Original A Share Subscription Agreement, CES Global entered into an H Share Subscription Agreement with our Company (the “Original H Share Subscription Agreement”) to subscribe for new H shares to be issued by our Company. Subsequently, the parties made amendments to certain terms of the Original A Share Subscription Agreement and the Original H Share Subscription Agreement; and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new A shares in our Company at the subscription price of RMB3.87 per share with a total subscription price of approximately RMB5,563 million, and CES Global entered into a revised H Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new H shares in our Company at the subscription price of RMB1.00 per share with a total subscription price of approximately RMB1,437 million, respectively. The Original A Share Subscription Agreement and the Original H Share Subscription Agreement were cancelled accordingly. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global.

On May 22, 2009, we had received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share to CES Global. Pending the final approval to be issued by CSRC in relation to the issuance of the new A Shares, we will arrange for the new H Shares and the new A Shares to be issued.

Disposal of interests in China Eastern Air Investment Company Limited

On November 16, 2007, our Company, CEA Holding and East China Care System Co., Ltd. entered into an equity transfer agreement regarding our interests in China Eastern Air Investment Company Limited. Our Company agreed to dispose our entire interest of 98.8% in China Eastern Air Investment Company Limited for the consideration of RMB461.9 million, while East China Care System Co., Ltd. also agreed to dispose of its entire 1.2% interest in China Eastern Air Investment Company Limited for the consideration of RMB5.7 million.

C. Interests of Experts & Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Financial Statements

You should read “Item 18. Financial Statements” for information regarding our audited consolidated financial statements and other financial information.

Legal Proceedings

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations. In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou city in the Inner Mongolia Autonomous Region on November 21, 2004, sued, among other defendants, our Company in a U.S. court for compensation, the amount of which has not been determined. As of December 31, 2006, we had filed a motion to contest the claim in the U.S. court because we expressly did not assume the legal liability of such incident in our acquisition of certain selected assets relating to the aviation business of CEA Yunnan. On July 5, 2007, pursuant to several conditions with which our Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting proceedings in the PRC. Moreover, the Superior Court scheduled and held a status conference on December 10, 2007, and intends to schedule subsequent status conferences every six months until the litigation in the PRC is resolved or until the Superior Court determines otherwise. On February 20, 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay. The motion was denied by the Superior Court on May 6, 2008. Subsequently, the plaintiff filed the second motion with the Superior Court to lift the stay on July 10, 2008. On August 27, 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on February 26, 2009, dismissing the appeal of the plaintiff and affirming the original order. On March 16, 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People’s Court. The case is under the filing procedure and we have not received any notices or official summons from the court in Beijing as of May 31, 2009. We believe, based on professional advice, that it is unlikely that there will be any material adverse effect on our financial position.

Save for the above-mentioned, we were not involved in any other new material litigation in the period of this report.

Dividends and Dividend Policy

For the fiscal year ended December 31, 2004, our shareholder’s meeting approved the payment of a cash dividend of RMB0.02 per share. For the fiscal year ended December 31, 2005, our Board of Directors did not recommend any dividend payout. For the fiscal year ended December 31, 2006, our Board of Directors did not recommend any dividend payout due to our operating results in 2006. For the fiscal year ended December 31, 2007 and 2008, our Board of Directors also did not recommend any dividend payout due to our total accumulated losses of RMB2,814 million in the year 2007 and of RMB18,082 million in the year 2008, respectively. The balance of retained profits will be carried forward to next year. We will not convert funds from the common reserve to increase our share capital

during this period. The declaration and payment of dividends for years following 2008 will depend upon our financial results, our shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders, and other factors our Directors may deem relevant. Holders of our H Shares will receive the equivalent amount of cash dividend as that declared in Renminbi, if any, based on the foreign exchange conversion rate published by the People's Bank of China, or PBOC, on the date of the distribution of the cash dividend.



## B. Significant Changes

### Significant Post Financial Statements Events

On January 15, 2009, CEA Holding (as the principal), Eastern Air Group Finance Company Limited (the “Finance Company”) (as the trustee) and our Company (as the borrower) entered into an entrusted loan agreement, pursuant to which our Company will obtain a short-term loan of RMB5.55 billion from CEA Holding through the Finance Company. The loan will be used only as working capital, with the interest rate to be 4.374%, 10% below the bench rate published by the People’s Bank of China on the drawdown date. The loan will be provided to our Company in six tranches and the interest will be calculated from the respective drawdown dates. We will repay our loan interest in cash quarterly, mainly funding from the sales revenue of our Company. Our Company has not provided any security over our assets for the loan. We will be entitled to request an extension to the loan after having obtained the consent of CEA Holding, which request should be made in writing 15 days prior to the maturity date of the entrusted loan agreement. The Finance Company shall bear joint liabilities as a guarantor for the loan, and our Company shall pay the relevant expenses and taxes to the Finance Company.

On January 19, 2009, we obtained a two-year credit facility of RMB10 billion from Shanghai Pudong Development Bank. On February 13, 2009, we obtained a three-year credit facility of RMB15 billion from the Agricultural Bank of China. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global. As of May 31, 2009, we have not received the subscription price from either CEA Holding or CES Global because some necessary consents, approvals or authorizations from the governmental authorities or other third parties for the subscriptions, including but not limited to the final approval from CSRC, have not been obtained. If any of the subscriptions is not approved (including but not limited to the approvals from the shareholders or CSRC), the other subscription will automatically be terminated.

On March 16, 2009, we obtained a three-year credit facility of RMB11 billion from the Construction Bank of China. In addition, on April 28, 2009, we obtained a one-year credit facility of RMB20 billion from the Bank of China.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

The principal trading market for our H Shares is the Hong Kong Stock Exchange. The ADSs, each representing 100 H Shares, have been issued by The Bank of New York as the Depository and are listed on the New York Stock Exchange. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange since November 5, 1997.

As of December 31, 2008 and May 29, 2009, there were 1,566,950,000 H Shares issued and outstanding. As of December 31, 2008 and May 29, 2009, there were, respectively, 52 and 52 registered holders of American depositary receipts evidencing 1,159,318 and 1,064,596 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depository for the ADSs is The Bank of New York. A total of 3,300,000,000 domestic ordinary shares were also outstanding as of May 29, 2009.

The table below sets forth certain market information relating to our H Shares and ADSs in respect of the period from 2004 to May 29, 2009.

	Price Per H Share (HK\$)		Price Per ADS (US\$)	
	High	Low	High	Low
2004	1.85	1.28	23.70	16.60
2005	1.70	0.95	22.48	12.52
2006	1.73	0.99	22.54	13.00
2007	10.50	1.68	111.58	24.02
First Quarter 2007	2.83	1.68	41.54	24.02
Second Quarter 2007	3.78	2.17	48.52	28.00
Third Quarter 2007	10.50	3.73	147.30	48.05
Fourth Quarter 2007	9.00	5.21	111.58	68.00
2008	8.11	0.65	102.99	8.47
First Quarter 2008	8.11	3.29	102.99	43.61
Second Quarter 2008	4.12	2.41	53.19	30.80
Third Quarter 2008	2.86	1.05	36.50	15.01
Fourth Quarter 2008	1.47	0.65	18.80	8.47
November 2008	1.12	0.65	14.98	8.47
December 2008	1.35	0.75	16.94	8.56
January 2009	1.28	0.95	16.45	12.30
February 2009	1.15	1.01	14.95	12.87
March 2009	1.24	0.91	15.88	12.00
April 2009	1.56	1.19	19.36	15.56
May 2009	1.75	1.32	22.67	16.91

B. Plan of Distribution

Not applicable.

C. Markets

Our H shares are listed for trading on the Hong Kong Stock Exchange (Code: 00670), our ADSs are listed for trading on the New York Stock Exchange under the symbol “CEA” and our A shares are listed for trading on the Shanghai Stock Exchange (Code: 600115).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on February 26, 2009, is attached as an exhibit to this Annual Report on Form 20-F.

### Selected Summary of the Articles of Association

We are a joint stock limited company established in accordance with the “Company Law of the People’s Republic of China” (the “Company Law”), the “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” (the “Special Regulations”) and other relevant laws and regulations of the State. We were established by way of promotion with the approval under the document “Ti Gai Sheng” [1994] No.140 of the People’s Republic of China’s State Commission for Restructuring the Economic System. We are registered with and have obtained a business license from China’s State Administration Bureau of Industry and Commerce on April 14, 1995. Our business license number is: 10001767-8. We changed our registration with Shanghai Administration for Industry and Commerce on October 18, 2002. The number of our Company’s business license is: Qi Gu Hu Zong Zi No. 032138.

We were incorporated in the People’s Republic of China for the purpose of providing the public with safe, punctual, comfortable, fast and convenient air transport services and other ancillary services, to enhance the cost-effectiveness of the services and to protect the lawful rights and interests of shareholders.

### Board of Directors

The Board of Directors shall consist of eleven (11) directors, who are to be elected at the shareholders’ general meeting and will hold a term of office for three (3) years. At least one-third of the members of the Board of Directors shall be independent directors. The Directors are not required to hold shares of our Company.

Directors who are directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than his contract of service with our Company) shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Board of Directors.

In accordance with our Articles, a director shall abstain from voting at a board meeting the purpose of which is to approve contracts, transactions or arrangements that such director or any of his or her associates (as defined in the relevant rules governing the listing of securities) has a material interest. Such director shall not be counted in the quorum for the relevant board meeting.

Unless the interested director discloses his interests in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board of Directors at a meeting in which the interested director is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that director is materially interested is voidable at the instance of our Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director. A director is also deemed to be interested in a contract, transaction or arrangement in which an associate of the director is interested.

Our Articles provide that our Company shall not in any manner pay taxes for or on behalf of a director or make directly or indirectly a loan to or provide any guarantee in connection with the making of a loan to a director of our Company or of our Company’s holding company or any of their respective associates. However, the following transactions are not subject to such prohibition: (1) the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company; (2) the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, administrative officers to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; (3) our Company may make a loan to or provide a guarantee in connection with the making of a loan to any

of the relevant directors or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

Our Articles do not contain any requirements for (i) the directors' power to vote compensation to themselves or any members of their body, in the absence of an independent quorum or (ii) the directors to retire by a specified age.

#### Description of the Shares

As of December 31, 2008, our share capital structure was as follows: 4,866,950,000 ordinary shares, of which (a) 2,904,000,000 A shares were issued upon the establishment of the Company and all subscribed for by the promoter of the Company, which represent 59.67% of our share capital, were held by CEA Holding; (b) 1,566,950,000 H shares, which represent 32.20% of our share capital, were issued to and purchased by foreign investors in an initial public offering; and (c) 396,000,000 A shares, which represent 8.13% of our share capital, were issued to investors in China.

Our ordinary shareholders shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held;
- (ii) the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote thereat;
- (iii) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (iv) the right to transfer shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  - (1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge;
    - (vi) all parts of the register of shareholders;
- (vii) personal particulars of each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:
  - (aa) present name and alias and any former name or alias;
  - (bb) principal address (residence);
  - (cc) nationality;
  - (dd) primary and all other part-time occupations and duties;
  - (ee) identification documents and their relevant numbers;
  - (viii) state of the Company's share capital;
- (ix) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the

Company for this purpose;

(x) minutes of Shareholders' general meetings and the accountant's report,

(xi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;



- (xii) other rights conferred by laws, administrative regulations and these Articles of Association.

A shareholder (including a proxy), when voting at a Shareholders' general meeting, may exercise such voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed. To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed. Our ordinary shareholders are entitled to the right to dividends and other distributions in proportion to the number of shares held, and they are not liable for making any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription. Our Articles provide that a controlling shareholder (as defined in the Articles) shall not approve certain matters which will be prejudicial to the interests of all or some of other shareholders by exercising his/her voting rights.

The Listing Agreement between us and the Hong Kong Stock Exchange further provides that we may not permit amendments to certain sections of the Articles of Association subject to the Mandatory Provisions for the Articles of Association of Companies Listed Overseas promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994 (the "Mandatory Provisions"). These sections include provisions relating to (i) varying the rights of existing classes of shares; (ii) voting rights; (iii) our power to purchase our own shares; (iv) rights of minority shareholders; and (v) procedures upon liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of relevant PRC authorities.

#### Shareholders' Meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six (6) months from the end of the preceding financial year. The Board of Directors shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

- (i) where the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in these Articles of Association;
- (ii) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (iii) where shareholder(s) holding 10 per cent or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (iv) when deemed necessary by the Board of Directors or as requested by the supervisory committee.

When we convene a shareholders' general meeting, written notice of the meeting shall be given forty five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to us twenty (20) days before the date of the meeting. When we convene a shareholders' annual general meeting, shareholders holding 5 per cent or more of the total voting shares of the Company shall have the right to propose new motions in writing, and we shall place those matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.



## Shareholders' Rights

Set forth below is certain information relating to the H Shares, including a brief summary of certain provisions of the Articles, and selected laws and regulations applicable to us.

### Sources of Shareholders' Rights

The rights and obligations of holders of H Shares and other provisions relating to shareholder protection are principally provided in the Articles of Association and the PRC Company Law. The Articles of Association incorporate mandatory provisions in accordance with the Mandatory Provisions. We are further subject to management ordinances applicable to the listed companies in Hong Kong SAR and the United States, as our H Shares are listed on the Hong Kong Stock Exchange and the New York Stock Exchange (in the form of ADSs).

In addition, for so long as the H Shares are listed on The Hong Kong Stock Exchange, we are subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE Rules"), the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Hong Kong Code on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below derived from the Articles of Association, the PRC Company Law and abovementioned laws and regulations.

### Significant Differences in the H Shares and A Shares

Holders of H Shares and A Shares, with minor exceptions, are entitled to the same economic and voting rights. The Articles of Association provide that dividends or other payments payable to H Share holders shall be declared and calculated in Renminbi and paid in Renminbi, while those to A Share holders shall be declared and calculated in Renminbi and paid in the local currency at the place where such A Shares are listed ( if there is more than one place of listing, then the principal place of listing as determined by the Board of Directors). In addition, the H Shares can only be traded by investors of Taiwan, Hong Kong, Macau and any country other than the PRC, while A Shares may be traded only by investors within the territory of the PRC.

### Restrictions on Transferability and the Share Register

H Shares may be traded only among investors who are not PRC persons, and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold H Shares.

Pursuant to the Articles of Association, we may refuse to register a transfer of H Shares unless

- (1) a fee (for each instrument of transfer) of two dollars and fifty cents Hong Kong dollars or any higher fee as agreed by the Stock Exchange has been paid to us for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4) the relevant share certificate and upon the reasonable request of the Board of Directors any evidence in relation to the right of the transferor to transfer the shares have been submitted;

(5) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four (4);

(6) we do not have any lien on the relevant shares.

If we refuse to register any transfer of shares, we shall within two months of the formal application for the transfer provide the transferor and the transferee with a notice of refusal to register such transfer. No changes in the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a Shareholders' general meeting or within five (5) days before the record date established for the purpose of distributing a dividend.

#### Merger and Acquisitions

In the event of the merger or division of our Company, a plan shall be presented by our Board of Directors and shall be approved in accordance with the procedures stipulated in our Articles of Association and then the relevant examining and approving formalities shall be processed as required by law. A shareholder who objects to the plan of merger or division shall have the right to demand that we or the shareholders who consent to the plan of merger or division acquire such dissenting shareholders' shareholding at a fair price. The contents of the resolution of merger or division of our Company shall be made into special documents for shareholders' inspection.

#### Repurchase of Shares

We may, with approval according to the procedures provided in these Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (i) cancellation of shares for the reduction of its capital;
- (ii) merging with another company that holds shares in our Company;
- (iii) other circumstances permitted by relevant laws and administrative regulations.

We shall not repurchase its issued shares except under the circumstances stated above.

We may, with the approval of the relevant State governing authority for repurchasing its shares, conduct the repurchase in one of the following ways:

- (i) making a pro rata general offer of repurchase to all our shareholders;
- (ii) repurchasing shares through public dealing on a stock exchange;
- (iii) repurchase by an off-market agreement outside a stock exchange.

#### Interested Shareholders

Articles 88 and 89 of our Articles of Associations provide the following:

Article 88:

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of that class;

- (ii) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;

- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;
- (vii) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (xii) to vary or abrogate the provisions of this Chapter.

#### Article 89:

Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 88, but interested shareholder(s) shall not be entitled to vote at class meetings.

The meaning of "interested shareholder(s)" as mentioned in the preceding paragraph is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 30, a "controlling shareholder" within the meaning of Article 33;
- (ii) in the case of a repurchase of shares by an off-market contract under Article 30, a holder of the shares to which the proposed contract relates;
- (iii) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate obligation imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class .

#### Ownership Threshold

There are no ownership thresholds above which shareholder ownership is required to be disclosed.

#### Changes in Capital

Article 78(1) provides that any increase or reduction in share capital shall be resolved by a special resolution at a shareholders' general meeting.

#### Changes in Registered Capital

The Company may reduce its registered share capital. It shall do so in accordance with the Company Law, any other relevant regulatory provisions and these Articles of Association.

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#### Recent Amendments to the Articles of Association

On June 29, 2007, our shareholders approved an amendment to Article 21 of the Articles of Association. The Articles were amended by adding the following new paragraph after the first paragraph of Article 21:

“On 18th December, 2006, the share reform plan of the Company was approved in the relevant shareholders’ meeting of the A share market. Upon the implementation of the share reform, the total share capital of the Company remained unchanged and still comprised 4,866,950,000 shares, of which 2,904,000,000 A shares, representing 59.67% of the total share capital of the Company, were held by China Eastern Air Holding Company. The 1,566,950,000 shares, representing 32.20% of the total share capital of the Company, were overseas listed H shares, and the 396,000,000 shares, representing 8.13% of the total share capital of the Company, were domestic listed A shares.”

