CHINA EASTERN AIRLINES CORP LTD
Form 6-K
September 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934

For the month of September 2010

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

Board Secretariat's Office
Kong Gang San Lu, Number 88
Shanghai, China 200335

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: x Form 20-F ¨ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: ¨ Yes x No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Eastern Airlines Corporation Limited
(Registrant)

Date	September 15, 2010	By	/s/ Luo Zhuping
		Name: Luo Zhuping	
		Title: Director and Company Secretary	

Certain statements contained in this announcement may be regarded as "forward-looking statements" within the meaning of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The forward-looking statements included in this announcement represent the Company's views as of the date of this announcement. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company specifically disclaims any obligation to update these forward-looking statements, unless required by applicable laws. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this announcement.

The board of directors (the "Board") of China Eastern Airlines Corporation Limited (the "Company") hereby presents the unaudited interim consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 (which were approved by the Board and the audit and risk management committee of the Company (the "Audit and Risk Management Committee") on 27 August 2010), with comparative figures for the corresponding financial period in 2009.

The interim report of the Group for the six months ended 30 June 2010 is unaudited and does not necessarily indicate the annual or future results of the Group.

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Prepared in accordance with International Financial Reporting Standards ("IFRS")
For the six months ended 30 June 2010

		(Unaudited) Six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
Revenues	4	33,127,332	17,130,451
Other operating income	6	317,421	1,112,871
Operating expenses			
Aircraft fuel		(10,019,390)	(5,121,130)
Gain on fair value movements of financial derivatives	7	224,526	2,793,718
Take-off and landing charges		(3,401,308)	(2,673,337)
Depreciation and amortisation		(3,217,244)	(2,529,044)
Wages, salaries and benefits		(3,504,886)	(2,270,011)
Aircraft maintenance		(1,993,048)	(1,209,545)
Food and beverages		(700,759)	(612,623)
Aircraft operating lease rentals		(1,916,562)	(1,267,175)
Other operating lease rentals		(258,104)	(191,595)
Selling and marketing expenses		(1,591,849)	(859,817)
Civil aviation infrastructure levies		(613,885)	(426,846)
Ground services and other charges		(181,924)	(130,777)
Transportation, accommodation and meals		(548,478)	–
Cost of inventories		(342,915)	–
Office, administrative and other expenses		(2,838,263)	(1,718,508)
Total operating expenses		(30,904,089)	(16,216,690)
Operating profit		2,540,664	2,026,632
Share of results of associates		7,755	(37,397)
Share of results of jointly controlled entities		13,716	8,170
Finance income	8	190,936	145,937
Finance costs	9	(781,776)	(1,130,929)
Profit before income tax		1,971,295	1,012,413
Income tax	10	(45,889)	15,446
Profit for the period		1,925,406	1,027,859

		(Unaudited)	
		Six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
Other comprehensive (loss)/income for the period			
Cash flow hedges, net of tax		(61,826)	55,857
Fair value movements of available for sale investments		(1,607)	788
Total comprehensive income for the period		1,861,973	1,084,504
Profit attributable to:			
Equity holders of the Company		1,760,561	984,654
Non-controlling interests		164,845	43,205
		1,925,406	1,027,859
Total comprehensive income attributable to:			
Equity holders of the Company		1,697,128	1,041,299
Non-controlling interests		164,845	43,205
		1,861,973	1,084,504
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic and diluted (RMB)	11	0.16	0.20

CONDENSED CONSOLIDATED BALANCE SHEET
Prepared in accordance with IFRS
As at 30 June 2010

	Note	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Non-current assets			
Intangible assets	14	9,079,645	69,622
Property, plant and equipment	15	68,046,550	56,703,560
Lease prepayments		1,424,412	970,835
Advanced payments on acquisition of aircraft	16	6,521,051	5,081,174
Investments in associates		784,204	723,022
Investments in jointly controlled entities		391,732	372,793
Available-for-sale financial assets		237,542	57,269
Other long-term assets		1,443,987	926,312
Deferred tax assets		88,178	83,748
		88,017,301	64,988,335
Current assets			
Flight equipment spare parts		1,289,344	932,260
Trade receivables	17	2,773,190	1,370,871
Prepayments, deposits and other receivables		5,369,670	2,370,495
Cash and cash equivalents		4,460,765	1,735,248
Derivative assets		1,553	3,490
Non-current assets held for sale		163,997	450,693
		14,058,519	6,863,057
Current liabilities			
Sales in advance of carriage		2,422,865	1,420,183
Trade payables and notes payable	18	7,375,837	6,480,459
Other payables and accrued expenses		13,945,608	11,517,204
Current portion of obligations under finance leases	19	2,169,927	2,125,430
Current portion of borrowings	20	18,773,619	12,330,075
Income tax payable		43,425	21,126
Current portion of provision for return condition checks for aircraft and engines under operating leases		338,777	609,884
Derivative liabilities		745,588	1,006,286
		45,815,646	35,510,647
Net current liabilities		(31,757,127)	(28,647,590)
Total assets less current liabilities		56,260,174	36,340,745

	Note	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Non-current liabilities			
Obligations under finance leases	19	17,109,097	17,244,805
Borrowings	20	21,794,834	13,004,874
Provision for return condition checks for aircraft and engines under operating leases		2,274,620	1,237,871
Other long-term liabilities		1,677,012	1,203,423
Post-retirement benefit obligations		2,384,765	1,798,707
Deferred tax liabilities		52,413	51,539
Derivative liabilities		181,563	123,345
		45,474,304	34,664,564
Net assets		10,785,870	1,676,181
Equity			
Capital and reserves attributable to the equity holders of the Company			
– Share capital	21	11,276,539	9,581,700
– Reserves		(1,497,709)	(8,347,147)
		9,778,830	1,234,553
Non-controlling interests		1,007,040	441,628
Total equity		10,785,870	1,676,181

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
Prepared in accordance with IFRS
For the six months ended 30 June 2010

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	4,821,423	(563,422)
Net cash outflow from investing activities	(4,700,899)	(1,840,210)
Net cash inflow from financing activities	2,626,040	2,746,009
Net increase in cash and cash equivalents	2,746,564	342,377
Cash and cash equivalents at 1 January	1,735,248	3,451,010
Exchange adjustments	(21,047)	3,576
Cash and cash equivalents at 30 June	4,460,765	3,796,963

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Prepared in accordance with IFRS
For the six months ended 30 June 2010

	Attributable to equity holders of the Company					
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	RM
nths ended 30 June 2010 (Unaudited)						
e at 1 January 2010	9,581,700	9,566,349	(17,913,496)	1,234,553	441,628	1,67
omprehensive income for the period ended 30 June 2010	–	(63,433)	1,760,561	1,697,128	164,845	1,86
e of new shares for the acquisition of Shanghai s Co., Ltd. ("Shanghai Airlines") (Note 21)	1,694,839	5,152,310	–	6,847,149	–	6,84
ntrolling interests addition the acquisition of Shanghai Airlines	–	–	–	–	53,920	
nds paid to non-controlling interests in subsidiaries	–	–	–	–	(5,413)	
contribution by investor	–	–	–	–	352,060	3
e at 30 June 2010	11,276,539	14,655,226	(16,152,935)	9,778,830	1,007,040	10,78
nths ended 30 June 2009 (Unaudited)						
e at 1 January 2009	4,866,950	117,911	(18,082,262)	(13,097,401)	457,892	(12,63
omprehensive income for the period ended 30 June 2009	–	56,645	984,654	1,041,299	43,205	1,08
e of new shares	2,874,750	4,110,388	–	6,985,138	–	6,98
e at 30 June 2009	7,741,700	4,284,944	(17,097,608)	(5,070,964)	501,097	(4,56

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 14 April 1995. The address of the Company's 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, export and import trading, tour operations and provision of freight forwarding 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.

During the period ended 30 June 2010, the Company issued 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all issued shares of Shanghai Airlines. Upon completion of the issuance, Shanghai Airlines became a wholly owned subsidiary of the Company (details refer to Note 22).