On February 26, 2009, our shareholders approved an amendment to Article 63 and Article 145 of the Articles of Association. The first paragraph of Article 63 and the second paragraph of Article 145 were amended as follows, respectively:

“Notice of shareholders’ general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid airmail to their addresses as shown in the register of shareholders. For the holders of Foreign-Invested Shares, such notice of meeting may be issued by way of publishing such notice on the Company’s website. For the holders of Domestic-Invested Shares, such notice of meeting may be issued by way of public notice.”

“The Company shall deliver or send the said reports to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders, or publish the said reports on the website of the Company for the shareholders of Overseas-Listed Foreign-Invested Shares to review not later than twenty-one (21) days before the date of every annual general meeting of shareholders.”

We also received shareholder approval at the February 26, 2009 extraordinary general meeting for proposed amendments to the Articles of Association that are conditional upon and with effect from completion of the A Share Subscription Agreement and the H Share Subscription Agreement dated as of December 29, 2008. As the completion of both subscription agreements has not yet occurred, we have not included the related proposed amendments in our current Articles of Association as they are not currently in effect.

The CSRC has enacted a few regulations in recent years which affect the corporate governance of PRC listed companies and the PRC Company Law has also been amended in various areas. As such, the Board proposed to amend certain provisions in our Articles of Association in accordance with the rules and regulations applicable to our Company. Such amendments relate to the general provisions of the Articles of Association, reduction of capital and repurchase of shares, shareholders and register of shareholders, shareholders’ general meeting, board of directors, supervisory committee, financial and accounting systems and profit distribution, merger and division and dissolution and liquidation of our Company. All such amendments will be conditional upon and with effect from approval of the respective resolution at our Annual General Meeting, which is scheduled to be held on June 13, 2009.

#### C. Material Contracts

For a summary of any material contracts entered into by our Company or any of its consolidated subsidiaries outside of the ordinary course of business during the last two years, see “Item 4. Information on the Company”, “Item 5. Operating and Financial Review and Prospects” and “Item 7. Major Shareholders and Related Party Transactions”.

In addition, we entered into the following agreements to purchase aircraft or to issue new shares, which are filed with this Annual Report as exhibits:



- an amendment to an aircraft purchase agreement, dated as of June 26, 2006, between our Company and Airbus SAS regarding the purchase of 30 Airbus A320 aircraft (with engines);
- an aircraft purchase agreement, dated January 30, 2008, between our Company and Boeing regarding the purchase of 30 737 NG aircraft (with engines);
- Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global, in relation to the placing of 1,437,375,000 new H shares to CES Global; and
- Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global, in relation to the placing of 1,437,375,000 new A shares to CEA Holding.

#### D. Exchange Controls

The Renminbi is not currently a freely convertible currency. SAFE, under the authority of PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises, or FIEs, subject to SAFE approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange rate, the PRC Government announced the establishment of an inter-bank foreign exchange market, the China Foreign Exchange Trading System, or CFETS, and the phasing out of the swap centers. Effective December 1, 1998, the swap centers were abolished by the PRC Government.

On July 21, 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar. While the international reaction to Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar.

In general, under existing foreign exchange regulations, domestic enterprises operating in China must price and sell their goods and services in China in Renminbi. Any foreign exchange received by such enterprises must be sold to authorized foreign exchange banks in China. A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign currency transactions, but not under the capital account, which includes foreign direct investment, unless the prior approval of the SAFE, is obtained. As a foreign investment enterprise approved by the MOC, we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. However, the relevant PRC Government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.



## E. Taxation

The taxation of income and capital gains of holders of H Shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H Shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this Annual Report, all of which are subject to change.

### Taxation — Hong Kong

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership of H shares or ADSs purchased in connection with the global offering and held by you.

#### Dividends

Under current Hong Kong Inland Revenue Department practice, no Hong Kong tax is payable by the recipient in respect of dividends paid by us.

#### Taxation of Capital Gains

No Hong Kong tax is imposed on capital gains arising from the sale of property (such as H shares) acquired and held as investment assets. However, if a person carries on a trade, profession or business in Hong Kong (e.g., trading and dealing in securities) and derives trading gains from that trade, profession or business in or from Hong Kong, Hong Kong profits tax will be payable. Gains from sales of H shares effected on or off the Hong Kong Stock Exchange are considered to derive from or arise in Hong Kong for this purpose. Hong Kong profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for individuals.

No Hong Kong tax liability will arise on capital or trading gains arising from the sale of ADSs where the purchase and sale is effected outside Hong Kong, e.g. on the NYSE.

#### Hong Kong Stamp Duty

Hong Kong stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is charged at the total rate of 0.2% of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the stamp duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such stamp duty.

If the withdrawal of H shares when ADSs are surrendered or the issuance of ADSs when H shares are deposited results in a change of beneficial ownership in the H shares under Hong Kong law, Hong Kong stamp duty at the rate described above for sale and purchase transaction will apply. The issuance of ADSs for deposited H shares issued directly to the depositary or for the account of the depositary should not lead to a Hong Kong stamp duty liability. Holders of the ADSs are not liable for the Hong Kong stamp duty on transfers of ADSs outside of Hong Kong so long as the transfers do not result in a change of beneficial interest in the H shares under Hong Kong law.

## Hong Kong Estate Duty

Hong Kong estate duty was abolished with respect to persons passing away on or after February 11, 2006.

## Taxation — China

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of the H Shares and ADSs. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of China as in effect on the date of this Annual Report, as well as on the U.S.-China Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

In general, and taking into account the earlier assumptions, for Chinese tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the H Shares represented by those ADSs, and exchanges of H Shares for ADSs, and ADSs for H Shares, will not be subject to Chinese tax.

## Taxation of Dividends by China

### Individual Investors

The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, the Chinese State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, or the Tax Notice, which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

Amendments to the individual Income Tax Law of the PRC, or the Amendments, were promulgated on October 31, 1993 and became effective on January 1, 1994. The Amendments provide that any provisions of prior administrative regulations concerning individual income tax which contradict the Amendments are superseded by the Amendments. The Amendments and the amended Individual Income Tax Law can be interpreted to mean that foreign individuals are subject to a withholding tax on dividends received from a Chinese company at a rate of 20% unless such income is specifically exempted from individual income tax by the financial authority of the State Council. However, in a letter dated July 26, 1994 to the State Commission for Restructuring the Economic System, the State Securities Commission and the China Securities Regulatory Commission, the State Tax Bureau confirmed the temporary tax exemption set forth in the Tax Notice for dividends received from a Chinese company listed overseas. In the event this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, the Amendments, and the Individual Income Tax law of China. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

### Enterprises

Under the newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations to the EIT Law, effective January 1, 2008, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. The rate could be reduced or eliminated pursuant to an applicable double taxation treaty.

### Tax Treaties

Non-Chinese investors resident in countries which have entered into double-taxation treaties with China may be entitled to a reduction of the withholding tax imposed on the payment of dividends to non-Chinese investors of our Company. China currently has double-taxation treaties with a number of other countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under the U.S.-China Treaty, China may tax a dividend paid by our Company to a U.S. holder of H Shares or ADSs only up to a maximum of 10% of the gross amount of such dividend.





## Taxation of Capital Gains by China

### Individual Investors

The Tax Notice provides that gains realized upon the sale of Overseas Shares are not subject to taxes on capital gains. Although the Ministry of Finance has been empowered to collect a tax of 20% on gains derived from the sale of equity shares, a joint notice issued in February 1996 by the Ministry of Finance and the State Tax Bureau indicated that no capital gains tax would be imposed on gains from the sale of shares until the Ministry of Finance and the State Tax Bureau promulgate new rules. Therefore, holders of H Shares or ADSs have not been subject to taxation on gains realized upon the sale or disposition of such shares currently. However, holders of H Shares or ADSs could become subject to a 20% capital gains tax in the future, unless reduced or eliminated pursuant to an applicable double taxation treaty.

Under the U.S.-China Treaty, China may only tax gains from the sale or disposition by a U.S. holder of H Shares or ADSs representing an interest in the company of 25% or more.

### Enterprises

Under the EIT Law and the implementation regulations to the EIT Law, gains realized upon the sale of Overseas Shares by “non-resident enterprises” may be subject to PRC taxation at the rate of 10% (or lower treaty rate).

### Chinese Stamp Tax

Chinese stamp tax imposed on the transfer of shares of Chinese publicly traded companies under the Share System Tax Regulations should not apply to the acquisition or disposition by non-Chinese investors of H Shares or ADSs outside of China by virtue of the Provisional Regulations of The People’s Republic of China Concerning Stamp Tax, which provides that Chinese stamp tax is imposed only on documents executed or received within China or that should be considered as having been executed or received within China.

### United States Federal Income Taxation

Each potential investor is strongly urged to consult his or her own tax advisor to determine the particular United States federal, state, local, treaty and foreign tax consequences of acquiring, owning or disposing of the H Shares or ADSs.

The following is a general discussion of material United States federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. holder, as defined below, and hold the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986 as amended (the “Code”). This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H Shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

- tax-exempt entities;
- partnerships or other entities treated as partnerships for United States federal income tax purposes;
- banks, financial institutions, and insurance companies;
- real estate investment trusts, regulated investment companies and grantor trusts;
- dealers or traders in securities, commodities or currencies;

- U.S. holders liable for alternative minimum tax;
- U.S. holders that own, actually or constructively, 10% or more of our voting stock;
- persons who receive the H Shares or ADSs as compensation for services;
- U.S. holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction;
- certain U.S. expatriates; or

— U.S. holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address United States federal estate, gift or alternative minimum taxes or any state or local tax consequences of the acquisition, ownership and disposition of the H Shares or ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depository and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a “U.S. holder” if you are a beneficial owner of H Shares or ADSs and are:

- an individual citizen or resident of the United States for United States federal income tax purposes;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to United States federal income tax without regard to its source; or
- a trust:
  - subject to the primary supervision of a United States court and the control of one or more United States persons; or
  - that has elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (including any entity treated as a partnership for United States federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor. We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H Shares or ADSs.

In general, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H Shares represented by the ADSs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to United States federal income tax.

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSs, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.**

#### Distributions on the H Shares or ADSs

Subject to the discussions below under “-Passive Foreign Investment Company”, the gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H Shares or ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as ordinary dividend income when the distribution is actually or constructively received by you, or by the

depository in the case of ADSs. Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H Shares or ADSs and thereafter as capital gain. We, however, may not calculate earnings and profits in accordance with U.S. tax principles. In this case, all distributions by us to U.S. Holders will generally be treated as dividends. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual, trust or estate in a taxable year prior to January 1, 2011 with respect to the H Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income PFIC rules (the “Treaty”) has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Finally, based on our audited financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2008 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2009 taxable year or any future year. However, our status in the current year and future years will depend on our income and assets (which for this purpose depends in part on the market value of the H Shares or ADSs) in those years. See the discussion below under “-Passive Foreign Investment Company”.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of common stock and intermediaries through whom such stock is held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of H Shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depository, regardless of whether you or the depository convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depository convert the distribution into U.S. dollars will be treated as ordinary income or loss from U.S. sources.

Subject to various limitations, any PRC tax withheld from distributions in accordance with the Treaty will be deductible or creditable against your United States federal income tax liability. Dividends paid by us generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as “passive income” or, in the case of certain U.S. Holders as “general category income” for U.S. foreign tax credit purposes.

In the event we are required to withhold PRC income tax on dividends paid to U.S. Holders on the H Shares or ADSs (see discussion under “Taxation - China”), you may be able to claim a reduced 10% rate of PRC withholding tax if you are eligible for the benefits under the Treaty. You should consult your own tax advisor about the eligibility for reduction of PRC withholding tax.

You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these

rules in their particular circumstance.

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### Sale, Exchange or Other Disposition

Subject to the discussions below under “— Passive Foreign Investment Company”, upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under that Treaty, if any PRC tax was to be imposed on any gain from the disposition of H Shares or ADSs, the gain may be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of H Shares or ADSs, including the availability of the foreign tax credit under their particular circumstances.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition is made to the date you convert the payment into U.S. dollars will be treated as United States source ordinary income or loss.

### Passive Foreign Investment Company

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

- 75% or more of its gross income consists of passive income, such as dividends, interest, rents, royalties, and gains from the sale of assets that give rise to such income; or
- 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

Passive income does not include rents and royalties derived from the active conduct of a trade or business. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

Based on the composition of our assets and income and the current expectations regarding the price of the H Shares and ADSs, we believe that we should not be treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 taxable year and we do not intend or anticipate becoming a PFIC for any future taxable year. The determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard until the close of the 2009 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rule” with respect to “excess distributions” made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An “excess distribution” generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H

Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.



These adverse tax consequences may be avoided if the U.S. Holder is eligible to and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included in income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The H Shares or ADSs may qualify as “marketable stock” because the ADSs are listed on the New York Stock Exchange.

A U.S. Holder's adjusted tax basis in the H Shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the H Shares or ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Alternatively, a timely election to treat us as a qualified electing fund could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H Shares or ADSs during any year that we are a PFIC, you must file IRS Form 8621. The reduced tax rate for dividend income, as discussed above under “-Distributions on the H Shares or ADSs,” is not applicable to a dividend paid by us if we are a PFIC for either our taxable year in which the dividend is paid or the preceding year. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

#### Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to “backup withholding” with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or
- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS.



F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

You may read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this Annual Report on Form 20-F.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2008, the notional amount of the outstanding interest rate swap agreements was approximately US\$471 million. These interest rate swap agreements will expire between 2009 and 2016. If the interest rate had been 0.25% higher with all other variables held constant, interest costs on our floating rate instruments would have increased from RMB57.7 million in 2007 to RMB77.6 million in 2008.

Foreign Currency Exchange Rate Risk

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in U.S. dollars, Japanese yen, Euro or Renminbi. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2008, the notional amount of the outstanding currency forward contracts was approximately US\$121 million, which will expire between 2009 and 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by PBOC. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations.

Following the measures introduced by the PRC Government in July 2005 to reform the Renminbi exchange rate regime, Renminbi has appreciated significantly against certain foreign currencies, including U.S. dollar and Japanese yen. The following table shows the effect on our profit and loss account as a result of the impact on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2008 as a consequence of a fluctuation in value of the following major foreign currencies.

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Profit and Loss Account  
Decrease/Increase by RMB'000

U.S. dollar appreciates/ (depreciates) by 5%	1,495,352
Japanese yen appreciates/ (depreciates) by 5%	(466)

#### Fuel Hedging Risk

In order to control fuel costs, we entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel. In the face of continuing increases in fuel prices, we reduced the impact of the fluctuation in aviation fuel prices through various financial derivative instruments. For the years 2007 and 2008, we hedged 34.20% and 41.58% of our annual fuel consumption respectively.

The breakdown of our fuel costs for the years 2007 and 2008 are as follow:

	2007	2008
	RMB (in million)	
Fuel cost	15,237	18,480
Realized hedging losses / (profits)	(120)	8
Total fuel cost	15,117	18,488
Unrealized loss/(gains) from fair value movements of the fuel hedging derivatives	(97)	6,256

We engaged in aviation fuel hedging for the purpose of locking in aviation fuel costs. By selecting appropriate instruments, we locked in costs within a hedged price range. However, high fluctuations in aviation fuel prices exceeding the locked-in price ranges has resulted in our Company incurring actual realized and unrealized settlement losses. If the oil price decreased or increased by 5% compared to the closing price as December 31, 2008, the fair value losses as of December 31, 2008 would increase or decrease by approximately RMB500 million.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

## PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our President and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2008, the end of the fiscal year covered by this Annual Report. Our President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures, have concluded that as of the end of the period covered by this Form 20-F, our disclosure controls and procedures were effective to ensure that material information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations.

## Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) and have designed internal control over financial reporting or caused internal control over financial reporting to be designed under our supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, as applicable. Under the supervision and with the participation of our President and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based upon the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2008 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which is included herein.

## Changes in Internal Control over Financial Reporting

We made the following change to our internal control over financial reporting during the period covered by this Annual Report:

- In relation to our ticket clearing process, our management improved the reconciliation between the balance of tickets settled in the ORACLE financial system and the amount of sold-but-unused tickets in the settlement system, and has analyzed and examined the differences to ensure that such differences in amounts will not materially affect our financial statements.

### Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Xie Rong, the chairman of our audit committee, is an independent financial expert serving on our audit committee.

### Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our Directors, supervisors, President, Chief Financial Officer and other senior managers of our Company. We have filed this code of ethics as Exhibit 11.1 to this Annual Report. Our code of ethics can also be found on our corporate website, [http://www2.ce-air.com/cea2/en\\_US/cea2\\_enUS\\_news\\_detail/0,15275,200,00.html?newsId=200](http://www2.ce-air.com/cea2/en_US/cea2_enUS_news_detail/0,15275,200,00.html?newsId=200). A copy of our code of ethics will be provided to any person free of charge upon written request to Zhuping Luo, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at 2550 Hongqiao Road, Hongqiao Airport, Shanghai 200335, the People's Republic of China.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the two years ended December 31, 2008:

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	Audit Fees (RMB)	Audit-Related Fees (RMB)	Tax Fees (RMB)	All Other Fees (RMB)
2007	18,380,000	0	60,000	0
2008	18,000,000	0	54,000	0

Before our principal accountants were engaged by our Company or our subsidiaries to render audit or non-audit services, the engagement was approved by our audit committee.

#### Audit Fees

Audit fees primarily consist of fees for the audit of the consolidated financial statements as of and for the years ended December 31, 2007 and 2008 and services provided in connection with regulatory filings.

#### Audit-Related Fees

Audit-related fees primarily consist of fees for assurance and related services which are reasonably related to the performance of audit or review and generally include advisory services regarding specific regulatory filings and reporting procedures and other agreed-upon services related to accounting and billing records. No audit-related services were performed by PricewaterhouseCoopers for the fiscal years ended December 31, 2007 and 2008.

#### Tax Fees

Tax fees primarily consist of fees for tax compliance services.

#### All Other Fees

No other services were performed by PricewaterhouseCoopers for the fiscal years ended December 31, 2007 and 2008.

#### Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

#### Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

#### Item 16G. Corporate Governance

Under the amended Corporate Governance Rules of NYSE, foreign issuers (including our Company) listed on the NYSE are required to disclose a summary of the significant differences between their domestic governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. We have posted a description of such differences under the section entitled "Report of Directors" of our 2008 Hong Kong Annual Report, which can be accessed through the following link on our website: <http://www.ce-air.com/ceair/static/xsdh/tzzgx/dqbg/2009/200904/P020090428312050468875.pdf>



PART III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

Reference is made to pages F-1 to F-102.

Item 19. Exhibits

(a) See Item 18 for a list of the financial statements filed as part of this Annual Report.

(b) Exhibits to this Annual Report:

Exhibit Index

Exhibits	Description
1.1	Articles of Association as amended on February 26, 2009 (English translation).
2.1	Specimen Certificate for the H Shares. (1)
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depository, and Owners and Beneficial Owners from time to time of American Depositary Receipts. (2)
4.1	Office Space Lease Agreement between our Company and Eastern Air Group Company (together with English translation). (1)
4.10	Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our Company and Airbus SAS. (3) (6)
4.11	Assets Transfer Agreement, dated as of May 12, 2005, between our Company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). (3)
4.12	Aircraft Purchase Agreement, dated as of August 8, 2005, between our Company and The Boeing Company. (4) (6)
4.13	Aircraft Purchase Agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our Company and The Boeing Company. (4) (6)
4.14	Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our Company and Airbus SAS. (4) (6)
4.15	Aircraft Purchase Agreement, dated as of January 30, 2008, between our Company and The Boeing Company. (5) (6)
4.16	Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new H shares to CES Global Holdings (Hong Kong) Limited by our Company.
4.17	Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new A shares to China Eastern Air Holding Company by our Company.
8.1	List of Subsidiaries (as of May 31, 2009).
11.1	Code of Ethics (English translation). (5)
12.1	Certification of President pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of President pursuant to Rule 13a-14(b).

13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

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- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-6260), filed with the Securities and Exchange Commission on January 9, 1997.
- (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H Shares.
- (3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2005.
- (4) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on July 7, 2006.
- (5) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2008.
- (6) Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CHINA EASTERN AIRLINES CORPORATION LIMITED

By: /s/ Liu Shaoyong  
Name: Liu Shaoyong  
Title: Chairman of the Board of  
Directors

Date: June 11, 2009

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CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2006, 2007 AND 2008

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of China Eastern Airlines Corporation Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in equity and of cash flows (“consolidated financial statements”) present fairly, in all material respects, the financial position of China Eastern Airlines Corporation Limited (“the Company”) and its subsidiaries (collectively referred to as the “Group”) at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our audits which were integrated audits in 2008 and 2007. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers  
Certified Public Accountants  
Hong Kong, June 11, 2009



## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED INCOME STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (Amounts in thousands except for per share data)

	Note	Year ended December 31,		
		2006 RMB'000 Restated Note2(b)	2007 RMB'000 Restated Note2(b)	2008 RMB'000
Revenues	5	37,556,852	42,533,893	41,072,557
Other operating income	6	462,370	487,562	405,163
Other gains	6	36,207	-	267,084
Operating expenses				
Aircraft fuel		(13,608,793)	(15,117,147)	(18,488,242)
(Loss)/gain on fair value movements of financial derivatives	8	(42,344)	83,965	(6,400,992)
Take-off and landing charges		(4,989,382)	(5,174,183)	(5,279,590)
Depreciation and amortization		(4,456,078)	(4,719,735)	(4,781,562)
Wages, salaries and benefits	9	(3,538,082)	(4,327,397)	(4,545,312)
Aircraft maintenance		(2,647,340)	(2,392,039)	(3,272,981)
Impairment losses	10	(888,419)	(227,456)	(2,976,678)
Food and beverages		(1,180,809)	(1,230,754)	(1,321,268)
Aircraft operating lease rentals		(2,954,751)	(2,850,873)	(2,734,802)
Other operating lease rentals		(276,715)	(292,844)	(369,236)
Selling and marketing expenses		(1,734,987)	(1,805,342)	(1,562,945)
Civil aviation infrastructure levies		(696,428)	(781,613)	(769,849)
Ground services and other charges		(162,104)	(224,466)	(268,873)
Office, administrative and other expenses		(3,619,113)	(3,833,938)	(4,055,679)
Total operating expenses		(40,795,345)	(42,893,822)	(56,828,009)
Operating (loss)/profit	11	(2,739,916)	127,633	(15,083,205)
Finance income	12	1,035,307	2,140,457	2,061,625
Finance costs	13	(1,765,981)	(1,978,550)	(2,328,147)
Share of results of associates	22	103,566	58,312	69,668
Share of results of jointly controlled entities	23	29,595	30,086	24,050
(Loss)/profit before income tax		(3,337,429)	377,938	(15,256,009)
Income tax	14	162,932	(23,763)	(73,916)
(Loss)/profit for the year		(3,174,497)	354,175	(15,329,925)
Attributable to:				
Equity holders of the Company		(3,035,157)	378,568	(15,268,532)
Minority interests		(139,340)	(24,393)	(61,393)
		(3,174,497)	354,175	(15,329,925)
(Loss)/earnings per share attributable to the equity holders of the Company during the year				
– basic and diluted	17	RMB(0.62 )	RMB 0.08	RMB (3.14 )

The accompanying notes are an integral part of these consolidated financial statements.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2008  
(Amounts in thousands)

	Note	December 31, 2007 RMB'000 Restated Note2(b)	2008 RMB'000
<b>Non-current assets</b>			
Intangible assets	18	1,244,706	164,851
Property, plant and equipment	19	47,269,754	52,678,473
Lease prepayments	20	967,497	996,521
Advanced payments on acquisition of aircraft	21	6,695,573	6,413,554
Investments in associates	22	601,119	980,319
Investments in jointly controlled entities	23	336,966	362,332
Available-for-sale financial assets		53,236	31,268
Other long-term assets	24	660,751	941,556
Deferred tax assets	34	113,211	81,947
Derivative assets	37	6,077	988
		57,948,890	62,651,809
<b>Current assets</b>			
Flight equipment spare parts		1,124,936	871,364
Trade receivables	25	2,096,007	1,146,522
Amounts due from related companies	43	65,455	208,289
Prepayments, deposits and other receivables	26	2,555,649	4,126,219
Cash and cash equivalents	27	1,655,244	3,451,010
Derivative assets	37	89,470	123,010
Non-current assets held for sale	40	2,205,450	473,667
		9,792,211	10,400,081
<b>Current liabilities</b>			
Sales in advance of carriage		1,211,209	1,013,878
Trade payables and notes payable	28	3,137,880	5,144,858
Amounts due to related companies	43	671,593	413,126
Other payables and accrued expenses	29	9,591,245	12,147,175
Current portion of obligations under finance leases	30	2,545,223	1,916,989
Current portion of borrowings	31	18,494,521	26,513,320
Income tax payable		90,867	39,002
Current portion of provision for aircraft overhaul expenses	32	-	213,830
Derivative liabilities	37	20,238	6,456,075
Liabilities directly associated with non-current assets held for sale	40	127,239	-
		35,890,015	53,858,253
Net current liabilities		(26,097,804)	(43,458,172)
Total assets less current liabilities		31,851,086	19,193,637

The accompanying notes are an integral part of these consolidated financial statements.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2008  
(Amounts in thousands)

	Note	December 31, 2007 RMB'000 Restated Note2(b)	2008 RMB'000
<b>Non-current liabilities</b>			
Obligations under finance leases	30	13,906,987	18,891,910
Borrowings	31	11,369,307	8,588,052
Provision for aircraft overhaul expenses	32	956,910	1,320,188
Other long-term liabilities	33	1,242,697	1,320,759
Deferred tax liabilities	34	50,369	57,589
Post-retirement benefit obligations	35(b)	1,370,702	1,469,124
Derivative liabilities	37	21,558	185,524
		28,918,530	31,833,146
Net assets/(liabilities)		2,932,556	(12,639,509)
<b>Equity</b>			
Capital and reserves attributable to the equity holders of the Company			
Share capital	38	4,866,950	4,866,950
Reserves	39	(2,506,379)	(17,964,351)
		2,360,571	(13,097,401)
Minority interests		571,985	457,892
Total equity		2,932,556	(12,639,509)

The accompanying notes are an integral part of these consolidated financial statements.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (Amounts in thousands)

	Note	Year ended December 31,		
		2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	41(a)	5,140,245	3,142,834	2,942,466
Income tax paid		(22,740)	(62,549)	(86,931)
Net cash inflow from operating activities		5,117,505	3,080,285	2,855,535
<b>Cash flows from investing activities</b>				
Additions of property, plant and equipment		(879,756)	(1,592,310)	(1,289,350)
Proceeds from disposal of property, plant and equipment		328,419	70,681	1,856,358
Acquisition of land use rights		(37,158)	-	(53,117)
Acquisition of available-for-sale financial assets		(6,751)	-	-
Advanced payments on acquisition of aircraft		(4,560,694)	(3,737,079)	(3,603,824)
Refunds of advanced payments upon deliveries of aircraft		3,744,513	3,064,580	2,422,252
Repayment of other payables (instalment payment for acquisition of an airline business)		(30,000)	(30,000)	(30,000)
Interest received		120,161	96,849	90,635
Dividend received		8,617	22,367	29,679
Acquisitions of controlling interests in associates, net of cash outflow		(366,529)	-	-
Capital injection in a jointly controlled entity		-	(92,416)	-
Capital injections in associates		-	-	(384,186)
Proceeds from disposal of interest in an associate		-	-	3,698
Proceeds on disposal of available-for-sale financial assets		-	-	32,972
Proceeds from disposal of interest in a subsidiary		-	441,002	-
Net cash outflow from investing activities		(1,679,178)	(1,756,326)	(924,883)

Notes to consolidated cash flow statements is set out in Note 41 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (Amounts in thousands)

	Note	Year ended December 31,		
		2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Cash flows from financing activities</b>				
Proceeds from draw down of short-term bank loans		14,748,954	18,464,695	25,403,301
Repayments of short-term bank loans		(15,133,553)	(16,020,304)	(19,986,723)
Proceeds from draw down of long-term bank loans		6,909,927	3,383,349	4,748,071
Repayments of long-term bank loans		(4,179,412)	(2,985,480)	(3,922,593)
Repayment of debentures		(2,000,000)	-	-
Principal repayments of finance lease obligations		(2,539,995)	(2,974,718)	(2,593,656)
Payments of restricted bank deposits		-	-	(1,365,116)
Interest paid		(2,097,077)	(2,240,721)	(2,741,980)
Refunds of deposits pledged for finance leases upon maturities		1,046,732	779,646	419,604
2004 dividend paid		(60,000)	-	-
Dividends paid to minority shareholders of subsidiaries		(53,550)	(46,400)	(52,700)
Net cash outflow from financing activities		(3,357,974)	(1,639,933)	(91,792)
Net increase / (decrease) in cash and cash equivalents		80,353	(315,974)	1,838,860
Cash and cash equivalents at January 1		1,864,001	1,987,486	1,655,244
Exchange adjustments		43,132	(16,268)	(43,094)
Cash and cash equivalents at December 31		1,987,486	1,655,244	3,451,010

Notes to consolidated cash flow statements is set out in Note 41 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements

## CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (Amounts in thousands)

	Attributable to equity holders of the Company			Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
Balance at January 1, 2006 as previously presented	4,866,950	1,229,115	(539)	6,095,526	822,477	6,918,003
Effect of early adoption of IFRIC 13 (Note 2(b)(i))	-	-	(292,533)	(292,533)	-	(292,533)
Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii))	-	(490,688)	(271,911)	(762,599)	(12,981)	(775,580)
Balance at January 1, 2006 as restated	4,866,950	738,427	(564,983)	5,040,394	809,496	5,849,890
Cash flow hedges, net of tax	-	8,441	-	8,441	-	8,441
Revaluation reserve, net of tax, arising from the acquisition of a controlling interest in an associate	-	24,355	-	24,355	-	24,355
Net income recognized directly in equity	-	32,796	-	32,796	-	32,796
Loss for the year	-	-	(3,035,157)	(3,035,157)	(139,340)	(3,174,497)
Total recognized income and expense for 2006	-	32,796	(3,035,157)	(3,002,361)	(139,340)	(3,141,701)
Dividend paid to minority interest in subsidiaries	-	-	-	-	(42,892)	(42,892)
Additions through acquisitions of subsidiaries	-	-	-	-	21,501	21,501
Transfer to other reserve	-	20,966	(20,966)	-	-	-
	-	20,966	(20,966)	-	(21,391)	(21,391)
Balance at December 31, 2006	4,866,950	792,189	(3,621,106)	2,038,033	648,765	2,686,798

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(Amounts in thousands)

	Attributable to equity holders of the Company			Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
Balance at January 1, 2007 as previously presented	4,866,950	1,282,877	(3,334,930)	2,814,897	661,746	3,476,643
Effect of early adoption of IFRIC 13 (Note 2(b)(i))	-	-	(362,606)	(362,606)	-	(362,606)
Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii))	-	(490,688)	76,430	(414,258)	(12,981)	(427,239)
Balance at January 1, 2007 as restated	4,866,950	792,189	(3,621,106)	2,038,033	648,765	2,686,798
Cash flow hedges, net of tax	-	(78,197)	-	(78,197)	-	(78,197)
Fair value movements of available for sale investments held by associates (Note 22)	-	22,167	-	22,167	-	22,167
Net income recognized directly in equity	-	(56,030)	-	(56,030)	-	(56,030)
Profit/(loss) for the year	-	-	378,568	378,568	(24,393)	354,175
Total recognized income and expense for 2007	-	(56,030)	378,568	322,538	(24,393)	298,145
Dividend paid to minority interest in subsidiaries	-	-	-	-	(46,400)	(46,400)
Disposal of a subsidiary	-	-	-	-	(5,987)	(5,987)
Adjustment to statutory and discretionary reserves	-	(428,808)	428,808	-	-	-
	-	(428,808)	428,808	-	(52,387)	(52,387)
Balance at December 31, 2007	4,866,950	307,351	(2,813,730)	2,360,571	571,985	2,932,556

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(Amounts in thousands)

	Attributable to equity holders of the Company			Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
Balance at January 1, 2008 as previously presented	4,866,950	798,039	(2,637,226)	3,027,763	584,966	3,612,729
Effect of early adoption of IFRIC 13 (Note 2(b)(i))	-	-	(345,115)	(345,115)	-	(345,115)
Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii))	-	(490,688)	168,611	(322,077)	(12,981)	(335,058)
Balance at January 1, 2008 as restated	4,866,950	307,351	(2,813,730)	2,360,571	571,985	2,932,556
Cash flow hedges, net of tax	-	(170,360)	-	(170,360)	-	(170,360)
Fair value movements of available for sale investments held by associates (Note 22)	-	(19,080)	-	(19,080)	-	(19,080)
Net loss recognized directly in equity	-	(189,440)	-	(189,440)	-	(189,440)
Loss for the year	-	-	(15,268,532)	(15,268,532)	(61,393)	(15,329,925)
Total recognized income and expense for 2008	-	(189,440)	(15,268,532)	(15,457,972)	(61,393)	(15,519,365)
Dividend paid to minority interest in subsidiaries	-	-	-	-	(52,700)	(52,700)
	-	-	-	-	(52,700)	(52,700)
Balance at December 31, 2008	4,866,950	117,911	(18,082,262)	(13,097,401)	457,892	(12,639,509)

The accompanying notes are an integral part of these consolidated financial statements

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Eastern Airlines Corporation Limited (the “Company”), a joint stock company limited by shares was incorporated in the People’s Republic of China (the “PRC”) on April 14, 1995. The address of its registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery and other extended transportation services.

The Company is majority owned by China Eastern Air Holding Company (“CEA Holding”), a state-owned enterprise incorporated in the PRC.

The Company’s shares are traded on The Stock Exchange of Hong Kong Limited, The New York Stock Exchange and The Shanghai Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on April 15, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

In preparing the financial statements, the directors have given careful consideration to the going concern status of the Group in the context of the Group’s current working capital difficulties.

The Group’s accumulated losses were approximately RMB18.08 billion as at December 31, 2008; its current liabilities exceeded its current assets by approximately RMB43.46 billion; and total liabilities exceeded total assets by approximately RMB12.64 billion.

Against this background, the directors have taken active steps to seek additional sources of finance and improve the Group’s liquidity position. At December 31, 2008, the Group had total credit facilities of RMB13.5 billion from certain banks. Since December 31, 2008, the Company has successfully obtained additional credit facilities in an aggregate amount of RMB36 billion from certain banks and financial institutions (see Note 46 – “Post balance sheet events” for details). The directors believe that, based on experience to date, it is likely that these facilities will be rolled over in

future years if required. In addition, a resolution to issue additional shares to CEA Holding, the Company's shareholder, and CES Global Holding (Hong Kong) Limited ("CES Global"), a wholly-owned subsidiary of CEA Holding, for a total amount of RMB7 billion was approved in the extraordinary general meetings held on February 26, 2009 (see Note 46 – "Post balance sheet events" for details).

With the additional credit facilities and approved capital injection described in the preceding paragraph, and based on the Group's history of obtaining finance and its relationships with its bankers and creditors, the Board of Directors considers that the Group will be able to obtain sufficient financing to enable it to operate and meet its liabilities as and when they fall due. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) Standards, amendment and interpretations effective in 2008

§ IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

§ IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and relevant for the Group's operations

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2009 or later periods, but the Group has not early adopted them:

§ IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS (Revised) from January 1, 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

§ IFRS 8, 'Operating segments' (effective from January 1, 2009). IFRS replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from January 1, 2009. The expected impact is still being assessed in detail by management.

§ IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after July 1, 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognized. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from January 1, 2010.



CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and relevant for the Group's operations (continued)

§ IFRS 3 (Revised) "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRS. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. All acquisition related cost should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from January 1, 2010.

§ IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.

§ IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from January 1, 2009, but it is not expected to have any impact on the Group's financial statements.

§ IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent. The Group will apply the IAS 19 (Amendment) from January 1, 2009. The expected impact is still being assessed in detail by management.

§ IFRS 7 (Amendment), 'Financial instruments: Disclosure' (effective from January 1, 2009). The amendment forms part of the IASB's response to the financial crisis aims at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply the IFRS 7 (Amendment) and provide the required disclosure, where applicable, prospectively from January 1, 2009.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes of accounting policy

(i) Early adoption of IFRIC 13, ‘Customer loyalty programmes’

IFRIC 13, ‘Customer loyalty programmes’ was early adopted by the Group in 2008. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Company operates a frequent-flyer programme called “Eastern Miles” (the “programme”). Historically, the incremental cost of providing awards in exchange for redemption of miles earned by members was accrued as an operating cost and a liability in the balance sheet. After the adoption of IFRIC 13, revenue is allocated between the ticket sold and miles earned by members. The portion allocated to miles earned is deferred and recognized when the miles have been redeemed or have expired.

This change in accounting policy has been accounted for retrospectively, and the comparative financial statements have also been restated. The effect of the change is set out in Note 2(b)(iii).

The Group’s consolidated loss for the year ended December 31, 2008 and consolidated net liabilities at December 31, 2008 would have decreased by RMB25 million and RMB320 million respectively if the previous policies had still been applied in 2008.

(ii) Change of accounting policy for property, plant and equipment

Under IFRS, the Company has the option to use the revaluation model or historical cost model to account for its property, plant and equipment (“PP&E”). Previously, the Company adopted the revaluation model in accordance with IAS 16 as a result of Chinese regulatory requirements to revalue PP&E in connection with its listing in 1997. Under PRC Accounting Standards, the one time revaluation for listing purposes was treated as deemed cost and the historical cost model was adopted subsequent to the initial revaluation. In 2008, the Company changed its IFRS accounting policy in respect of PP&E from the revaluation model to the historical cost model. Whilst this change was made primarily to increase the relevance of financial data to the users of the financial statements and for the reasons set out below, management also made reference to Interpretation 2 of Chinese Accounting Standards (“CAS”) issued by the Ministry of Finance in August 2008 which aims to drive the elimination of differences between IFRS and CAS. The change was made after taking into consideration the following factors:

- the alignment of the Group’s accounting policy with industry peers – management considers that the historical cost model will improve comparability of certain financial performance data and results of operations of the Group with other airlines. Very few of the leading global airlines currently use the valuation model and valuation data is not generally used in airline industry analysis that is made available to stakeholders or internally by management.
- increased comparability between finance and operating leased aircraft – depreciation cost of a finance leased aircraft is based on revalued amount whereas operating lease payments are based on cost and aircraft held under operating leases are not recognized as assets subject to valuation. Management therefore considers that the change to the cost model increases the level of consistency in accounting for aircraft which are not distinguished from an operational perspective.

- the high degree of subjectivity and risk of cyclical volatility associated with external valuation and second hand aircraft fair values – the market value of second hand aircraft can be volatile and is influenced by transactions in global markets that may have little relevance to the operating environment in China. When purchasing or financing aircraft under finance leases, management intend to use these aircraft in the business for the remainder of their useful lives. Management do not believe that financial statements that reflect, often subjective, movements in second hand values provide meaningful information to investors.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) Changes of accounting policy (continued)

## (ii) Change of accounting policy for property, plant and equipment (continued)

This change in accounting policy has been accounted for retrospectively, and the comparative financial statements have also been restated. The effect of the change is not considered material to the financial statements but is set out in Note 2(b)(iii).

The Group's consolidated loss for the year ended December 31, 2008 and consolidated net liabilities at December 31, 2008 would have increased by RMB216 million and decreased by RMB119 million respectively if the previous policies had still been applied in 2008.

## (iii) Impact on prior year balances

	2006 as previously presented RMB'000	Effect of adoption of IFRIC 13 RMB'000	Effect of change of accounting policy for PP&E RMB'000	2006 as restated RMB'000
Impact on consolidated income statements				
Consolidated loss for the year	(3,452,765)	(70,073)	348,341	(3,174,497)
Earnings per share attributable to equity holders of the Company				
	RMB(0.68 )	RMB(0.01 )	RMB0.07	RMB(0.62 )
Impact on consolidated balance sheet				
Consolidated net assets	3,476,643	(362,606)	(427,239)	2,686,798
Capital and reserves attributable to the equity holders of the Company				
	2,814,897	(362,606)	(414,258)	2,038,033
Minority interests	661,746	-	(12,981)	648,765

	2007 as previously presented RMB'000	Effect of adoption of IFRIC 13 RMB'000	Effect of change of accounting policy for PP&E RMB'000	2007 as restated RMB'000

Impact on consolidated income statements				
Consolidated profit for the year	244,503	17,491	92,181	354,175
Earnings per share attributable to equity holders of the Company				
	RMB0.06	RMB0.003	RMB0.02	RMB0.08
Impact on consolidated balance sheet				
Consolidated net assets	3,612,729	(345,115)	(335,058)	2,932,556
Capital and reserves attributable to the equity holders of the Company				
	3,027,763	(345,115)	(322,077)	2,360,571
Minority interests	584,966	-	(12,981)	571,985

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to December 31.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, including those acquired from holding companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c)	Consolidation (continued)
(iii)	Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated income statement.

(iv)	Jointly controlled entities
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A jointly controlled entity is an entity in which the Group has joint control over its economic activity established under a contractual arrangement. The Group's investments in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's interests in jointly controlled entities are accounted for by the equity method of accounting based on the audited financial statements or management accounts of the jointly controlled entities. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements is adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in that entity, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group recognizes the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.





## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (d) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

## (e) Foreign currency translation

## (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

## (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

## (f) Revenue recognition and sales in advance of carriage

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the provision of services in the ordinary course of the Group's activities. Revenue is shown net of business and value-added taxes, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## (i) Traffic revenues

Passenger, cargo and mail revenues are recognized as traffic revenues when the transportation services are provided. The value of sold but unused tickets is recognized as sales in advance of carriage ("SIAC").

## (ii) Commission income

Commission income represents amounts earned from other carriers in respect of sales made by the Group's agents on their behalf, and is recognized in the income statement upon ticket sales.

(iii)

Other revenue

Revenues from other operating businesses, including income derived from the provision of ground services and cargo handling services, are recognized when the services are rendered.

Rental income from subleases of aircraft is recognized on a straight-line basis over the terms of the respective leases. Rental income from leasing office premises and cargo warehouses is recognized on a straight-line basis over the lease term.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Government grants

Grants from the Government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(h) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill certain return conditions under the leases. As the Group has an obligation to fulfill these return conditions, provision for these return condition checks is made on a straight line basis over the term of the leases.

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles (Note 2(m)).

All other repairs and maintenance costs are charged to the income statement as and when incurred.

(i) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(j) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, including the interest attributable to loans for advance payments used to finance the acquisition of aircraft, are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(k) Current and deferred tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (k) Current and deferred tax(continued)

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## (l) Intangible assets

## (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of associates and jointly controlled entities is included in 'investments in associates' and 'investments in jointly controlled entities' and is tested for impairment as part of the overall balances. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## (ii) Sponsorship fees

Sponsorship fees paid and payable in relation to the 2010 Shanghai Expo have been capitalized and are being amortized on a straight-line basis over the period of the sponsorship program. The cost of the intangible asset is calculated based on the expected cash payment and the fair value of the services to be provided.

## (iii) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of 5 to 6 years. Costs associated with developing or maintaining computer software programmes are recognized as expense when incurred.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (m) Property, plant and equipment

Property, plant and equipment is recognized initially at cost which comprises purchase price, and any directly attributable costs of bringing the assets to the condition for their intended use.

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.

When each major aircraft overhaul is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 5 to 7.5 years. Components related to engine overhaul costs, are depreciated between each overhaul period using the ratio of actual flying hours and estimated flying hours between overhauls. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to the income statement.

Except for components related to overhaul costs, the depreciation method of which has been described in the preceding paragraph, other depreciation of property, plant and equipment are calculated using the straight-line method to write down their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Aircraft, engines and flight equipment	10 to 20 years
Buildings	15 to 35 years
Other property, plant and equipment	5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the assets' carrying amount and are recognized in the income statement.

Construction in progress represents buildings under construction and plant and equipment, being mainly flight simulators, pending installation. This includes the costs of construction or acquisition and interest capitalized. No depreciation is provided on construction in progress until the asset is completed and ready for use.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (n) Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or which are not yet available for use are not subject to amortization and are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

## (o) Lease prepayments

Lease prepayments represent acquisition costs of land use rights less accumulated amortization. Amortization is provided over the lease period of the land use rights on a straight-line basis.

## (p) Advanced payments on acquisition of aircraft

Advanced payments on acquisition of aircraft represent payments to aircraft manufacturers to secure deliveries of aircraft in future years, including attributable finance costs, and are included in non-current assets. The balance is transferred to property, plant and equipment upon delivery of the aircraft.

## (q) Flight equipment spare parts

Flight equipment spare parts are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of flight equipment spare parts comprises the purchase price (net of discounts), freight charges, duty and value added tax and other miscellaneous charges. Net realizable value is the estimated selling price of the flight equipment in the ordinary course of business, less applicable selling expenses.

## (r) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

## (s) Cash and cash equivalents



Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(v) Leases

(i) A Group company is the lessee

Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

For sale and leaseback transactions resulting in a finance lease, differences between sales proceeds and net book values are deferred and amortized over the minimum lease terms.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognized immediately in the income statement, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value.

- (ii) A Group company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income is recognized on a straight-line basis over the lease term.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Retirement benefits

The Group participates in defined contribution retirement schemes regarding pension and medical benefits for employees organized by the municipal governments of the relevant provinces. The contributions to the schemes are charged to the income statement as and when incurred.

In addition, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(x) Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealized gains or losses, being changes in fair value of the derivatives, are recognized in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instruments that qualify for hedge accounting and which are designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, are accounted for as follows:

(i) the effective portion of any change in fair value of the derivative financial instrument is recognized directly in equity. Where the forecast transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are included in the initial measurement of the cost of the asset or liability. Otherwise, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognized in the income statement in the same period during which the hedged forecast transaction affects net profit or loss.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Derivative financial instruments (continued)

- (ii) the ineffective portion of any change in fair value is recognized in the income statement immediately.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged items is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement when the committed or forecast transaction ultimately occurs. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(y) Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non-trading purposes, are classified as available-for-sale financial assets and are initially recognized at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(z) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(aa) Comparatives

Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year. The major reclassifications for the 2006 and 2007 comparative figures include reclassification of certain items in the consolidated cash flow statement between "financing activities" and "operating activities".



CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and fuel price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (the "Group Treasury") under policies approved by the Board of Directors. The Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

(i) Foreign currency risk

Since July 21, 2005, the PRC government reformed the Renminbi exchange rate system and established a floating exchange rate system in which the exchange rate would be adjusted and managed based on market supply and demand with reference to a basket of foreign currencies. The fluctuation in Renminbi exchange rate is affected by the domestic and international economy, the political situation and the currency supply and demand of the currency, and thus the Renminbi exchange rate in the future may therefore be very different from the current exchange rate.

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (purchases and leases of aircraft) is mainly priced and settled in currencies such as US dollars. In addition, fluctuations in exchange rates will affect the Group's costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group also has exposure to foreign currency risk in respect of net cash inflow denominated in Japanese Yen from ticket sales in overseas branch office after payment of expenses.

The Group entered into certain foreign exchange forward option contracts to manage this foreign currency risk. Details of foreign currency forward contracts are disclosed in Note 37(b) to the financial statements.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(i) Foreign currency risk (continued)

The following table details the Group's exposure at the balance sheet date to currency risk.

	2007			2008		
	USD RMB'000	Euro RMB'000	JPY RMB'000	USD RMB'000	Euro RMB'000	JPY RMB'000
Trade and other receivables	1,019,596	54,185	420,927	981,740	42,706	56,003
Cash and cash equivalents	736,951	92,205	70,996	494,249	126,695	37,657
Trade and other payables	(317,867)	(6,017)	(16)	(417,910)	(1,476)	(363)
Obligation under finance leases	(15,417,522)	-	(1,034,688)	(19,444,259)	-	(83,971)
Borrowings	(17,196,836)	(130,145)	-	(13,007,687)	(111,658)	-
Currency derivatives at notional value	241,052	-	-	825,170	-	-
Net balance sheet exposure	(30,934,626)	10,228	(542,781)	(30,568,697)	56,267	9,326

The following table indicates the approximate change in the Group's profit and loss and other components of consolidated equity in response to a 5% appreciation of the RMB against the following major currencies at the balance sheet date.

	2007		2008	
	Effect on profit and loss RMB'000	Effect on other components of equity RMB'000	Effect on profit and loss RMB'000	Effect on other components of equity RMB'000
US dollars	1,555,851	1,228	1,495,352	34,364
Euro	(511)	-	(2,813)	-
Japanese Yen	27,139	-	(466)	-

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Financial risk factors (continued)

## (ii) Interest rate risk

The Group's interest-rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. During the years 2007 and 2008, the Group's borrowings at variable rates were primarily denominated in US dollars. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 31 and 37(a) to the financial statements.

To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The Group also entered certain interest rate swaps to swap fixed rates into variable rates.

The following table details the Group's interest rate profile of the interest-bearing financial instruments at the balance sheet date.

	2007 RMB'000	2008 RMB'000
<b>Floating rate instruments</b>		
Borrowings	(9,734,862)	(12,171,844)
Obligations under finance leases	(14,570,519)	(20,482,615)
Interest rate swaps at notional amount	3,342,023	2,165,429
	(20,963,358)	(30,489,030)
	2007 RMB'000	2008 RMB'000
<b>Fixed rate instruments</b>		
Cash and cash equivalents	1,655,244	3,451,010
Borrowings	(20,128,966)	(22,929,528)
Obligations under finance leases	(1,881,691)	(326,284)
Interest rate swaps at notional amount	1,217,691	1,053,352
	(19,137,722)	(18,751,450)

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Financial risk factors (continued)

## (ii) Interest rate risk (continued)

The following table indicates the approximate change in the Group's profit and loss and other components of equity if interest rate had been 0.25% higher/lower with all other variables held constant.

	2007	Effect on other components of equity RMB'000	2008	Effect on other components of equity RMB'000
	Effect on profit and loss RMB'000		Effect on profit and loss RMB'000	
Increase in interest rate	(57,681)	27,872	(77,592)	10,299
Decrease in interest rate	57,681	(27,872)	77,592	(10,299)

## (iii) Fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Group. Aircraft fuel accounts for 33% of the Group's operating expenses (2007: 35%). The Group has entered into certain financial derivatives to hedge against fuel price risk. Details of fuel option contracts are disclosed in Note 37(c) to the financial statements.

For the year 2008, if fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of fuel option contracts), the Group's fuel cost would have been RMB900 million higher/lower.

For the years ended, if fuel price had been 5% higher/lower with all other variables held constant, the impact on financial derivatives is shown below.

	2007	Effect on other components of equity RMB'000	2008	Effect on other components of equity RMB'000
	Effect on profit and loss RMB'000		Effect on profit and loss RMB'000	
Net increase in fuel price	8,766	-	497,879	-
Net decrease in fuel price	(17,531)	-	(500,690)	-

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(iv) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to sales agents. The Group has a credit policy in place to monitor the exposures to these credit risks on an on-going basis.

The Group has policies in place to ensure that sales of blank tickets are only made available to sales agents with an appropriate credit history. A major portion of sales are conducted through sales agents and the majority of these agents are connected to various settlement plans and/or clearing systems which impose requirements on the credit standing.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organized by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB515 million as at December 31, 2008 (2007: RMB896 million).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 25.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by an international credit rating company. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 43(b)(iii)). The management does not expect any loss to arise from non-performance by these banks and the financial institution.

Transactions in relation to derivative financial instruments are only carried out with financial institutions of high reputation. The Group has policies that limit the amount of credit exposure to any one financial institution. Management does not expect any losses from non-performance by these banks.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Financial risk factors (continued)

## (v) Liquidity risk

The Group's primary cash requirements have been for additions of and upgrades to aircraft, engines and flight equipment and payments on related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and both short and long term bank loans. The Group generally finances the acquisition of aircraft through long-term finance leases and bank loans.

The Group operates with a working capital deficit. As at December 31, 2008, the Group's net current liabilities amounted to RMB43,458 million (2007: RMB26,098 million). For the year ended December 31, 2008, the Group recorded a net cash inflow from operating activities of RMB2,856 million (2007: inflow RMB3,080 million), a net cash outflow from investing activities and financing activities of RMB1,017 million (2007: outflow RMB3,396 million), and an increase in cash and cash equivalents of RMB1,796 million (2007: decrease RMB332 million).

The Directors of Company believe that cash from operations and short and long term bank borrowings will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes (see Notes 2(a) and 46).