This condensed consolidated interim financial information was approved for issue by the Company's Board on 27 August 2010.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 (the “Current Period”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with IFRS.

In preparing the interim financial information, the Board has given careful consideration to the going concern status of the Group in the context of the Group’s current working capital deficit.

As at 30 June 2010, the Group’s accumulated losses were approximately RMB16.15 billion; its current liabilities exceeded its current assets by approximately RMB31.76 billion.

Against this background, the Directors have taken active steps to seek additional sources of finance and improve the Group’s liquidity position. As at 30 June 2010, the Group had total available credit facilities of RMB46.5 billion from certain banks. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required.

With the credit facilities and based on the Group’s history of obtaining finance and its relationships with its bankers and creditors, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements. Accordingly, the Board believes that it is appropriate to prepare these financial information on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies

Except as described in note 3(a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in these annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2010 and adopted by the Group.

The Group has adopted the following new standards and amendments to existing standards which are relevant for the Group's existed business and mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised), "Business combinations", and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

3. Accounting policies (cont'd)

(a) (cont'd)

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), "consolidated and separate financial statements", at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) also requires that total comprehensive income is attributed to the owners of the parent and to the non-controlling interest ("NCI") even if this results in the NCI having a deficit balance. The standard requires prospective application of the amendment.

- Amendment to IAS 38 "Intangible Assets" clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- The improvement related to IAS 17 "Leases" in the second improvement project to IFRSs issued by the IASB in April 2009 ("Second Improvement Project") deleted the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. This improvement is effective for accounting periods beginning or after 1 January 2010 but has no impact on the classifications of leases of lands of the Group and all payments for lands are regarded as operating lease prepayments.

- IFRS 5 (amendment), "Measurement of non-current assets (or disposal groups) classified as held for sale". The amendment is part of the IASB's annual improvements project published in April/May 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies (cont'd)

(a) (cont'd)

• IAS 39 (amendment), "Eligible hedge items". The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. Inflation is not separately identifiable and reliably measurable as a risk or a portion of a financial instrument, unless it is a contractually specified portion of the cash flows of a recognised inflation-linked bond whose other cash flows are unaffected by the inflation portion. It prohibits including time value in a one-sided hedged risk when designating options as hedges. An entity may only designate the change in the intrinsic value of an option as the hedging instrument of a one-sided risk arising from a forecast transaction in a hedging relationship. A one-sided risk is that changes in cash flows or fair value of a hedged item is above or below a specified price or other variable.

The following new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

IAS 1 (Amendment)	Presentation of Financial Statements
IFRS 1 (Revised)	First-time Adoption of IFRSs
IFRS 1 (Amendment)	First-time Adoption of IFRSs – Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Share-based payments – Group Cash-settled Share-based Payment Transaction
IFRIC -Int 17 (Amendment)	Distributions of Non-cash Assets to Owners

3. Accounting policies (cont’d)

(b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial year beginning 1 January 2010

The IASB has also issued certain new/revised standards, amendments or interpretations to existing standards (collectively the “New or Revised IFRSs”), and published certain improvements to IFRSs in May 2010 (the “Third Improvement Project”). The New or Revised IFRSs and amendments under the Third Improvement Project are not yet effective for the financial year beginning 1 January 2010.

The Group has not early adopted the New or Revised IFRSs and amendments under the Third Improvement Project in the unaudited condensed consolidated interim financial information and will adopt the New or Revised IFRSs and amendments under the Third Improvement Project in accordance with their respective effective dates. The Group is assessing the impact of the New or Revised IFRSs and amendments under the Third Improvement Project but is not yet in a position to state whether any substantial changes to the Group’s significant accounting policies and presentation of the financial statements will be resulted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenues

The Group is principally engaged in the operation of civil aviation (including the provision of passenger, cargo and mail delivery), other extended transportation services, export and import trading, tour operations and the provision of freight forwarding services.