Management monitors rolling forecasts of the Group's liquidity reserves on the basis of expected cash flows:

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
<b>At December 31, 2007</b>				
Borrowings	18,494,521	5,927,098	4,216,517	1,225,692
Derivative financial instruments	20,238	441	5,120	15,997
Obligations under finance leases	2,545,223	1,567,253	4,205,352	8,134,382
Trade and other payables	12,075,177	-	339,064	314,884
Total	33,135,159	7,494,792	8,766,053	9,690,955
<b>At December 31, 2008</b>				
Borrowings	27,785,310	4,515,962	3,969,413	846,074
Derivative financial instruments	6,456,075	15,448	19,416	150,660
Obligations under finance leases	2,765,969	2,704,499	7,805,669	11,868,053

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Trade and other payables	16,561,603	-	320,354	410,076
<b>Total</b>	<b>53,568,957</b>	<b>7,235,909</b>	<b>12,114,852</b>	<b>13,274,863</b>

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at December 31, 2007 and 2008 were as follows:

	2007 RMB'000	2008 RMB'000
Total borrowings	29,863,828	35,101,372
Less: Cash and cash equivalents	(1,655,244)	(3,451,010)
Net debt	28,208,584	31,650,362
Total equity	2,932,556	(12,639,509)
Total capital	31,141,140	19,010,853
Gearing ratio	0.91	1.66

## (c) Fair value estimation of financial assets and liabilities

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the quoted market price used for financial liabilities is the current asking price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of fuel option contracts is determined by reference to mark-to-market values provided by counterparties and independent third parties applying appropriate option valuation models.

The fair values of other long-term receivables are based on cash flows discounted using a rate based on the borrowing rate. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments (Notes 30 and 31).

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment and intangible assets

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(n) to the financial statements. The recoverable amounts of cash generating units is the higher of fair value less costs to to sell and value in use. The calculations of value in use is using cash flow projections based on financial budgets approved by management and the key assumptions which are disclosed in Note 18(a). Different assumptions could significantly affect the value in use calculation and estimated impairment of property, plant and equipment and intangible assets.

(b) Revenue recognition

The Group recognizes passenger, cargo and mail revenues in accordance with the accounting policy stated in Note 2(f) to the financial statements. Unused tickets are recognized in traffic revenues based on current estimates. Management annually evaluates the balance in the Sales in advance of carriage account (“SIAC”) and records any adjustments, which can be material, in the period the evaluation is completed.

These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

(c) Frequent flyer programme

The Company operates a frequent flyer programme called “Eastern Miles” that provides travel awards to programme members based on accumulated miles. A portion of passengers’ revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits. Any remaining unutilized benefits are recognized as deferred revenue.

(d) Depreciation of components related to overhaul costs

Depreciation of components related to airframe and engine overhaul costs are based on the Group’s historical experience with similar airframe and engine models and taking into account anticipated overhauls costs, timeframe between each overhaul, ratio of actual flying hours and estimated flying hours between overhauls. Different judgments or estimates could significantly affect the estimated depreciation charge and materially impact the results of operations.

(e) Provision for costs of return condition checks for aircraft and engines under operating leases

Provision for the estimated costs of return condition checks for aircraft and engines under operating leases is made based on the estimated costs for such return condition checks and taking into account anticipated flying hours, flying cycle and timeframe between each overhaul. These judgments or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgments or estimates could significantly affect the estimated provision for costs of return condition checks.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees' service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 35 to the financial statements.

(g) Deferred income tax

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2(k) to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUES

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

	Year ended December 31		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Revenues			
Traffic revenues			
– Passenger	31,044,438	36,077,309	34,221,555
– Cargo and mail	5,776,671	5,633,117	5,465,784
Ground service income	893,960	1,001,809	1,279,444
Cargo handling income	289,530	364,638	345,048
Commission income	125,576	156,713	187,073
Others	403,469	393,166	464,717
	38,533,644	43,626,752	41,963,621
Less: Business tax (Note)	(976,792)	(1,092,859)	(891,064)
	37,556,852	42,533,893	41,072,557

Note:

Except for traffic revenues derived from inbound international and regional flights, which are not subject to the PRC business tax, the Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to the PRC business tax levied at rates ranging from 3% to 5%, pursuant to the PRC business tax rules and regulations.

## 6. OTHER OPERATING INCOME AND OTHER GAINS

	Year ended December 31		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Other operating income	462,370	487,562	405,163
- Government subsidies (Note (a))			
Other gains			
- Gains on disposal of property, plant and equipment (Note (b))	36,207	-	267,084

Note:

(a) The government subsidies represent (i) subsidies granted by the Central Government and local government to the Group; and (ii) other subsidies granted by various local municipalities to encourage the Group to operate certain routes to cities where these municipalities are located.

(b) The gains on disposal of property, plant and equipment in 2008 represent the gains arising from (i) the sales of certain cargo freighters and engines which were leased back under operating lease and (ii) the disposal of certain aircraft recorded in “non-current assets held for sale” in 2007.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

## (a) Primary reporting format by business segment

The Group has two business segments, namely passenger and cargo and logistics, which are structured and managed separately, according to the nature of their operations and the services they provide.

## (1) Passenger business segment includes cargo carried by passenger flights.

(2) Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

The segment results for the year ended December 31, 2006 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Traffic revenues	33,412,698	2,842,836	-	36,255,534
Other revenues and operating income	1,211,553	709,069	140,525	2,061,147
Total segment revenue	34,624,251	3,551,905	140,525	38,316,681
Inter-segment revenue	(689,331)	-	(70,498)	(759,829)
Revenues	33,934,920	3,551,905	70,027	37,556,852
Operating (loss)/profit – segment results	(2,565,982)	(195,881)	21,947	(2,739,916)
Finance income	1,016,217	17,639	1,451	1,035,307
Finance costs	(1,653,939)	(104,418)	(7,624)	(1,765,981)
Share of results of associates	-	-	103,566	103,566
Share of results of jointly controlled entities	-	-	29,595	29,595
(Loss)/profit before income tax	(3,203,704)	(282,660)	148,935	(3,337,429)
Income tax	198,088	(30,262)	(4,894)	162,932
(Loss)/profit for the year	(3,005,616)	(312,922)	144,041	(3,174,497)

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

## (a) Primary reporting format by business segment (continued)

Other segment items included in the income statement for the year ended December 31, 2006 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation	3,842,727	477,505	32,240	4,352,472
Amortization	103,606	-	-	103,606
Impairment loss	888,419	-	-	888,419

The segment assets and liabilities at December 31, 2006 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	54,573,594	4,962,955	463,188	59,999,737
Investments in associates	-	-	623,390	623,390
Investments in jointly controlled entities	-	-	115,540	115,540
Total assets	54,573,594	4,962,955	1,202,118	60,738,667
Segment liabilities	(53,989,636)	(3,992,814)	(64,352)	(58,046,802)
Capital expenditure	15,566,384	1,170,712	52,623	16,789,719

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

## (a) Primary reporting format by business segment (continued)

The segment results for the year ended December 31, 2007 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Traffic revenues	37,550,127	3,113,488	-	40,663,615
Other revenues and operating income	1,208,760	900,529	208,456	2,317,745
Total segment revenue	38,758,887	4,014,017	208,456	42,981,360
Inter-segment revenue	(348,643)	-	(98,824)	(447,467)
Revenues	38,410,244	4,014,017	109,632	42,533,893
Operating (loss)/profit – segment results	(93,051)	181,823	38,861	127,633
Finance income	2,055,187	84,481	789	2,140,457
Finance costs	(1,799,454)	(164,685)	(14,411)	(1,978,550)
Share of results of associates	-	-	58,312	58,312
Share of results of jointly controlled entities	-	-	30,086	30,086
Profit before income tax	162,682	101,619	113,637	377,938
Income tax	38,835	(58,123)	(4,475)	(23,763)
Profit for the year	201,517	43,496	109,162	354,175

Other segment items included in the income statement for the year ended December 31, 2007 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation	3,899,072	646,364	42,749	4,588,185
Amortization	119,913	11,051	586	131,550
Impairment loss	227,456	-	-	227,456



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

## (a) Primary reporting format by business segment (continued)

The segment assets and liabilities at December 31, 2007 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	60,390,659	5,286,774	1,125,583	66,803,016
Investments in associates	-	-	601,119	601,119
Investments in jointly controlled entities	-	-	336,966	336,966
<b>Total assets</b>	<b>60,390,659</b>	<b>5,286,774</b>	<b>2,063,668</b>	<b>67,741,101</b>
Segment liabilities	(60,129,187)	(4,196,729)	(482,629)	(64,808,545)
Capital expenditure (Note 18, 19, 20 and 21)	11,807,855	788,078	212,607	12,808,540

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. Segment information (continued)

## (a) Primary reporting format by business segment (continued)

The segment results for the year ended December 31, 2008 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Traffic revenues	35,527,984	3,316,285	-	38,844,269
Other revenues and operating income	1,476,812	1,092,067	257,033	2,825,912
Total segment revenue	37,004,796	4,408,352	257,033	41,670,181
Inter-segment revenue	(426,411)	-	(171,213)	(597,624)
Revenues	36,578,385	4,408,352	85,820	41,072,557
Operating (loss)/profit – segment results	(15,148,592)	(4,392)	69,779	(15,083,205)
Finance income	1,960,490	100,781	354	2,061,625
Finance costs	(2,156,695)	(146,944)	(24,508)	(2,328,147)
Share of results of associates	-	-	69,668	69,668
Share of results of jointly controlled entities	-	-	24,050	24,050
(Loss)/profit before income tax	(15,344,797)	(50,555)	139,343	(15,256,009)
Income tax	10,217	(73,952)	(10,181)	(73,916)
(Loss)/profit for the year	(15,334,580)	(124,507)	129,162	(15,329,925)

Other segment items included in the income statement for the year ended December 31, 2008 are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation	4,052,309	427,620	60,600	4,540,529
Amortization	229,350	11,097	586	241,033
Impairment loss	2,833,565	143,113	-	2,976,678

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

## (a) Primary reporting format by business segment (continued)

The segment assets and liabilities at December 31, 2008 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo and logistics RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	66,377,081	4,160,865	1,171,293	71,709,239
Investments in associates	-	-	980,319	980,319
Investments in jointly controlled entities	-	-	362,332	362,332
<b>Total assets</b>	<b>66,377,081</b>	<b>4,160,865</b>	<b>2,513,944</b>	<b>73,051,890</b>
Segment liabilities	(81,763,440)	(3,415,065)	(512,894)	(85,691,399)
Capital expenditure (Note 18, 19, 20 and 21)	11,332,697	177,589	20,513	11,530,799

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

## (b) Secondary reporting format by geographical segment

The Group's two business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues (net of business tax) by geographical segment are analyzed based on the following criteria:

- (1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong")) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC, Hong Kong or overseas markets is attributed to the segments based on the origin and destination of each flight segment.
- (2) Revenue from ticket handling services, airport ground services and other miscellaneous services are classified on the basis of where the services are performed.

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Domestic (the PRC, excluding Hong Kong)	20,900,798	24,133,540	24,333,387
Hong Kong	3,244,846	2,694,857	2,474,088
Japan	3,582,962	3,643,244	3,512,222
Other countries	9,828,246	12,062,252	10,752,860
Total	37,556,852	42,533,893	41,072,557

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments and hence segment assets and capital expenditure by geographic segment have not been presented.

## 8. (LOSS)/GAIN ON FINANCIAL DERIVATIVES

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
(Loss)/gain arising from fair value movements of financial derivatives			
- Fuel option contracts (Note 37(c))	(64,849)	96,576	(6,255,791)
- Interest rate swaps (Note 37(a))	18,161	(8,824)	(49,535)
- Forward foreign exchange contracts (Note 37(b))	4,344	(3,787)	(95,666)
	(42,344)	83,965	(6,400,992)



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. WAGES, SALARIES AND BENEFITS

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Wages, salaries, bonus and allowances	2,603,095	3,198,734	3,259,465
Employee welfare and benefits	231,000	246,626	227,206
Defined contribution retirement schemes (Note 35(a))	298,363	373,253	452,879
Post-retirement benefits (Note 35(b))	146,968	170,670	200,603
Staff housing fund (Note 36(a))	228,000	285,000	281,776
Staff housing allowance (Note 36(b))	30,656	53,114	123,383
	3,538,082	4,327,397	4,545,312

## 10. IMPAIRMENT LOSSES

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Goodwill impairment (Note (a))	-	-	993,143
Impairment charge on property, plant and equipment (Note (b))	-	-	1,441,904
Impairment charge on non-current assets held for sale (Note (c))	828,102	130,921	235,273
Other impairment charge	60,317	96,535	306,358
	888,419	227,456	2,976,678

Note:

- (a) For the year ended December 31, 2008, the Group recognized an impairment charge of RMB993 million against goodwill which had previously been recognized in connection with the Group's acquisition of Yunnan Airlines, Xibei Airlines and Wuhan Airlines (Note 18).
- (b) In view of the decline in demand in the air transportation market under the current economic environment, the Group performed an impairment test on PP&E as at December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft models and related equipment which reflects their relatively lower operational efficiency and which management intend to retire in the near future. In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related PP&E, primarily determined by reference to the estimated market values (Note 19).
- (c) After assessing the fair value less costs to sell as at the balance sheet date which was primarily determined by reference to the estimated market value, an additional impairment loss of RMB235 million was made in 2008 against certain aircraft and related flight equipment which have been classified as "non-current assets held for sale" (Note 40).



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. OPERATING (LOSS)/PROFIT

Operating (loss)/profits stated after charging and crediting the following items:

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Crediting:</b>			
Gain on disposals of property, plant and equipment	36,207	-	267,084
<b>Charging:</b>			
Amortization of intangible assets	72,737	106,703	110,151
Depreciation of property, plant and equipment			
- Leased	1,360,464	1,868,481	1,913,877
- Owned	2,992,008	2,719,704	2,626,652
Amortization of lease prepayments	30,869	24,847	25,940
Consumption of flight equipment spare parts	326,248	468,888	476,282
Provision for impairment of trade and other receivables	19,539	10,481	34,760
Auditors' remuneration	20,120	18,439	18,000

## 12. FINANCE INCOME

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Exchange gains, net (Note)	888,402	2,023,032	1,957,591
Interest income	120,161	96,849	89,275
Actual settled gains on financial instruments			
- forward foreign exchange contracts	26,744	20,576	14,759
	1,035,307	2,140,457	2,061,625

Note:

The exchange gain for the year ended December 31, 2008 primarily relates to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at year-end exchange rates.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. FINANCE COSTS

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Interest relating to obligations under finance leases	543,953	731,885	651,121
Interest on loans from banks and financial institutions	1,580,536	1,629,090	1,945,212
Interest relating to notes payable	91,280	72,779	84,050
Amortization of the discount on zero coupon debentures	25,456	-	-
Interest relating to long-term payables	4,961	3,406	-
Actual settled gains on financial instruments - Interest rate swaps (Note 37(a))	(55,889)	(59,111)	(10,083)
	2,190,297	2,378,049	2,670,300
Less: Amounts capitalized into advanced payments on acquisition of aircraft (Note 21)	(424,316)	(399,499)	(342,153)
	1,765,981	1,978,550	2,328,147

## 14. INCOME TAX

Income tax charged / (credited) to the consolidated income statement is as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Provision for PRC income tax	48,072	72,918	35,432
Deferred taxation (Note 34)	(211,004)	(49,155)	38,484
	(162,932)	23,763	73,916

Prior to 2008, the Company and certain of its subsidiaries (the "Pudong Subsidiaries") located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong, Shanghai. Under the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") which was approved by the National People's Congress on March 16, 2007 and became effective from January 1, 2008, the Company and the Pudong Subsidiaries are entitled to enjoy a transitional period to gradually increase the applicable corporate income tax rate to 25% in coming five years. For the year ended December 31, 2008, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries is 18% (2007: 15%). Other subsidiaries of the Company, except for those incorporated in Hong Kong and being subject to the Hong Kong corporate income tax rate of 16.5%, are generally subject to the PRC standard corporate tax rate of 25% under the New CIT Law.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INCOME TAX (CONTINUED)

Tax on the Group's consolidated income statement differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Year ended December 31,		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
(Loss)/profit before income tax	(3,337,429)	377,938	(15,256,009)
Adjusted by:			
Share of result of associates and jointly controlled entities	(133,161)	(88,398)	(93,718)
	(3,470,590)	289,540	(15,349,727)
Tax calculated at enacted tax rate of 18% (2007 and 2006: 15%)	(520,589)	43,431	(2,762,951)
Effect attributable to subsidiaries charged at tax rates of 16.5% or 25%	(27,969)	(49,578)	(67,505)
Expenses not deductible for tax purposes	13,852	12,031	6,462
Effect of tax rate change on deferred tax	-	24,289	-
Utilization of previously unrecognized tax losses	23,130	(157,531)	-
Written off of deferred tax asset recognized exemptions by a subsidiary in prior year	-	-	34,773
Unrecognized tax losses for the year	285,999	54,647	1,093,350
Unrecognized temporary differences for the year	16,067	96,474	1,769,787
Gain arising from intra-group property, plant and equipment disposal subject to taxation	46,578	-	-
Tax charge/(credit)	(162,932)	23,763	73,916

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended December 31, 2008 (2007: Nil), as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. DIVIDEND

No dividend was paid during both years 2007 and 2008.

The Board of Directors of the Company has not recommended any dividend in respect of the year ended December 31, 2008 (2007: Nil).

16. (LOSS)/ PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB13,877 million (2007: profit of RMB505 million, 2006: loss of RMB 2,432 million).

17. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB15,269 million (2007: a profit of RMB379 million, 2006: a loss of RMB3,035 million ) and the weighted average number of shares of 4,866,950,000 (2007: 4,866,950,000, 2006: 4,866,950,000 ) in issue during the year.