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenues		
– Passenger	25,937,847	14,638,529
– Cargo and mail	4,210,377	1,532,008
Revenue from tour operations	834,540	–
Ground service income	597,406	500,614
Revenue from freight forwarding services	403,173	–
Revenue from export and import trading	354,387	–
Cargo handling income	208,480	135,932
Commission income	172,166	87,171
Others	408,956	236,197
	33,127,332	17,130,451

Note:

Pursuant to the relevant tax rules and regulations in the PRC, the major elements of the Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to business tax levied at rates of 3% or 5%. The business tax incurred and set off against the above Group's revenues for the period ended 30 June 2010 amounted to RMB661 million (2009: RMB439 million).

Pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by Ministry of Finance and the State Administration of Taxation, entities within PRC providing international transportation services are exempt from business tax from 1 January 2010.

5. Segment information

(a) CODM, office of the General Manager, reviews the Group's internal reporting in order to assess performance and allocate resources.

The Group has one reportable operating segment, reported as "airline operations", which are structured and managed separately. The "airline operations" comprises the provision of air passenger, air cargo services, mail and ground logistics.

Other services including export and import trading, tour operation, freight forwarding services, aviation training, air catering and other miscellaneous services are not included within the reportable operating segment, as they are not included in the internal report provided to the CODM. The results of these operation are included in the "other segments" column.

Inter-segment transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRS in certain aspects. As such, the amount of each material reconciling items from the Group's reportable segment revenue, profit before income tax, assets and liabilities arising from different accounting policies are set out in Note 5(c) below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(a) (cont'd)

The segment results for the six months ended 30 June 2010 are as follows:

	(Unaudited)				
	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	31,885,898	1,750,275	–	–	33,636,173
Inter-segment sales	210,752	208,018	(418,770)	–	–
Reportable segment revenue	32,096,650	1,958,293	(418,770)	–	33,636,173
Reportable segment profit before income tax	2,105,186	36,825	–	25,626	2,167,637
Other segment information					
Depreciation and amortisation	3,283,165	46,409	–	–	3,329,574
Impairment losses	76,552	373	–	–	76,925
Capital expenditure	6,486,975	34,970	–	–	6,521,945

5. Segment information (cont'd)

(a) (cont'd)

The segment results for the six months ended 30 June 2009 are as follows:

	(Unaudited)				
	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	17,457,241	40,543	–	–	17,497,784
Inter-segment sales	–	74,677	(74,677)	–	–
Reportable segment revenue	17,457,241	115,220	(74,677)	–	17,497,784
Reportable segment profit before income tax	1,236,592	11,814	–	(29,227)	1,219,179
Other segment information					
Depreciation and amortisation	2,568,786	25,808	–	–	2,594,594
Impairment losses	45,715	–	–	–	45,715
Capital expenditure	2,415,524	4,950	–	–	2,420,474

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(a) (cont'd)

The segment assets and liabilities as at 30 June 2010 and 31 December 2009 are as follows:

	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
At 30 June 2010 (Unaudited)					
Reportable segment assets	98,250,832	2,380,144	(291,662)	1,413,478	101,752,792
Reportable segment liabilities	87,823,886	1,397,455	(291,662)	–	88,929,679
At 31 December 2009					
Reportable segment assets	69,850,127	1,153,130	(137,660)	1,153,084	72,018,681
Reportable segment liabilities	68,068,474	474,739	(137,660)	–	68,405,553

* Unallocated assets primarily represent investments in associates and jointly controlled entities, and available-for-sale financial assets. Unallocated results primarily represent the share of results of associates and jointly controlled entities.

(b) The Group's business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues by geographical segment are analysed based on the following criteria:

(1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan, (collectively known as "Regional")) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC, regional or overseas markets is attributed to the segments based on the origin and destination of each flight segment.

5. Segment information (cont'd)

(b) (cont'd)

(2) Revenue from ticket handling services, airport ground services, export and import trading, tour operations, the provision of freight forwarding services and other miscellaneous services are classified on the basis of where the services are performed.