The Company has no potentially dilutive option or other instruments relating to ordinary shares.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. INTANGIBLE ASSETS

	Goodwill (Note (a)) RMB'000	Sponsorship fee (Note (b)) RMB'000	Computer software RMB'000	Total RMB'000
<b>Cost</b>				
At January 1, 2007	993,143	320,000	118,573	1,431,716
Other additions	-	-	15,283	15,283
Disposals	-	-	(1,715)	(1,715)
At December 31, 2007	993,143	320,000	132,141	1,445,284
At January 1, 2008	993,143	320,000	132,141	1,445,284
Other additions	-	-	23,439	23,439
At December 31, 2008	993,143	320,000	155,580	1,468,723
<b>Accumulated amortization</b>				
At January 1, 2007	-	52,870	41,292	94,162
Charge for the year	-	82,194	24,509	106,703
Disposals	-	-	(287)	(287)
At December 31, 2007	-	135,064	65,514	200,578
At January 1, 2008	-	135,064	65,514	200,578
Charge for the year	-	82,194	27,957	110,151
At December 31, 2008	-	217,258	93,471	310,729
<b>Impairment</b>				
At January 1, 2008	-	-	-	-
Charge for the year	993,143	-	-	993,143
At December 31, 2008	993,143	-	-	993,143
<b>Net book amount</b>				
At December 31, 2007	993,143	184,936	66,627	1,244,706
At December 31, 2008	-	102,742	62,109	164,851

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. INTANGIBLE ASSETS (CONTINUED)

Notes:

## (a) Impairment tests for goodwill

The Group operates in two cash-generating units (“CGU”) which are passenger (including cargo carried by passenger flights) and cargo and logistics.

For the year ended December 31, 2008, the Group recognized an impairment charge of RMB993 million, against goodwill which had previously been recognized in connection with the acquisitions of Yunnan Airlines, Xibei Airlines and Wuhan Airlines within the passenger CGU. The impairment charge recognized represents the amount by which the CGU’s carrying amount exceeds its recoverable amount.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

Key assumptions used for cash flow projections are as follows:

- Passenger yield growth rate	0% to 4.5%
- Passenger load factor	63% to 80%
- Aircraft daily utilization (hours per day)	5.4 to 11.4
- Discount rate	10%

Management determined budgeted passenger yield growth rate, passenger load factor and aircraft daily utilization based on past performance and its expectations for market development. The discount rate used is pre-tax and reflects specific risks relating to the Group’s business.

## (b) Sponsorship fees

In March 2006, the Company entered into an agreement (the “Sponsorship Agreement”) with the Bureau of 2010 Expo Shanghai (the “Bureau”) which designated the Group as the exclusive airline passenger carrier in the PRC to sponsor the 2010 Shanghai Expo. The Company will be entitled to a number of rights, including but not limited to the use of the Expo logo in the Group’s products, priority to purchase advertising space at the Expo site etc. In return, the Company is required to pay a total sponsorship fee of RMB320 million, RMB160 million of which would be paid in cash by installments, the remaining RMB160 million would be settled by value-in-kind services (“VIK”) (in the form of goods or services) to support the 2010 Shanghai Expo. Accordingly, an intangible asset has been recognized and amortized on straight-line basis over the period from the effective date of the Sponsorship Agreement to the completion of the Expo. The outstanding sponsorship fee of RMB178 million (2007: 233 million) has been recognized as other long-term liabilities (Note 33) in the Group’s balance sheet.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT

	Aircraft, engines and flight equipment		Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
	Owned RMB'000	Held under finance leases RMB'000				
<b>Cost</b>						
At January 1, 2007, as restated	31,922,671	21,310,056	2,752,340	3,514,463	250,112	59,749,642
Reclassification upon a purchase	4,203,030	(4,203,030)	-	-	-	-
Transfers from construction in progress	-	-	84,402	91,269	(175,671)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	189,402	4,920,311	-	-	-	5,109,713
Other additions	1,792,502	6,026,340	51,276	380,211	406,350	8,656,679
Disposal to a jointly controlled entity (Note 23)	-	-	(28,489)	(2,773)	-	(31,262)
Other disposals	(788,727)	(237,973)	(33,781)	(99,386)	-	(1,159,867)
Transfers to assets held for sale	(4,390,384)	-	-	-	-	(4,390,384)
At December 31, 2007	32,928,494	27,815,704	2,825,748	3,883,784	480,791	67,934,521
<b>Accumulated depreciation</b>						
At January 1, 2007 as restated	12,472,726	5,393,870	582,072	1,659,800	-	20,108,468
Reclassification upon a purchase	2,203,703	(2,203,703)	-	-	-	-
Charge for the year	2,221,399	1,868,481	103,622	394,683	-	4,588,185
Disposal to a jointly controlled entity	-	-	(5,562)	(1,426)	-	(6,988)
Other disposals	(786,032)	(237,973)	(6,240)	(66,305)	-	(1,096,550)
Transfers to assets held for sale	(2,946,295)	-	-	-	-	(2,946,295)
At December 31, 2007	13,165,501	4,820,675	673,892	1,986,752	-	20,646,820
<b>Impairment</b>						
At January 1, 2007, as restated	-	-	13,094	550	4,303	17,947
Charge for the year	-	-	-	-	-	-

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At December 31, 2007	-	-	13,094	550	4,303	17,947
Net book amount						
At December 31, 2007	19,762,993	22,995,029	2,138,762	1,896,482	476,488	47,269,754
At January 1, 2007	19,449,945	15,916,186	2,157,174	1,854,113	245,809	39,623,227

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Aircraft, engines and flight equipment		Other property, plant and equipment		Construction in progress	Total
	Owned	Held under finance leases	Buildings	and equipment		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>						
At January 1, 2008, as restated	32,928,494	27,815,704	2,825,748	3,883,784	480,791	67,934,521
Reclassification upon a purchase	3,094,561	(3,094,561)	-	-	-	-
Sales and finance lease back	(3,085,419)	3,085,419	-	-	-	-
Transfers from construction in progress	-	-	233,746	19,313	(253,059)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	411,153	3,816,843	-	-	-	4,227,996
Other additions	1,781,272	4,683,699	360,498	335,220	345,730	7,506,419
Other disposals	(719,787)	(408,134)	(8,047)	(143,060)	-	(1,279,028)
At December 31, 2008	34,410,274	35,898,970	3,411,945	4,095,257	573,462	78,389,908
<b>Accumulated depreciation</b>						
At January 1, 2008 as restated	13,165,501	4,820,675	673,892	1,986,752	-	20,646,820
Reclassification upon a purchase	1,580,097	(1,580,097)	-	-	-	-
Sales and finance lease back	(1,779,979)	1,779,979	-	-	-	-
Charge for the year	2,138,172	1,913,877	108,826	379,654	-	4,540,529
Other disposals	(520,373)	(408,134)	(932)	(6,326)	-	(935,765)
At December 31, 2008	14,583,418	6,526,300	781,786	2,360,080	-	24,251,584
<b>Impairment</b>						
At January 1, 2008	-	-	13,094	550	4,303	17,947
Charge for the year (Note (a))	966,191	473,393	-	-	2,320	1,441,904
	966,191	473,393	13,094	550	6,623	1,459,851



At December 31,  
2008

Net book amount

At December 31, 2008	18,860,665	28,899,277	2,617,065	1,734,627	566,839	52,678,473
At January 1, 2008	19,762,993	22,995,029	2,138,762	1,896,482	476,488	47,269,754

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) In view of the decline in demand of the air transportation market under the current economic environment, the Group performed an impairment test on PP&E as at December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft models and related equipment which reflects their relatively lower operation efficiency and which management intend to retire in the near future (Note 10). In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.

(b) As at December 31, 2008, certain aircraft and buildings owned by the Group with an aggregate net book amount of approximately RMB8,723 million (2007: RMB9,865 million) were pledged as collateral under certain loan arrangements (note 31).

## 20. LEASE PREPAYMENTS

	December 31	
	2007	2008
	RMB'000	RMB'000
<b>Cost</b>		
At January 1	1,247,104	1,175,104
Other additions	-	54,964
Disposals to a jointly controlled entity (Note 23)	(70,149)	-
Other disposals	(1,851)	-
At December 31	1,175,104	1,230,068
<b>Accumulated amortization</b>		
At January 1	192,742	207,607
Charge for the year	24,847	25,940
Disposals to a jointly controlled entity (Note 23)	(9,119)	-
Other disposals	(863)	-
At December 31	207,607	233,547
<b>Net book amount</b>		
At December 31	967,497	996,521

Lease prepayments represent unamortized prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at December 31, 2008, the majority of these land use rights had remaining terms ranging from 38 to 53 years (2007: from 39 to 54 years).



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	December 31	
	2007	2008
	RMB'000	RMB'000
At January 1	7,668,708	6,695,573
Additions	3,737,079	3,603,824
Interest capitalized (Note 13)	399,499	342,153
Transfers to property, plant and equipment (Note 19)	(5,109,713)	(4,227,996)
At December 31	6,695,573	6,413,554

Included in the Group's balance as at December 31, 2008 is accumulated interest capitalized of RMB518 million (2007: RMB553 million), at an average interest rate of 5.43% (2007: 5.90%).

## 22. INVESTMENTS IN ASSOCIATES

	December 31	
	2007	2008
	RMB'000	RMB'000
Unlisted investments, at cost	425,817	808,417
Share of post acquisition results/reserves	175,302	171,902
	601,119	980,319

The movement on investments in associates is as follows:

	December 31	
	2007	2008
	RMB'000	RMB'000
At January 1	623,390	601,119
Costs of additional investments	-	384,186
Disposal of an indirectly held associate	(102,750)	(3,820)
Share of results of associates	58,312	69,668
Share of revaluation surplus/(deficits) on available for sale investments held by associates	22,167	(19,080)
Dividend received during the year	-	(51,754)
At December 31	601,119	980,319

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates, all of which are limited liability companies established and operating in the PRC, are as follows:

Company	Place and date of establishment	Paid-up capital		Attributable Equity interest		Principal activities
		2007 RMB'000	2008 RMB'000	2007	2008	
Eastern Air Group Finance Co., Ltd. ("EAGF")	PRC December 6, 1995	400,000	400,000	25%	25%	Provision of financial services to group companies of CEA Holding
China Eastern Air Catering Investment Co., Ltd.	PRC November 17, 2003	350,000	350,000	45%	45%	Provision of air catering services
Jiangsu Huayu General Aviation Co., Ltd.	PRC December 1, 2004	110,000	110,000	27%	27%	Provision of aviation support services
Eastern Aviation Import & Export Co., Ltd ("EAIEC")	PRC June 9, 1993	80,000	80,000	45%	45%	Provision of aviation equipment, spare parts and tools trading
Collins Aviation Maintenance Service Shanghai Ltd.	PRC September 27, 2002	57,980	57,980	35%	35%	Provision of airline electronic product maintenance services
Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC")	PRC October 17, 2004	31,000	31,000	27%	27%	Provision of traveling and accommodation agency services

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVESTMENTS IN ASSOCIATES (CONTINUED)

Company	Place and date of establishment	Paid-up capital		Attributable Equity interest		Principal activities
		2007	2008	2007	2008	
		RMB'000	RMB'000			
Shanghai Hongpu Civil Airport Communication Co., Ltd.	PRC October 18, 2002	25,000	25,000	30%	30%	Provision of cable and wireless communication services
Eastern Aviation Advertising Service Co., Ltd. ("CAASC")	PRC March 4, 1986	10,320	10,320	45%	45%	Provision of aviation advertising agency services
Joy Air Co., Ltd (Note (a))	PRC March 28, 2008	-	600,000	-	40%	Provision of regional airline transportation
Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (Note (b))	PRC March 28, 2008	-	USD 39,500	-	51%	Provision of maintenance of aircraft, engine and other related components maintenance services

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVESTMENTS IN ASSOCIATES (CONTINUED)

Note:

(a) On January 24, 2008, the Company entered into an agreement with China Aviation Industry Corporation to establish Joy Air Company Limited (“Joy Air”). The Company holds a 40% interest of Joy air. As at December 31, 2008, the Company contributed RMB240 million in cash. Joy Air is still in preparation period as at the balance sheet date.

(b) In 2008, the Company entered into an agreement (the “Agreement”) with a third party (the “Third Party”) to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (“Shanghai P&W”). Shanghai P&W’s registered capital is USD 40 million, in which the Company holds 51% interests. As at December 31, 2008, the Company contributed USD20,145,000 in cash to Shanghai P&W. According to the Agreement, the Third Party has the power to govern the financial and operating policies of Shanghai P&W and hence the Company accounts for Shanghai P&W as an associate. At the balance sheet date, Shanghai P&W is still in preparation period.

(c) The Group’s aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

	Assets RMB’000	Liabilities RMB’000	Revenues RMB’000	Profit RMB’000
2007	2,194,818	1,593,699	919,495	58,312
2008	4,326,145	3,345,826	913,845	69,668

## 23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2007 RMB’000	2008 RMB’000
Unlisted investments, at cost	268,892	270,208
Share of post-acquisition results/reserves	68,074	92,124
	336,966	362,332

The movement on investments in jointly controlled entities is as follows:

	2007 RMB’000	2008 RMB’000
At January 1	115,540	336,966
Other addition	209,340	-
Dividend received during the year	(18,000)	-
Share of results	30,086	24,050
Amortization of previously unrecognized gain	-	1,316
At December 31	336,966	362,332





## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC are as follows:

Company	Place and date of establishment	Paid-up capital		Attributable Equity Interest		Principal activities
		2007 RMB'000	2008 RMB'000	2007	2008	
Shanghai Technologies Aerospace Co., Ltd. ("STA") (Note (a))	PRC September 28, 2004	576,795	576,795	51%	51%	Provision of repair and maintenance services
Shanghai Eastern Union Aviation Wheels & Brakes maintenance services Overhaul Engineering Co., Ltd ("Wheels & Brakes")	PRC December 28, 1995	17,484	17,484	40%	40%	Provision of spare parts repair and maintenance services
Eastern China Kaiya System Integration Co., Ltd.	PRC May 21, 1999	10,000	10,000	41%	41%	Provision of computer systems development

Notes:

(a) Under a Joint Venture Agreement with the other joint venture partner of STA dated March 10, 2003, the Company has agreed to share control over the economic activities of STA. Any strategic financial and operating decisions relating to the activities of STA require the unanimous consent of the Company and the other joint venture partner.

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit RMB'000
2007	382,501	45,535	205,188	30,086
2008	404,888	42,556	187,997	24,050



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Other long-term assets

	December 31,	
	2007	2008
	RMB'000	RMB'000
Deposits relating to aircraft under operating leases (Note (a))	508,903	509,887
Prepaid flight training fees (Note (b))	43,920	337,597
Prepaid staff benefits (Note (c))	40,567	26,888
Rental and renovation deposits	33,032	26,460
Other long-term receivables	34,329	40,724
	660,751	941,556

## Notes:

- (a) The fair value of deposits relating to aircraft held under operating leases of the Group is RMB473 million (2007: RMB441 million), which is determined using the expected future payments discounted at market interest rates prevailing at the year end of 0.75%-2.79% (2007: 2.4%-3.06%).
- (b) Prepaid flight training expenses represent the training expenses prepaid for pilot undergraduates and pilots in service of the Group and are amortized over the relevant training periods for which the prepayments cover on a straight-line basis.
- (c) Prepaid staff benefits represent subsidies to certain employees as an encouragement to purchase motor vehicles. The employees are required to continue serving the Group for six years from the date of receipt of the subsidies. If the employee leaves before the end of the six-year period, a refund by the employee is required and is calculated on a pro-rata basis. These subsidies are amortized over six years on the straight-line basis.

## 25. TRADE RECEIVABLES

The credit terms given to trade customers are determined on an individual basis, with the credit periods generally ranging from half a month to two months.

The aging analysis of trade receivables and notes receivable is as follows:

	2007	2008
	RMB'000	RMB'000
Within 90 days	1,761,799	1,088,951
91 to 180 days	104,991	24,282
181 to 365 days	187,355	30,451
Over 365 days	101,769	103,919
	2,155,914	1,247,603
Less: provision for impairment of receivables	(59,907)	(101,081)
	2,096,007	1,146,522



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25. TRADE RECEIVABLES (CONTINUED)

The carrying amounts of the trade receivables approximate their fair value.

Trade receivables that were neither past due or impaired relate to a large number of independent sales agents for whom there is no recent history of default.

As at December 31, 2008, trade receivables of RMB153 million (2007: RMB360 million) were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. The Group holds cash deposits of RMB175 million (2007: RMB202 million) from these agents. The ageing analysis of these trade receivables is as follows:

	2007 RMB'000	2008 RMB'000
Up to 6 months	202,238	122,407
6 to 12 months	157,850	30,451
	360,088	152,858

As at December 31, 2008, trade receivables of RMB84 million (2007: RMB44 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(r).

The ageing of impaired receivables is as follows:

	2007 RMB'000	2008 RMB'000
12 to 24 months overdue	26,734	15,660
Over 24 months overdue	75,035	88,259
	101,769	103,919

Movements on the Group's provision for impairment of trade receivables are as follows:

	2007 RMB'000	2008 RMB'000
At January 1	90,405	59,907
Receivables written off during the year as uncollectible	(4,009)	(1,027)
Provision for impairment of receivables	-	42,201
Unused amounts reversed	(26,489)	-
At December 31	59,907	101,081

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25. TRADE RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2007	2008
	RMB'000	RMB'000
Currency		
Renminbi	1,800,355	899,905
US Dollars	89,944	51,075
HK Dollars	80,246	48,901
Korea Won	41,538	9,021
Euro	54,185	42,706
Japanese Yen	1,323	56,003
Other currencies	28,416	38,911
	2,096,007	1,146,522

The net impact of creation and release of provisions for impaired receivables have been included in 'Provision for impairment of trade and other receivables' in the income statement (Note 11). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying amount of receivables shown above.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007 RMB'000	2008 RMB'000
Restricted bank deposits (Note (a))	-	2,159,848
Rebates receivable on aircraft acquisitions	929,652	930,665
Deposits relating to aircraft under finance leases - current portion	419,604	-
Ground service fee	337,166	310,452
Prepaid aircraft operating lease rentals	256,069	249,308
Rental deposits	130,348	88,001
Custom duties and value added tax recoverable	88,747	64,501
Prepayment for acquisition of flight equipment and other assets	60,325	36,480
Deposits with banks and a financial institution with original maturity over three months but less than a year (Note (b))	52,843	33,116
Others	280,895	253,848
	2,555,649	4,126,219

## Notes:

(a) The restricted bank deposits represent: i) a deposit of RMB1,347 million pledged against US dollar 188 million loan (2007: Nil); ii) a security deposit of US dollar 117 million (RMB796 million equivalent) for fuel option contracts (2007: Nil); iii) a deposit of RMB17 million for notes payable (2007: Nil.)