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	22,891,501	12,074,009
Regional (Hong Kong, Macau and Taiwan)	1,782,299	926,060
International	8,962,373	4,497,715
Total	33,636,173	17,497,784

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 by geographic segment and hence segment assets and capital expenditure by geographic segment have not been presented.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements.

	Note	(Unaudited) Six months ended 30 June 2010 RMB'000	2009 RMB'000
Revenue			
Reportable segment revenue		33,636,173	17,497,784
– Reclassification of business tax and expired sales in advance of carriage	(i)	(508,841)	(367,333)
Consolidated revenue		33,127,332	17,130,451
Profit before income tax			
Reportable segment profit		2,167,637	1,219,179
– Difference in depreciation and impairment charges for aircraft, engines and flight equipment	(ii)	(29,592)	(31,496)
– Provision for post-retirement benefits	(iii)	(170,317)	(179,480)
– Others		3,567	4,210
Consolidated profit before income tax		1,971,295	1,012,413

5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements. (cont'd)

	Note	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Assets			
Reportable segment assets		101,752,792	72,018,681
– Difference in depreciation and impairment charges for aircraft, engines and flight equipment	(ii)	137,677	167,912
– Reversal of revaluation surplus relating to land use rights	(iv)	(356,416)	(360,626)
– Difference in goodwill arising from the acquisition of Shanghai Airlines	(v)	513,062	–
– Others		28,705	25,425
Consolidated total assets		102,075,820	71,851,392

	Note	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Liabilities			
Reportable segment liabilities		88,929,679	68,405,553
– Provision for post-retirement benefits	(iii)	2,439,664	1,849,933
– Others		(79,393)	(80,275)
Consolidated total liabilities		91,289,950	70,175,211

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements. (cont'd)

Notes:

(i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.

(ii) The difference is attributable to the differences in the useful lives and residual values of aircraft, engines and rotable adopted for depreciation purpose in prior years under PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation charges under IFRS and PRC Accounting Standards.

(iii) In accordance with the PRC Accounting Standards, employees' post-retirement benefits are recognised upon payment. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period.

(iv) Under the PRC Accounting standards, land use rights injected by parent company as capital contribution upon restructuring for listing are stated at valuation less accumulated amortisation. Under IFRS, land use rights are recorded as prepaid operating leases at historical cost which was nil at the time of listing.

(v) The basis of recognising the value of post-retirement benefits under defined benefit schemes (as described in Note 5(c)(iii) above) in relation to the acquisition of Shanghai Airlines was different under PRC Accounting Standards and IFRS. Accordingly the amounts of net liabilities acquired and goodwill were different.

6. Other operating income

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Refund of civil aviation infrastructure levies (Note (a))	–	830,622
Other government subsidies (Note (b))	317,421	282,249
	317,421	1,112,871

Note:

(a) Pursuant to Cai Jian (2009) No.4 issued by Ministry of Finance and Civil Aviation Administration of China in 2009, the civil aviation infrastructure levies collected from PRC domestic airlines for the period from 1 July 2008 to 30 June 2009 will be refunded. The amount for the six months ended 30 June 2009 represents the refunds of civil aviation infrastructure levies received and receivable by the Group.

(b) Other government subsidies represent (i) subsidies granted by the local governments 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.

7. Gain on fair value movements of financial derivatives

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Gain arising from fair value movements of financial derivatives		
– Crude oil option contracts (Note (a))	224,368	2,773,365
– Other derivatives	158	20,353
	224,526	2,793,718

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7.Gain on fair value movements of financial derivatives (cont'd)

Note:

(a) The Group entered into certain crude oil option contracts to reduce the risk of changes in market oil/petroleum prices as a hedge against aircraft fuel costs. The crude oil option 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 option 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.

The Group did not enter into crude oil option contracts in the Current Period. All existing crude oil option contracts as at 30 June 2010 were entered into by the Group prior to 31 December 2008. None of the crude oil option contracts entered into by the Group qualified for hedge accounting, the realised and unrealised mark to market gains/(losses) of the crude oil option contracts during the Current Period were recognised in the consolidated income statement.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the consolidated income statements.