(b) As at December 31, 2008, the effective interest rate on deposits with banks with original maturity over three months but less than a year was 0.36% (2007: 0.7%).

## 27. CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2007 RMB'000	2008 RMB'000
Renminbi	585,797	2,623,585
US Dollars	736,951	494,249
Euro	92,205	126,695
Japanese Yen	70,996	37,657
Pounds Sterling	16,141	11,016
Australian Dollars	14,991	18,922
Canadian Dollars	25,332	12,394
Singapore Dollars	1,116	42,617
Others	111,715	83,875
	1,655,244	3,451,010





## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Trade payables and notes payable

The aging analysis of trade payables and notes payable is as follows:

	2007 RMB'000	2008 RMB'000
Within 90 days	1,465,079	3,310,710
91 to 180 days	1,126,091	1,249,400
181 to 365 days	449,391	267,785
Over 365 days	97,319	316,963
	3,137,880	5,144,858

As at December 31, 2008, notes payable totaling RMB3,840 million (2007: RMB1,616 million) were unsecured. Discount rates ranged from 2.9% to 5.9% (2007: 3.5% to 5.5%) and all notes are repayable within six months.

## 29. OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2007 RMB'000	2008 RMB'000
Accrued fuel cost	2,348,932	3,841,660
Accrued take-off and landing charges	1,036,423	1,879,751
Accrued aircraft overhaul expenses	1,184,529	1,256,115
Other accrued operating expenses	928,267	1,417,988
Accrued salaries, wages and benefits	1,067,245	976,551
Duties and levies payable	858,966	545,482
Staff housing allowance (Note 36(b))	363,110	386,065
Deposits received from ticket sales agents	339,064	320,254
Current portion of other long-term liabilities (Note 33)	135,859	130,460
Current portion of post-retirement benefit obligations (Note 35(b))	34,425	46,461
Others	1,294,425	1,346,388
	9,591,245	12,147,175

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30. Obligations under finance leases

As at December 31, 2008, the Group had 68 aircraft (2007: 55 aircraft) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

	December 31, 2007			December 31, 2008		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	3,356,665	811,442	2,545,223	2,765,969	848,980	1,916,989
In the second year	2,206,135	638,882	1,567,253	2,704,499	688,327	2,016,172
In the third to fifth year inclusive	5,714,466	1,509,114	4,205,352	7,805,669	1,602,339	6,203,330
After the fifth year	9,331,048	1,196,666	8,134,382	11,868,053	1,195,645	10,672,408
<b>Total</b>	<b>20,608,314</b>	<b>4,156,104</b>	<b>16,452,210</b>	<b>25,144,190</b>	<b>4,335,291</b>	<b>20,808,899</b>
Less: - amount repayable within one year	(3,356,665)	(811,442)	(2,545,223)	(2,765,969)	(848,980)	(1,916,989)
<b>Long-term portion</b>	<b>17,251,649</b>	<b>3,344,662</b>	<b>13,906,987</b>	<b>22,378,221</b>	<b>3,486,311</b>	<b>18,891,910</b>

The fair value of obligations under finance leases of the Group is RMB21,037 million (2007: RMB16,577 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end.

At December 31, 2008, the Group had bank deposits totaling nil (2007: RMB420 million) pledged as collateral under certain finance lease arrangements.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. BORROWINGS

	December 31,	
	2007	2008
	RMB'000	RMB'000
<b>Non-current</b>		
Long-term bank borrowings		
– secured	3,994,947	3,350,114
– unsecured	7,374,360	5,237,938
	11,369,307	8,588,052
<b>Current</b>		
Long-term bank borrowings		
– secured	772,286	1,133,836
– unsecured	2,533,233	5,905,655
Short-term bank borrowings		
– secured	-	1,284,236
– unsecured	15,189,002	18,189,593
	18,494,521	26,513,320
<b>Total borrowings</b>	<b>29,863,828</b>	<b>35,101,372</b>
<b>The borrowings are repayable as follows:</b>		
Within one year	18,494,521	26,513,320
In the second year	5,927,098	4,147,845
In the third to fifth year inclusive	4,216,517	3,665,352
After the fifth year	1,225,692	774,855
<b>Total borrowings</b>	<b>29,863,828</b>	<b>35,101,372</b>

## Note:

As at December 31, 2008, the secured bank borrowings of the Group for the purchases of aircraft was secured by the related aircraft with an aggregate net book amount of RMB8,723 million (2007: RMB9,865 million) (Note 19).

Certain unsecured bank borrowings of the Group totaling of RMB357 million (2007: RMB1,008 million) was guaranteed by CEA Holding (Note 43(c)).

Certain unsecured bank borrowings of the Group totaling of RMB600 million (2007: Nil) were guaranteed by a third party bank.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. BORROWINGS (CONTINUED)

The terms of the long-term bank borrowings are summarized as follows:

Currency	Interest rate and final maturities	2007	2008
		RMB'000	RMB'000
RMB denominated	Interest rates ranging from 4.52% to 8.36% per annum with final maturities through to 2017.	6,132,551	6,898,178
U.S. dollar denominated	Interest rates ranging from 3 month LIBOR +0.25% to 6 month LIBOR+3% per annum with final maturities through to 2019	8,418,967	8,617,707
EURO denominated	Interest rate is 6 months LIBOR +0.6% with final maturity through 2010.	123,308	111,658
Total long-term bank borrowings		14,674,826	15,627,543

Note:

- (a) The fair value of long-term borrowings of the Group is RMB15,826 million (2007: RMB14,111 million), which is determined using the expected future payments discounted at prevailing market interest rates available to the Group and for financial instruments with substantially the same terms and characteristics at the balance sheet date.
- (b) Short-term borrowings of the Group are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. As at December 31, 2008, the interest rates relating to such borrowings ranged from 2.7% to 7.47% per annum (2007: 4.39% to 6.72% per annum). During the year ended December 31, 2008, the weighted average interest rate on short-term bank loans was 6.36 % per annum (2007: 5.75% per annum).
- (c) The carrying amounts of the borrowings are denominated in the following currencies:

	2007	2008
	RMB'000	RMB'000
Renminbi	12,528,550	21,955,769
US Dollars	17,196,836	13,007,688
Euro	130,145	111,658
HK Dollar	8,297	26,257
	29,863,828	35,101,372

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. PROVISION FOR OPERATING LEASE AIRCRAFT RETURN CONDITION CHECK

	2007 RMB'000	2008 RMB'000
At January 1	510,621	956,910
Additional provisions	446,289	618,555
Utilization	-	(41,447)
At December 31	956,910	1,534,018
Less: current portion	-	(213,830)
Long-term portion	956,910	1,320,188

Provision for operating lease aircraft return condition checks represents the present value of estimated costs of major return checks for aircraft under operating leases as the Group has the responsibility to fulfill certain return conditions under relevant leases.

## 33. OTHER LONG-TERM LIABILITIES

	December 31,	
	2007 RMB'000	2008 RMB'000
Long-term duties and levies payable	584,791	805,794
Fair value of unredeemed points awarded under the Group's frequent flyer program	378,361	364,858
Long-term payable to the Bureau of 2010 Expo Shanghai (Note 18(b))	232,811	177,883
Long-term payable to Aviation China Civil Flight Institute (Note (a))	60,000	30,000
Deferred gains on sale and leaseback of aircraft	21,011	14,549
Other long-term payable	101,582	58,135
	1,378,556	1,451,219
Less: Current portion	(135,859)	(130,460)
Long-term portion	1,242,697	1,320,759

Note:

- (a) The balance is unsecured, interest bearing at an effective rate of 6.21% per annum and is repayable by annual instalments of RMB30 million up to year 2009.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	December 31	
	2007	2008
	RMB'000	RMB'000
<b>Deferred tax assets</b>		
– Deferred tax asset to be utilized after 12 months	111,874	79,802
– Deferred tax asset to be utilized within 12 months	1,337	2,145
	113,211	81,947
<b>Deferred tax liabilities</b>		
– Deferred tax liability to be realized after 12 months	(50,369)	(55,444)
– Deferred tax liability to be realized within 12 months	-	(2,145)
	(50,369)	(57,589)

Movements in the net deferred taxation asset/(liability) are as follows:

	December 31	
	2007	2008
	RMB'000	RMB'000
At January 1	13,687	62,842
Credited/(charged) to income statement (Note 14)	49,155	(38,484)
At December 31	62,842	24,358

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. DEFERRED TAXATION (CONTINUED)

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	December 31	
	2007	2008
	RMB'000	RMB'000
<b>Deferred tax assets:</b>		
Tax losses carried forward	317,392	1,846
Impairment provision for obsolete flight equipment spare parts	138,783	78,634
Impairment provision for receivables	79,195	68,553
Impairment provision for property, plant and equipment	-	170,808
Impairment provision for aircraft overhaul expenses	96,834	152,231
Provision for frequent flyer program	-	13,619
Financial derivative liabilities	10,449	313,488
Provision for post-retirement benefits	351,283	271,672
	993,936	1,070,851
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(931,094)	(1,024,173)
Financial derivative assets	-	(22,320)
	(931,094)	(1,046,493)

Movements of the net deferred tax assets/ (liabilities) of the Group for the year:

	At the beginning of the year RMB'000	A(Charged)/ credited to income statement RMB'000	(Charged)/ credited to equity RMB'000	At the end of the year RMB'000
<b>For the year ended December 31, 2007</b>				
Tax losses carried forward	90,335	227,057	-	317,392
Impairment provision for obsolete flight equipment spare parts	68,574	70,209	-	138,783
Impairment provision for receivables	57,467	21,728	-	79,195
Provision for aircraft overhaul expense	77,000	19,834	-	96,834
Financial derivative liabilities	20,823	(10,374)	-	10,449
Provision for post-retirement benefits	216,570	134,713	-	351,283
	530,769	463,167	-	993,936
Depreciation and amortization	(517,082)	(414,012)	-	(931,094)
Net deferred tax assets/(liabilities)	13,687	49,155	-	62,842

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. DEFERRED TAXATION (CONTINUED)

	At the beginning of the year RMB'000	(Charged)/ credited to income statement RMB'000	(Charged)/ credited to equity RMB'000	At the end of the year RMB'000
For the year ended December 31, 2008				
Tax losses carried forward	317,392	(315,546)	-	1,846
Impairment provision for obsolete flight equipment spare parts	138,783	(60,149)	-	78,634
Impairment provision for receivables	79,195	(10,642)	-	68,553
Impairment provision for property, plant and equipment	-	170,808	-	170,808
Provision for aircraft overhaul expense	96,834	55,397	-	152,231
Provision for frequent flyer program	-	13,619	-	13,619
Financial derivative liabilities	10,449	303,039	-	313,488
Provision for post-retirement benefits	351,283	(79,611)	-	271,672
	993,936	76,915	-	1,070,851
Depreciation and amortization	(931,094)	(93,079)	-	(1,024,173)
Financial derivative assets	-	(22,320)	-	(22,320)
Net deferred tax assets/(liabilities)	62,842	(38,484)	-	24,358

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. As at December 31, 2008, the Group had tax losses carried forward of approximately RMB11,465 million (2007: RMB5,380 million) which will expire between 2009 and 2013, and which is available to set off against the Group's future taxable income. As at December 31, 2008, the Group did not recognize RMB2,864 million (2007: RMB1,035 million) of deferred tax assets arising from tax losses available as management did not consider it probable that such tax losses would be realized before they expire.

## 35. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS

- (a) Defined contribution retirement schemes
- (i) Pension

The Group companies participate in defined contribution retirement schemes organized by municipal governments of the various provinces in which the Group companies operate, and substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' prior year salary and allowances. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their basic salaries. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended December 31, 2008, the Group's pension cost charged to the consolidated income statement amounted to RMB360 million (2007: RMB296 million).



(ii)

Medical insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organized by the municipal governments, under which the Group and its employees are required to contribute to the scheme approximately 12% and 2%, respectively, of the employee's basic salaries. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended December 31, 2008, the Group's medical insurance contributions charged to the income statement amounted to RMB93 million (2007: RMB77 million).

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (CONTINUED)

## (b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with other post-retirement benefits including transportation subsidies, social function activities subsidies and others. The expected cost of providing these post-retirement benefits is actuarially determined and recognized by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employees' turnover ratio.

The post-retirement benefit obligations recognized in the balance sheets are as follows:

	2007 RMB'000	2008 RMB'000
Present value of unfunded post-retirement benefit obligations	2,155,393	4,481,420
Unrecognized actuarial losses	(750,266)	(2,965,835)
Post-retirement benefit obligations	1,405,127	1,515,585
Less: current portion (Note 29)	(34,425)	(46,461)
Long-term portion	1,370,702	1,469,124

Changes in post-retirement benefit obligations are as follows:

	2007 RMB'000	2008 RMB'000
At January 1	1,323,684	1,405,127
Total expenses charged in the income statement	170,670	200,603
Payments	(89,227)	(90,145)
At December 31	1,405,127	1,515,585

The costs of post-retirement benefits are recognized under wages, salaries and benefits in the income statement as follows:

	2006 RMB'000	2007 RMB'000	2008 RMB'000
Current service cost	63,957	73,416	74,478
Interest cost	72,435	83,858	102,009
Actuarial losses recognized	10,576	13,396	24,116
Total (Note 9)	146,968	170,670	200,603

The principal actuarial assumptions at the balance sheet date are as follows:

	2007	2008
Discount rate	4.75%	3.75%
Annual rate of increase of per capita benefit payment	2.5%	3%
Employee turnover rate	3.0%	3.00%
Mortality rate	8.43%	8.80%

Medical inflation rate	2.5%-5%	5%
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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. STAFF HOUSING BENEFITS

## (a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund at rates ranging from 7% to 15% (2007: 7% to 15%) of the specified salary amount of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. For the year ended December 31, 2008, the Group's contributions to the housing funds amounted to RMB282 million (2007: RMB285 million) which has been charged to the consolidated income statement. The staff housing fund payable as at December 31, 2008 is RMB25 million (2007: RMB17 million). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

## (b) Staff housing allowances

The Group also provides cash staff housing allowances to eligible employees who have not been allocated with any housing quarters, or who have not been allocated with a quarter above the minimum as set out in the Group's staff housing allowance policy introduced in October 2003 (the "Policy") based on the area of quarter to which they are entitled and the unit price as set out in the Policy.

The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation, his or her entitlement will cease and any unpaid entitlement related to past service up to the date of resignation will be paid. As at December 31, 2008, the present obligation of the provision for employee's staff housing entitlement is RMB386 million (2007: RMB363 million).

For the year ended December 31, 2008, the staff housing benefit provided under the Staff Housing Allowance Policy amounted to RMB123 million (2007: RMB53 million) which has been charged to the consolidated income statement.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At December 31</b>				
Interest rate swaps (Note (a))	33,232	988	39,542	182,971
Forward foreign exchange contracts (Note (b))	2,847	-	1,719	138,760
Fuel option contracts (Note (c))	59,468	123,010	535	6,319,868
<b>Total</b>	<b>95,547</b>	<b>123,998</b>	<b>41,796</b>	<b>6,641,599</b>
<b>Less: current portion</b>				
- Interest rate swaps	(27,155)	-	(17,984)	(41,668)
- Forward foreign exchange contracts	(2,847)	-	(1,719)	(94,539)
- Fuel option contracts	(59,468)	(123,010)	(535)	(6,319,868)
	(89,470)	(123,010)	(20,238)	(6,456,075)
<b>Non-current portion</b>	<b>6,077</b>	<b>988</b>	<b>21,558</b>	<b>185,524</b>

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Notes:

## (a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The Group's interest rate swaps qualify for hedge accounting. The interest rate swaps entered into by the Group are generally for swapping variable rates, usually referenced to LIBOR, into fixed rates and are accounted for as cash flow hedges. Other interest rate swaps are for swapping fixed rates into variable rates and are accounted for as fair value hedges. As at December 31, 2008, the notional amount of the outstanding interest rate swap agreements was approximately US\$471 million (2007: US\$624 million). These agreements will expire between 2009 and 2016.

Realized and unrealized gains and losses arising from the valuation of these interest rate swaps have been dealt with in the income statements as follows:

	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Realized gains/(losses) (recorded in finance costs)	55,889	59,862	10,083
Unrealized mark to market gains/(losses)			
- cash flow hedges (recognized in equity)	6,325	(79,783)	(126,138)
- fair value hedges (recognized in the income statement)	18,161	(8,824)	(49,535)
	80,375	(28,745)	(165,590)

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(i)). The Group's forward foreign exchange contracts qualify for hedge accounting. These contracts are generally for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates and are accounted for as cash flow hedges. Other forward foreign exchange contracts are for selling Japanese Yen and purchasing U.S. dollars at variable exchange rates and are accounted for as fair value hedges. As at December 31, 2008, the notional amount of the outstanding currency forward contracts was approximately US\$121 million (2007: US\$33 million), which will expire between 2009 and 2017.

Realized and unrealized gains and losses arising from the valuation of these contracts have been dealt with in the income statements as follows:

	2006 RMB'000	2007 RMB'000	2008 RMB'000
Realized gains/(losses) (recorded in finance income)	26,744	17,932	14,759
Unrealized mark to market gains/(losses)			
- cash flow hedges (recognized in equity)	3,606	1,586	(44,222)
- fair value hedges (recognized in the income statement)	4,344	(3,787)	(95,666)
	34,694	15,731	(125,129)

## (c) Fuel option contracts

The Group enters into fuel hedging contracts to reduce the risk of changes in market oil/petroleum prices as a hedge against aircraft fuel costs. The fuel hedging contracts used by the Group are normally structured to include a combination of both put and call options which allow the Group to lock in fuel prices for specified volumes within a price range. In each hedging contract, the call options price at which the Group is effectively entitled to buy fuel will be higher than that at which the counterparty is effectively entitled to sell.

None of the fuel hedging contracts entered into by the Group in 2008 or which remained open at December 31, 2008 qualified for hedge accounting. The Group is required to account for the fair value of the difference between the spot price of fuel and the price at which the counterparties are effectively entitled to sell in future periods as unrealized mark to market losses and recognize these losses in the income statements immediately.

Realized and unrealized gains and losses arising from the valuation of these contracts have been dealt with in the income statements.

	2006 RMB'000	2007 RMB'000	2008 RMB'000
Realized gains/(losses) (recorded in aircraft fuel)	98,880	120,171	(8,577)
Unrealized mark to market (losses)/gains			
(recorded in (loss)/gain on fair value movements of financial derivatives)	(64,849)	96,576	(6,255,791)
	34,031	216,747	(6,264,368)

The fair value of fuel option contracts is determined by reference to mark-to-market values provided by counterparties and independent third parties applying appropriate option valuation models (i.e. mean regression model using the Monte Carlo Simulation Process). Key parameters used in the valuation models include volatility, credit spread, long run mean and mean reverting ratio at date of valuation.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38. SHARE CAPITAL

	December 31,	
	2007	2008
	RMB'000	RMB'000
Registered, issued and fully paid of RMB1.00 each		
Circulating shares with restricted transfer held by CEA Holding and employees	2,904,000	2,904,000
A shares listed on The Shanghai Stock Exchange	396,000	396,000
H shares listed on The Stock Exchange of Hong Kong Limited	1,566,950	1,566,950
	4,866,950	4,866,950

Pursuant to articles 49 and 50 of the Company's Articles of Association, each of the unlisted shares, the listed A shares and the listed H shares are all registered ordinary shares and carry equal rights.

On January 4, 2007, the Company's share reform plan was approved by the Ministry of Commerce and implemented on January 9, 2007. In this connection, CEA Holding granted 96 million shares in total to the holders of the circulating shares and the original non-circulating shares held by CEA Holding were granted the status of listing subject to certain circulating conditions.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39. RESERVES

	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Revaluation reserve RMB'000	Capital reserve (Note (b)) RMB'000	Hedging reserve (Note 37) RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2007, as restated	1,006,455	428,808	23,816	(720,057)	53,167	(3,621,106)	(2,828,917)
Unrealized loss on cash flow hedges (Note 37)	-	-	-	-	(79,783)	-	(79,783)
Realized gains on cash flow hedges (Note 37)	-	-	-	-	1,586	-	1,586
Fair value movements of available for sale investments held by associates	22,167	-	-	-	-	-	22,167
Profit attributable to equity holders of the Company	-	-	-	-	-	378,568	378,568
Adjustments to statutory and discretionary reserves	-	(428,808)	-	-	-	428,808	-
At December 31, 2007	1,028,622	-	23,816	(720,057)	(25,030)	(2,813,730)	(2,506,379)
At January 1, 2008, as restated	1,028,622	-	23,816	(720,057)	(25,030)	(2,813,730)	(2,506,379)
Unrealized loss on cash flow hedges (Note 37)	-	-	-	-	(170,525)	-	(170,525)
Realized gains on cash flow hedges (Note 37)	-	-	-	-	165	-	165
Fair value movements of available for sale investments held by associates	(19,080)	-	-	-	-	-	(19,080)
	-	-	-	-	-	(15,268,532)	(15,268,532)

Loss attributable  
to equity holders  
of the Company

At December 31, 2008	1,009,542	-	23,816	(720,057)	(195,390)	(18,082,262)	(17,964,351)
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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. Reserves (continued)

Notes:

(a) Statutory and Discretionary Reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Group companies is permitted to transfer 5% of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

No profit appropriation by the Company to the discretionary common reserve fund was made for the year ended December 31, 2008 (2007: nil).

(b) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of a group restructuring carried out in June 1996 for the purpose of the Company's listing.

40. NON-CURRENT ASSETS HELD FOR SALE

In December 2006, the Board of Directors passed a resolution to dispose of certain older aircraft and related flight equipment in the forthcoming 12-months. Accordingly, these aircraft together with related flight equipment and spare parts were classified as non-current assets held for sale as at December 31, 2006. Despite of the Company's continuing effort to locate and negotiate with potential buyers, no agreement to dispose of these assets has been reached. It is management's intention to dispose of these assets in the forthcoming 12-months and management is continuing to take active steps to locate potential buyers of these assets. They therefore remain classified as non-current assets held for sale as of December 31, 2008. An impairment loss of RMB235 million has been recognized in the income statement in relation to these assets with reference to the estimated market values as at the balance sheet date (Note 10(c)).

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

## (a) Cash generated from operations

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
(Loss)/gain before income tax	(3,337,429)	377,938	(15,256,009)
Adjustments for:			
Depreciation of property, plant and equipment	4,425,209	4,694,888	4,755,622
Gains on disposals of property, plant and equipment	(36,207)	(674)	(267,084)
Share of results of associates	(103,566)	(58,312)	(69,668)
Share of results of jointly controlled entities	(29,595)	(30,086)	(24,050)
Amortization of lease prepayments	30,869	24,847	25,940
Net foreign exchange gains	(888,402)	(2,023,032)	(1,970,990)
Amortization of deferred revenue	(13,068)	(12,594)	(19,965)
Loss/(gain) arising from fair value movements of derivative financial instruments	42,344	(96,575)	6,400,992
Consumption of flight equipment spare parts	326,248	468,888	476,282
Impairment provision for trade and other receivables	98,156	10,481	39,338
Provision for post-retirement benefits	146,968	170,670	200,603
Provision for operating lease aircraft return condition check	150,390	446,289	618,556
Impairment loss	888,419	227,456	2,976,678
Interest income	(120,161)	(96,849)	(89,275)
Interest expenses	1,821,870	1,978,550	2,328,147
Gain on disposal of an associate and available-for-sale financial assets	-	-	(13,557)
Gain on contribution to a jointly controlled entity	-	(31,620)	-
Gain on disposal of a subsidiary	-	(54,441)	-
Operating profit before working capital changes	3,402,045	5,995,824	111,560

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

## (a) Cash generated from operations (continued)

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Changes in working capital			
Flight equipment spare parts	(583,027)	(409,392)	(529,068)
Trade receivables	14,273	(478,550)	909,701
Amounts due from related companies	(147,007)	349,897	(223,112)
Prepayments, deposits and other receivables	(563,114)	(336,890)	(216,706)
Sales in advance of carriage	68,510	319,550	(197,331)
Trade payables and notes payables	1,499,352	(1,888,884)	2,006,978
Amounts due to related companies	125,327	29,571	(187,819)
Other payables and accrued expenses	1,551,923	(194,694)	1,901,892
Other long-term liabilities	23,627	(74,081)	(431,956)
Provision for operating lease aircraft return condition check	(67,762)	-	(41,448)
Staff housing allowances	(35,361)	(76,381)	(100,428)
Post-retirement benefit obligations	(61,986)	(89,227)	(90,145)
Operating lease deposits	(86,555)	(3,909)	30,348
	1,738,200	(2,852,990)	2,830,906
Cash generated from operations	5,140,245	3,142,834	2,942,466

## (b) Non-cash transactions

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Investing activities not affecting cash:			
Sale and leaseback of aircraft	7,940,164	-	-
Finance lease obligations incurred for acquisition of aircraft	2,350,978	8,395,965	7,964,792

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42. Commitments

## (a) Capital commitments

The Group had the following capital commitments:

	2007 RMB'000	2008 RMB'000
Authorized and contracted for:		
- Aircraft, engines and flight equipment	50,852,865	52,533,736
- Other property, plant and equipment	353,771	130,180
	51,206,636	52,663,916
Authorized but not contracted for:		
- Other property, plant and equipment	11,326,338	5,235,712
	11,326,338	5,235,712
	62,532,974	57,899,628

Contracted expenditures for the above aircraft and flight equipment, including deposits prior to delivery, subject to future inflation increases built into the contracts and any discounts available upon delivery of the aircraft, if any, were expected to be paid as follows:

	2007 RMB'000	2008 RMB'000
Within one year	17,127,081	8,852,380
In the second year	15,056,943	13,174,190
In the third year	13,960,033	9,051,539
In the fourth year	2,531,964	9,224,482
Over four years	2,176,844	12,231,145
	50,852,865	52,533,736

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42. COMMITMENTS (CONTINUED)

## (b) Operating lease commitments

As at the balance sheet date, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

	2007 RMB'000	2008 RMB'000
<b>Aircraft, engines and flight equipment</b>		
Within one year	2,527,072	2,671,355
In the second year	2,331,741	2,330,080
In the third to fifth year inclusive	4,991,164	4,598,624
After the fifth year	5,341,362	4,100,560
	15,191,339	13,700,619
<b>Land and buildings</b>		
Within one year	87,410	202,540
In the second year	50,683	124,643
In the third to fifth year inclusive	40,888	325,423
After the fifth year	29,846	2,398,361
	208,827	3,050,967
	15,400,166	16,751,586

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which owns approximately 59.67% of the Company's shares as at December 31, 2008. The aviation industry in the PRC is administrated by the CAAC. CEA Holding and the Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "SOEs").

(a) Related party transactions

The Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees and their close family members of SOEs while such employees are on corporate business. These transactions are carried out on normal commercial terms that are consistently applied to all of the Group's customers. Due to the large volume and the pervasiveness of these transactions, management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. The Directors of the Company believe that meaningful related party disclosures on these retail transactions have been adequately made.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 43. RELATED PARTY TRANSACTIONS (CONTINUED)

## (a) Related party transactions (continued)

The other related party transactions are:

Nature of transaction	Related party	Income/ (expense or payments)	
		2007 RMB'000	2008 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:			
Interest income on deposits at an average rate of 0.36% per annum (2007: 0.72% per annum)	EAGF*	9,717	30,766
Interest expense on loans at rate of 4.87% per annum (2007: 5.42% per annum)	EAGF*	(33,590)	,(22,267)
Ticket reservation service charges for utilization of computer reservation system	Travel Sky Technology Limited	(241,161)	(241,206)
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold	SDATC*	(9,220)	(610)
	Shanghai Tourism (HK) Co., Ltd	(6)	(1,696)
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment	EAIEC*	(34,643)	(47,257)
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes	(56,764)	(64,653)
	STA	(100,270)	(131,081)
Supply of food and beverages	Shanghai Eastern Air Catering Co., Ltd	(243,895)	(267,117)
	Yunnan Eastern Air Catering Investment Co., Ltd.	(37,782)	(40,836)
	Xian Eastern Air Catering Investment Co., Ltd.	(28,780)	(36,526)
		(20,101)	(27,480)

Qingdao Eastern Air Catering  
Investment Co., Ltd

Disposal of a subsidiary	CEA Holding	461,916	-
Disposal of an associate	CEA Holding	-	32,972
Advertising expense	CAASC	(14,370)	(3,595)

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 43. RELATED PARTY TRANSACTIONS (CONTINUED)

## (a) Related party transactions (continued)

Nature of transaction	Related party	Income/ (expense or payments)	
		2007 RMB'000	2008 RMB'000
Automobile maintenance fee	CEA Development Co. Ltd	(18,754)	(23,595)
Land and building rental	CEA Holding	(55,399)	(55,399)
Purchase of other fixed assets	CEA Northwest Co. Ltd	(67,305)	-

\* EAGF is a 25% owned associate of the Group; SDATC and EAIEC are both 45% owned associates of the Group.

Nature of transaction	Related party	Income/ (expense or payments)	
		2007 RMB'000	2008 RMB'000
With CAAC and its affiliates:			
Civil aviation infrastructure levies paid	CAAC	(781,613)	(769,849)
Aircraft insurance premiums paid through CAAC which entered into the insurance policy on behalf of the Group	CAAC	(136,875)	(134,176)
With other SOEs:			
Take-off and landing fee charges	State-controlled airports	(4,152,888)	(4,323,382)
Purchase of aircraft fuel	State-controlled fuel suppliers	(11,120,186)	(14,020,301)
Ticket reservation service charges for utilizations of computer reservation system	Travel Sky Technology Limited	(241,161)	(241,206)
Interest income on deposits at an average rates of 0.36% per annum (2007: 0.72% per annum)	State-controlled banks	15,411	14,778
Interest expense on loans at an average rate of 5.96% per annum (2007: 5.47% per	State-controlled banks	(1,406,812)	(1,872,553)

annum)

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 43. RELATED PARTY TRANSACTIONS (CONTINUED)

## (a) Related party transactions (continued)

Nature of transaction	Related party	Income/ (expense or payments)	
		2007 RMB'000	2008 RMB'000
Commission expense on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of the value of tickets sold	Other PRC airlines	(70,285)	(65,832)
Supply of food and beverages	Other state-control enterprises	(511,766)	(567,071)

## (b) Balances with related companies

## (i) Amounts due from related companies

Company	2007 RMB'000	2008 RMB'000
SDATC	16,378	9,714
Shanghai Tourism (HK) Co., Ltd	2,914	4,020
EAIEC	26,166	181,788
Other related companies	19,997	12,767
Total	65,455	208,289

All the amounts due from related companies are trade in nature, interest free and payable within normal credit terms given to trade customers.

## (ii) Amounts due to related companies

Company	2007 RMB'000	2008 RMB'000
EAIEC	(470,349)	(241,560)
CEA Holding	(40,214)	(69,497)
Shanghai Eastern Airlines Catering Co. Ltd.	(60,718)	(46,580)
Yunnan Eastern Air Catering Investment Co., Ltd.	(488)	(665)
CAASC	(2,550)	(164)
CEA Northwest	(64,895)	-
Other related companies	(32,379)	(54,660)
Total	(671,593)	(413,126)

Except for amounts due to EAGF and CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature, interest free and payable within normal credit terms given by trade creditors.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 43. RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Balances with related companies (continued)

## (iii) Short-term deposits and short-term loans with an associate

	Average interest rate				2007	2008
	2007	2008			RMB'000	RMB'000
Short-term deposits (included in Prepayments, Deposits and Other Receivables)						
“EAGF”	0.7	%	0.4	%	408,151	1,202,892
Short-term loans (included in Borrowings)						
“EAGF”	5.3	%	4.3	%	260,351	295,181

## (iv) State-controlled banks and other financial institutions

	Average interest rate				2007	2008
	2007	2008			RMB'000	RMB'000
Bank deposits (included in cash and cash equivalents)	0.7	%	0.4	%	845,719	1,762,245
Long-term bank borrowings	5.7	%	5.3	%	13,062,353	14,577,150

## (c) Guarantees by holding company

As at December 31, 2008, bank loans of the Group with an aggregate amount of RMB357 million (2007: RMB1,008 million) were guaranteed by CEA Holding (Note 31).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. ULTIMATE HOLDING COMPANY

The Directors regard CEA Holding, a state-owned enterprise established in the PRC, as being the ultimate holding company.

45. CONTINGENT LIABILITIES

In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou on November 21, 2004, sued the Company in a U.S. court for compensation. On July 5, 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non convenience for the purpose of permitting proceedings in the PRC. On February 20, 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on May 6, 2008. The plaintiff filed a second motion to lift the stay on July 10, 2008. On August 27, 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on February 26, 2009, dismissing the appeal of the plaintiff and affirming the original order. On March 16, 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company. The management of the Group believes that a negative outcome of the case will not have an adverse effect on the financial condition and results of operations of the Company. The Group intends to provide updates to the shareholders regarding the progress of the litigation. As at December 31, 2008, the Group was not involved in any other litigation, arbitration or claim of material importance.

46. POST BALANCE SHEET EVENT

On January 15, 2009, CEA Holding (as the principal), Eastern Air Group Finance Company Limited (the "Finance Company") (as the trustee) and the Company (as the borrower) entered into an entrusted loan agreement, pursuant to which, the Company will obtain a short-term loan of RMB5.55 billion from CEA Holding through the Finance Company.

On January 19, 2009, the Company obtained a two-year credit facility of RMB10 billion from Shanghai Pudong Development Bank.

On February 13, 2009, the Company obtained a three-year credit facility of RMB15 billion from Agricultural Bank of China.

On February 26, 2009, the Company convened an extraordinary general meeting of A and H Share Shareholders in which the special resolution in relation to the approval of the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to China Eastern Air Holding Company and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global Holdings (Hong Kong) Limited was passed. On May 13, 2009, the issuance of A Share was conditional approved by the Public Offering Review Committee of China Securities Regulatory Commission ("CSRC"). On May 19, 2009, CSRC approved the issuance of new H Shares. As of May 31, 2009, the Company has not received the subscription price from either CEA Holding or CES Global because some necessary consents, approvals or authorizations from the governmental



authorities or other third parties for the subscriptions, including but not limited to the final approval from CSRC, have not been obtained. If any of the subscriptions is not approved (including but not limited to the approvals from the shareholders or CSRC), the other subscription will automatically be terminated.

On March 16, 2009, the Company obtained a three-year credit facility of RMB11 billion from Construction Bank of China.

On April 28, 2009, the Company obtained a one-year credit facility of RMB20 billion from Bank of China.

On April 30, 2009, the Company entered into sale-and-lease-back agreements of two Airbus A340 series aircraft at consideration of approximately RMB590 million.

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