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Realised losses	(55,847)	(1,288,987)
Unrealised mark to market gains	280,215	4,062,352
	224,368	2,773,365

The fair value of crude oil option contracts is determined by reference to mark-to-market values provided by counterparties 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.

8. Finance income

	(Unaudited) Six months ended 30 June 2010 RMB'000	2009 RMB'000
Exchange gains, net (Note)	155,664	93,000
Interest income	35,272	52,937
	190,936	145,937

Note: The exchange gains for the six months ended 30 June 2010 and 2009 primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at period-end exchange rates.

9. Finance costs

	(Unaudited) Six months ended 30 June 2010 RMB'000	2009 RMB'000
Interest relating to obligations under finance leases	164,871	323,062
Interest on loans from banks and financial institutions	613,610	873,073
Interest relating to notes payable	85,499	57,131
	863,980	1,253,266
Less: amounts capitalised into advanced payments on acquisition of aircraft (Note 16)	(79,788)	(122,337)
amounts capitalised into construction in progress	(2,416)	–
	781,776	1,130,929

The average interest rate used for interest capitalisation is 3.05% per annum for the six months ended 30 June 2010 (2009: 4.58%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Income tax

Income tax charged/(credited) to the condensed consolidated income statement is as follows:

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Provision for PRC income tax	49,809	29,532
Deferred taxation	(3,920)	(44,978)
	45,889	(15,446)

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 District, 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 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over the next five years from 2008. For the year ending 31 December 2010, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries is expected to be 22% (2009: 20%). Other subsidiaries of the Company, except for those incorporated in Hong Kong and subject to the Hong Kong corporate income tax rate of 16.5%, are generally subject to the PRC standard corporate tax rate of 25% (2009: 25%) under the New CIT Law.

The Group operates international flights to overseas destinations. There was no material overseas taxation for the six months ended 30 June 2010, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

11. Earnings per share

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity holders of the Company of RMB1,761 million (2009: earnings of RMB985 million) and the weighted average number of shares of 11,020,893,000 (2009: 4,954,304,000) in issue during the six months ended 30 June 2010.

The Company has no potentially dilutive option or other instruments relating to ordinary shares.

12. Dividend

The Board has not recommended any interim dividend for the six months ended 30 June 2010 (2009: Nil).

13. Profit appropriation

No appropriation to the statutory reserves has been made during the six months ended 30 June 2010. Such appropriations will be made at year end in accordance with the PRC regulations and the Articles of Association of individual group companies.

14. Intangible assets

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Goodwill (Note 22)	9,022,092	–
Other intangible assets	57,553	69,622
	9,079,645	69,622

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Property, plant and equipment

	(Unaudited) Six months ended 30 June 2010		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2010	51,729,129	4,974,431	56,703,560
Additions through the acquisition of Shanghai Airlines (Note 22)	6,398,471	2,121,231	8,519,702
Transfers from advanced payments on acquisition of aircraft (Note 16)	2,017,588	–	2,017,588
Other additions	3,524,277	459,725	3,984,002
Depreciation charged for the period	(2,828,892)	(341,057)	(3,169,949)
Disposals	–	(8,353)	(8,353)
Carrying amounts at 30 June 2010	60,840,573	7,205,977	68,046,550

	(Unaudited) Six months ended 30 June 2009		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2009	47,759,942	4,918,531	52,678,473
Transfers from advanced payments on acquisition of aircraft (Note 16)	1,009,795	–	1,009,795
Additions through sales and finance lease back	590,253	–	590,253
Other additions	1,870,709	262,521	2,133,230
Depreciation charged for the period	(2,211,713)	(249,770)	(2,461,483)
Disposals	(590,253)	(8,787)	(599,040)
Carrying amounts at 30 June 2009	48,428,733	4,922,495	53,351,228

16. Advanced payments on acquisition of aircraft

	(Unaudited) 30 June 2010 RMB'000	(Unaudited) 30 June 2009 RMB'000
At beginning of period	5,081,174	6,413,554
Additions through the acquisition of Shanghai Airlines (Note 22)	1,072,367	–
Other additions	2,305,310	141,046
Interest capitalised (Note 9)	79,788	122,337
Transfers to property, plant and equipment (Note 15)	(2,017,588)	(1,009,795)
At end of period	6,521,051	5,667,142

17. Trade receivables

The credit terms given to trade customers are determined on an individual basis, with credit periods generally ranging from half a month to two months.

The aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Within 90 days	2,676,858	1,299,761
91 to 180 days	45,913	37,427
181 to 365 days	18,538	9,297
Over 365 days	263,457	246,202
	3,004,766	1,592,687
Less: provision for impairment of receivables	(231,576)	(221,816)
Trade receivables	2,773,190	1,370,871

Balances with related companies included in trade receivables are summarised in Note 24(b)(i).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18. Trade payables and notes payable

The aging analysis of trade payables and notes payable is as follows:

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Within 90 days	3,690,938	5,161,027
91 to 180 days	2,634,343	772,255
181 to 365 days	624,969	157,856
Over 365 days	425,587	389,321
	7,375,837	6,480,459

As at 30 June 2010, the trade payables and notes payable balances of the Group included amounts due to related companies of RMB796 million (2009: RMB1,013 million) (Note 24 (b)(ii)).

As at 30 June 2010, notes payable amounted to RMB4,193 million (2009: RMB4,970 million) in total, which mainly were unsecured. Part of notes payable's effective interests rates ranged from 1.9% to 4.4% (2009: 1.6% to 5.9%) and all notes are repayable within six months.

19. Obligations under finance leases

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Within one year	2,169,927	2,125,430
In the second year	2,208,300	2,093,629
In the third to fifth year inclusive	6,965,174	6,784,901
After the fifth year	7,935,623	8,366,275
Total	19,279,024	19,370,235
Less: amount repayable within one year	(2,169,927)	(2,125,430)
Long-term portion	17,109,097	17,244,805

20. Borrowings

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Non-current		
Long-term bank borrowings		
– Secured	12,155,155	7,566,853
– Unsecured	9,639,679	5,438,021
	21,794,834	13,004,874
Current		
Current portion of long-term bank borrowings		
– Secured	1,910,495	1,221,829
– Unsecured	2,010,852	2,701,640
Short-term bank borrowings		
– Secured	1,358,180	–
– Unsecured	13,494,092	8,406,606
	18,773,619	12,330,075
	40,568,453	25,334,949

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21. Share capital

		(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Registered, issued and fully paid of RMB1.00 each			
A shares listed on The Shanghai Stock Exchange ("A Shares")		7,782,214	6,087,375
– Tradable shares held by CEA Holding with trading moratorium		4,831,375	4,831,375
– Tradable shares held by other investors with trading moratorium	(a)	1,148,889	860,000
– Tradable shares without trading moratorium	(a)	1,801,950	396,000
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")		3,494,325	3,494,325
– Tradable shares held by CES Global with trading moratorium		1,437,375	1,437,375
– Tradable shares without trading moratorium		2,056,950	2,056,950
		11,276,539	9,581,700

Pursuant to articles 49 and 50 of the Company's Articles of Association, each of the listed A shares and the listed H shares are all registered ordinary shares and carry equal rights.

(a) As approved by the Company's shareholders meeting and China Securities Regulatory Commission, the Company issued 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines on 28 January 2010. The fair value of the A Shares issued amounted to about RMB6.9 billion, of which RMB1.7 billion is recorded as share capital and the remaining RMB5.2 billion is recorded as share premium.

22. Business combinations

On 10 July 2009, the Company entered into an absorption agreement (the "Absorption Agreement") with Shanghai Airlines in relation to a proposed acquisition of Shanghai Airlines (the "Proposed Acquisition"). Pursuant to the Absorption Agreement, the Company would issue a maximum of 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. On 9 October 2009, the Company convened the relevant shareholders' meeting in which the Proposed Acquisition was approved.

On 30 December 2009, the Proposed Acquisition was approved by China Securities Regulatory Commission. On 28 January 2010 (the "Acquisition Date"), the Company issued 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all issued shares of Shanghai Airlines resulting in Shanghai Airlines becoming a wholly owned subsidiary of the Company.

The aggregate acquisition price paid by the Company is RMB6,871 million which is determined based on the quoted market price of the Company's shares issued as of the Acquisition Date with adjustments to reflect restrictions specific to certain shares and other factors.

The resulting goodwill is preliminarily determined to be RMB9,022 million and is attributable to strengthening the competitiveness of the Company, attaining synergy through integration of the resources and promoting the evolution of Shanghai international air transportation centre.

Details of the purchase consideration, the net liabilities acquired and goodwill are as provisionally determined follows:

	RMB'000
Purchase consideration – fair value of share issued	6,870,830
Add: fair value of net liabilities acquired	2,151,262
Goodwill (Note 14)	9,022,092

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22. Business combinations (cont'd)

The fair value of identifiable assets and liabilities (the "Acquired Assets and Liabilities") of Shanghai Airlines as at the Acquisition Date were estimated by the Board through a valuation conducted by an independent valuer. The carrying amount and fair value of the Acquired Assets and Liabilities are as follows:

	Carrying Amount RMB'000	Fair Value RMB'000
Assets		
Non-current assets		
Intangible assets	21,352	21,352
Property, plant and equipment	10,245,231	8,519,702
Lease prepayments	115,804	466,558
Advances payments on acquisition of aircraft	1,072,367	1,072,367
Investment in an associates	59,714	59,714
Investment in jointly controlled entities	19,184	19,184
Available -for -sale financial assets	181,780	181,780
Other long term assets	526,659	526,659
Deferred tax assets	510	510
	12,242,601	10,867,826
Current assets		
Flight equipment spare parts	333,043	333,043
Trade receivables	698,362	698,362
Prepayments, deposits and other receivables	1,427,436	1,427,436
Cash and cash equivalents	1,167,565	1,167,565
	3,626,406	3,626,406
Total assets	15,869,007	14,494,232

22. Business combinations (cont'd)

	Carrying Amount RMB'000	Fair Value RMB'000
Liabilities		
Current liabilities		
Sales in advance of carriage	(311,170)	(311,170)
Trade payables and notes payable	(1,383,575)	(1,383,575)
Other payables and accrued expenses	(2,503,812)	(2,503,812)
Current portion of obligations under finance leases	(73,691)	(73,691)
Current portion of borrowings	(5,711,604)	(5,711,604)
Income tax payable	(16,433)	(16,433)
Current portion of provision for return condition checks for aircraft under operating leases	(46,378)	(46,378)
Derivative liabilities	(18,004)	(18,004)
	(10,064,667)	(10,064,667)
Non-current liabilities		
Obligations under finance leases	(1,010,646)	(1,010,646)
Borrowings	(4,209,955)	(4,209,955)
Provision for return condition checks for aircraft under operating leases	(639,556)	(639,556)
Other long-term liabilities	(248,218)	(248,218)
Deferred tax liabilities	(1,163)	(1,163)
Post-retirement benefit obligations	(417,369)	(417,369)
	(6,526,907)	(6,526,907)
Total liabilities	(16,591,574)	(16,591,574)
Net liabilities	(722,567)	(2,097,342)
Non-controlling interests	(53,920)	(53,920)
Net liabilities acquired	(776,487)	(2,151,262)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	(Unaudited) 30 June 2010 RMB'000	(Audited) 31 December 2009 RMB'000
Authorised and contracted for:		
– Aircraft, engines and flight equipment	76,552,057	74,161,006
– Other property, plant and equipment	1,551,384	544,490
	78,103,441	74,705,496
Authorised but not contracted for:		
– Aircraft, engines and flight equipment	3,055,905	–
– Other property, plant and equipment	2,576,163	3,856,033
	5,632,068	3,856,033
	83,735,509	78,561,529

(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:

(Unaudited) 30 June 2010	(Audited)